

**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2019 AND 2018**



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**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
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YEARS ENDED JUNE 30, 2019 AND 2018**

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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, 2019 and 2018, 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, 2019 and 2018, 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 61-64 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**

Plymouth Meeting, Pennsylvania  
November 11, 2019

**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEETS – PRIMARY INSTITUTION  
JUNE 30, 2019 AND 2018**

	2019	2018
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 17,100,138	\$ 20,361,149
Accounts Receivable:		
Governmental Grants and Contracts	2,050,167	2,140,775
Students, Net of Allowance for Doubtful Accounts of \$2,804,634 in 2019 and \$2,870,040 in 2018	2,794,888	2,721,578
Other	932,470	850,193
Inventory	574,075	540,243
Prepaid Expenses	212,699	296,343
Conversion Pay Receivable	-	-
Loans Receivable, Net of Allowance for Doubtful Accounts of \$18,822 in 2019 and \$28,727 in 2018	250,458	334,545
Interest Income Receivable	44,775	35,360
Due from Component Units	1,635,130	885,147
Other Current Assets	217,875	249,621
Total Current Assets	25,812,675	28,414,954
<b>NONCURRENT ASSETS</b>		
Conversion Pay Receivable	1,742	2,880
Beneficial Interests	434,331	431,233
Loans Receivable, Net of Allowance for Doubtful Accounts of \$-0- in 2019 and 2018	12,974	157,035
Capital Assets, Net	55,427,973	59,314,724
Total Noncurrent Assets	55,877,020	59,905,872
 Total Assets	 81,689,695	 88,320,826
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows of Resources	19,358,913	12,012,051
 Total Assets and Deferred Outflows of Resources	 \$ 101,048,608	 \$ 100,332,877

See accompanying Notes to Financial Statements.

**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)  
JUNE 30, 2019 AND 2018**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	2019	2018
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses:		
Supplies and Services	\$ 1,212,414	\$ 1,076,605
Employees	6,068,719	5,880,193
Other	617,324	740,150
Unearned Revenue	2,680,020	3,281,039
Accrued Interest Payable	7,271	7,980
Students' Deposits	123,814	127,281
Other Deposits	383,200	54,385
Current Portion of Workers' Compensation	184,577	169,875
Current Portion of Compensated Absences	74,496	131,059
Current Portion of Postemployment Benefits	3,425,566	3,179,840
Current Portion of Capital Lease Obligations	-	133,074
Current Portion of Bonds Payable, Net	783,834	690,679
Due to System, Academic Facilities Renovation Bond Program (AFRP)	268,153	296,626
Due to Component Units	509,708	429,380
Other Current Liabilities	399,873	485,654
Total Current Liabilities	16,738,969	16,683,820
<b>NONCURRENT LIABILITIES</b>		
Unearned Revenue	44,150	52,980
Workers' Compensation	229,413	267,319
Compensated Absences	7,042,734	7,000,758
Postemployment Benefits	102,630,053	120,216,112
Net Pension Liability	66,839,063	55,827,100
Bonds Payable, Net	5,087,704	5,950,534
Due to System, AFRP	404,319	672,471
Other Noncurrent Liabilities	232,978	368,842
Total Noncurrent Liabilities	182,510,414	190,356,116
 Total Liabilities	 199,249,383	 207,039,936
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Total Deferred Inflows of Resources	31,071,834	14,871,352
<b>NET POSITION</b>		
Net Investment in Capital Assets	48,977,836	51,680,446
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	434,331	431,233
Student Loans	33,858	48,342
Expendable:		
Scholarships and Fellowships	393,747	358,820
Capital Projects	2,666,194	2,043,297
Other	3,544,159	3,928,042
Unrestricted	(185,322,734)	(180,068,591)
Total Net Position	(129,272,609)	(121,578,411)
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 \$ 101,048,608	 \$ 100,332,877

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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES</b>		
Tuition and Fees	\$ 48,806,314	\$ 50,914,446
Less: Scholarship Discounts and Allowances	<u>12,968,599</u>	<u>14,235,139</u>
Net Tuition and Fees	35,837,715	36,679,307
Governmental Grants and Contracts:		
Federal	3,133,030	4,991,307
State	6,609,806	5,508,089
Nongovernmental Grants and Contracts	266,038	408,665
Sales and Services of Educational Departments	6,927,718	6,180,952
Auxiliary Enterprises, Net of Scholarship Discounts and Allowances of \$241,582 in 2019 and \$230,512 in 2018	9,949,999	10,906,203
Other Revenues	<u>366,899</u>	<u>571,165</u>
Total Operating Revenues	63,091,205	65,245,688
<b>OPERATING EXPENSES</b>		
Instruction	36,284,722	34,570,699
Research	74,075	84,780
Public Service	10,776,360	9,211,893
Academic Support	8,283,473	8,111,794
Student Services	13,024,311	12,442,107
Institutional Support	11,793,271	11,839,008
Operations and Maintenance of Plant	7,825,367	6,856,141
Depreciation	5,469,546	5,409,366
Student Aid	3,870,110	4,314,552
Auxiliary Enterprises	<u>10,167,095</u>	<u>11,272,188</u>
Total Operating Expenses	<u>107,568,330</u>	<u>104,112,528</u>
<b>OPERATING LOSS</b>	(44,477,125)	(38,866,840)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations, General and Restricted	25,939,282	24,950,026
Commonwealth On-Behalf Contributions to PSERS	319,850	285,924
Pell Grants	7,070,331	7,536,756
Investment Income, Net of Related Investment Expense of \$5,230 in 2019 and \$5,490 in 2018	693,634	534,033
Unrealized Increase in Fair Value	3,099	5,455
Gifts for Other than Capital Purposes	1,521,483	1,469,063
Interest Expense on Capital Asset-Related Debt	(217,146)	(226,060)
Gain on Disposal of Assets	-	3,050
Other Nonoperating Revenue	<u>38,244</u>	<u>50,730</u>
Nonoperating Revenues, Net	<u>35,368,777</u>	<u>34,608,977</u>
<b>LOSS BEFORE OTHER REVENUES</b>	(9,108,348)	(4,257,863)
<b>OTHER REVENUES</b>		
State Appropriations, Capital	1,040,843	1,020,198
Capital Gifts and Grants	<u>373,307</u>	<u>256,793</u>
Total Other Revenues	<u>1,414,150</u>	<u>1,276,991</u>
<b>DECREASE IN NET POSITION</b>	(7,694,198)	(2,980,872)
Net Position - Beginning of Year	<u>(121,578,411)</u>	<u>(118,597,539)</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ (129,272,609)</u>	<u>\$ (121,578,411)</u>

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, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees, Net	\$ 35,792,397	\$ 36,280,789
Grants and Contracts	9,486,821	11,884,949
Payments to Suppliers for Goods and Services	(24,623,792)	(24,297,886)
Payments to Employees	(70,362,791)	(68,293,947)
Loans Issued to Students	-	(32,605)
Loans Collected from Students	228,148	48,912
Student Aid	(3,944,840)	(4,391,655)
Auxiliary Enterprise Charges	9,941,345	10,831,469
Sales and Services of Educational Departments	6,927,718	6,086,223
Other Receipts	(717,751)	346,268
Net Cash Used by Operating Activities	(37,272,745)	(31,537,483)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	25,939,282	24,950,026
Gifts for Other than Capital Purposes	8,591,814	9,005,819
Plus, Stafford, and Other Loans Receipts (Non-Perkins)	41,366,932	45,683,053
Plus, Stafford, and Other Loans Disbursements (Non-Perkins)	(41,366,932)	(45,683,053)
Pell Grants	328,815	-
Other	38,244	105,115
Net Cash Provided by Noncapital Financing Activities	34,898,155	34,060,960
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Capital Debt and Leases	501,804	3,943,781
Capital Appropriations	1,040,843	1,020,198
Capital Gifts and Grants Received	373,307	256,793
Proceeds from Sales of Capital Assets	-	3,050
Purchases of Capital Assets	(1,582,795)	(2,110,400)
Principal Paid on Capital Debt and Leases	(1,650,353)	(5,022,588)
Interest Paid on Capital Debt and Leases	(253,446)	(409,286)
Net Cash Used by Capital Financing Activities	(1,570,640)	(2,318,452)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments	684,219	522,005
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(3,261,011)	727,030
Cash and Cash Equivalents - Beginning of Year	20,361,149	19,634,119
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 17,100,138	\$ 20,361,149

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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (44,477,125)	\$ (38,866,840)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	5,469,546	5,409,366
Expenses Paid by Commonwealth or Donor	319,850	285,924
Changes in Assets, Liabilities, Deferred Inflows and Outflows:		
Receivables, Net	17,298	761,437
Inventories	(33,832)	27,236
Other Assets	(715,732)	(148,143)
Accounts Payable	201,509	(171,041)
Unearned Revenue	(609,849)	(277,776)
Students' Deposits	(3,467)	(52,587)
Compensated Absences	(14,587)	374,648
Loans to Students and Employees	228,148	16,307
Postretirement Benefits Liability (OPEB)	(17,340,333)	(6,919,726)
Defined Benefit Pensions	11,011,963	(6,054,860)
Other Liabilities	(164,521)	(207,384)
Deferred Outflows of Resources Related to Pensions	(5,132,388)	5,513,617
Deferred Inflows of Resources Related to Pensions	(2,229,707)	1,412,374
Deferred Outflows of Resources Related to OPEB	(2,709,251)	(3,186,624)
Deferred Inflows of Resources Related to OPEB	18,909,733	10,546,589
Net Cash Used by Operating Activities	<u>\$ (37,272,745)</u>	<u>\$ (31,537,483)</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH NONCAPITAL FINANCING ACTIVITIES</b>		
Commonwealth On-Behalf Contributions to PSERS	<u>\$ 319,850</u>	<u>\$ 285,924</u>

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, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,456,551	\$ 4,807,697
Accounts and Interest Receivable	94,982	133,653
Contributions and Pledges Receivable	393,362	835,813
Due from University	466,600	252,750
Inventories and Prepaid Expenses	212,342	262,507
Restricted Cash and Cash Equivalents	13,300,809	12,932,797
Long-Term Investments	43,199,195	40,230,393
Capital Assets, Net	95,323,942	98,620,538
Other Assets	215,331	215,331
Total Assets	\$ 156,663,114	\$ 158,291,479
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts and Interest Payable	\$ 1,741,258	\$ 1,737,401
Deferred Revenue	135,630	143,511
Annuity Liabilities	2,058,405	2,085,621
Due to University	1,635,130	885,147
Deposits Payable	446,878	426,438
Bonds and Notes Payable	98,813,182	101,491,618
Total Liabilities	104,830,483	106,769,736
<b>NET ASSETS</b>		
Without Donor Restrictions	14,683,081	14,079,557
With Donor Restrictions	37,149,550	37,442,186
Total Net Assets	51,832,631	51,521,743
Total Liabilities and Net Assets	\$ 156,663,114	\$ 158,291,479

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, 2019 AND 2018**

	2019	2018
<b>CHANGES IN NET ASSETS</b>		
<b>WITHOUT DONOR RESTRICTIONS:</b>		
Contributions	\$ 173,228	\$ 156,909
Sales & Services	251,792	295,923
Student Fees	1,675,027	1,885,578
Grants and Contracts	250,000	250,000
Rental Income	3,525,123	4,853,896
Investment Return, Net	672,487	529,936
Other Revenues and Gains	193,014	46,755
Net Assets Released from Restrictions	3,812,171	2,430,173
Total Revenues and Other Additions	10,552,842	10,449,170
<b>EXPENSES AND LOSSES</b>		
Program Services:		
Scholarships and Grants	1,291,702	1,324,795
Student Activities and Programs	2,569,397	2,414,095
University Stores	265,908	251,059
Other Programs	3,917,683	4,296,668
Management and General	769,834	833,356
Fundraising	1,134,794	1,119,358
Total Expenses and Losses	9,949,318	10,239,331
Change in Net Assets without Donor Restrictions	603,524	209,839
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:</b>		
Contributions	1,277,606	2,403,452
Investment Return, Net	2,492,132	2,230,056
Other Revenues and Gains	307,260	374,457
Other Expenses and Losses	(557,463)	(530,576)
Net Assets Released from Donor Restrictions	(3,812,171)	(2,430,173)
Change in Net Assets with Donor Restrictions	(292,636)	2,047,216
<b>INCREASE IN NET ASSETS</b>	310,888	2,257,055
Net Assets - Beginning of Year	51,521,743	49,264,688
<b>NET ASSETS - END OF YEAR</b>	\$ 51,832,631	\$ 51,521,743

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, 2019 AND 2018**

2019	Program Activities					Supporting Activities			
Natural Expense	Student				Total Programs	Management and General	Fundraising	Total Supporting	Total Expenses
	Scholarships and Grants	Activities and Programs	University Stores	Other Programs					
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
<b>Total Expenses</b>	<b>\$1,291,702</b>	<b>\$2,569,397</b>	<b>\$265,908</b>	<b>\$3,917,683</b>	<b>\$ 8,044,690</b>	<b>\$769,834</b>	<b>\$1,134,794</b>	<b>\$1,904,628</b>	<b>\$9,949,318</b>

2018	Program Activities					Supporting Activities			
Natural Expense	Student				Total Programs	Management and General	Fundraising	Total Supporting	Total Expenses
	Scholarships and Grants	Activities and Programs	University Stores	Other Programs					
Salaries and benefits	\$ -	\$ 160,663	\$ 62,991	\$ -	\$ 223,654	\$ 570,678	\$ 820,636	\$ 1,391,314	\$ 1,614,968
Gifts and grants	1,324,795	-	-	-	1,324,795	-	-	-	1,324,795
Supplies and travel	-	295,071	2,664	-	297,735	8,386	84,685	93,071	390,806
Services and professional fees	-	-	2,967	-	2,967	50,706	20,175	70,881	73,848
Office and occupancy	-	51,332	131,481	-	182,813	19,378	8,783	28,161	210,974
Depreciation	-	70,790	9,582	-	80,372	7,991	5,058	13,049	93,421
Interest	-	-	-	4,171,668	4,171,668	-	-	-	4,171,668
Other	-	1,836,239	41,374	125,000	2,002,613	176,217	180,021	356,238	2,358,851
<b>Total Expenses</b>	<b>\$ 1,324,795</b>	<b>\$ 2,414,095</b>	<b>\$ 251,059</b>	<b>\$ 4,296,668</b>	<b>\$ 8,286,617</b>	<b>\$ 833,356</b>	<b>\$ 1,119,358</b>	<b>\$ 1,952,714</b>	<b>\$ 10,239,331</b>

See accompanying Notes to Financial Statements.

**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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 \$732,033 and \$889,816 during the fiscal years ended June 30, 2019 and 2018, respectively. The financial activity of the Association is presented as of and for the years ended June 30, 2019 and 2018.

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 \$1,707,920 and \$1,630,722 during the fiscal years ended June 30, 2019 and 2018, respectively. The financial activity of the Foundation is presented as of and for the years ended June 30, 2019 and 2018.

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

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**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.

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**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.

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**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 are 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 depreciation. 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, 2019 and 2018.



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

**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.

**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**

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

**Scholarships and Waivers**

In accordance with a formula prescribed by the National Association of 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.

**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.

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

**New Accounting Standards**

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

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

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

In 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 accounting and financial reporting. The University has determined that Statement No. 91 will have no effect on its financial statements.

**CLARION UNIVERSITY OF PENNSYLVANIA  
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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION**

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	<u>\$ 5,029,658</u>	<u>\$ 151,633,456</u>	<u>\$ 156,663,114</u>
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	<u>\$ 933,850</u>	<u>\$ 103,896,633</u>	<u>\$ 104,830,483</u>
Net Assets:			
Without Donor Restrictions	\$ 3,840,142	\$ 10,842,939	\$ 14,683,081
With Donor Restriction	255,666	36,893,884	37,149,550
Total Net Assets	<u>\$ 4,095,808</u>	<u>\$ 47,736,823</u>	<u>\$ 51,832,631</u>

The following represents combining condensed statement of financial position information for the component units as of June 30, 2018:

	Association	Foundation	Total
Due from University	\$ 37,319	\$ 215,431	\$ 252,750
Capital Assets, Net	189,944	98,430,594	98,620,538
Investments	2,652,925	37,577,468	40,230,393
Other Assets	1,935,648	17,252,150	19,187,798
Total Assets	<u>\$ 4,815,836</u>	<u>\$ 153,475,643</u>	<u>\$ 158,291,479</u>
Due to University	\$ -	\$ 885,147	\$ 885,147
Long-Term Debt	-	101,491,618	101,491,618
Other Liabilities	687,099	3,705,872	4,392,971
Total Liabilities	<u>\$ 687,099</u>	<u>\$ 106,082,637</u>	<u>\$ 106,769,736</u>
Net Assets:			
With Donor Restriction	\$ 3,862,980	\$ 10,216,577	\$ 14,079,557
Without Donor Restriction	265,757	37,176,429	37,442,186
Total Net Assets	<u>\$ 4,128,737</u>	<u>\$ 47,393,006</u>	<u>\$ 51,521,743</u>

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**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:

	<u>Association</u>	<u>Foundation</u>	<u>2019 Total</u>
<b>Changes in Net Assets</b>			
<b>without Donor Restrictions:</b>			
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	<u>40,274</u>	<u>3,771,897</u>	<u>3,812,171</u>
Total Revenues and Gains	<u>2,041,509</u>	<u>8,511,333</u>	<u>10,552,842</u>
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
Housing	-	-	-
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	<u>2,064,347</u>	<u>7,884,971</u>	<u>9,949,318</u>
Changes in Net Assets without Donor Restrictions:	(22,838)	626,362	603,524
<b>Changes in Net Assets with Donor Restrictions:</b>			
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	<u>(40,274)</u>	<u>(3,771,897)</u>	<u>(3,812,171)</u>
Total Change in Net Assets with Donor Restriction	\$ (10,091)	\$ (282,545)	\$ (292,636)

**CLARION UNIVERSITY OF PENNSYLVANIA  
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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

	<u>Association</u>	<u>Foundation</u>	<u>2019 Total</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	\$ (32,929)	\$ 343,817	\$ 310,888
Net Assets - Beginning of Year	<u>4,128,737</u>	<u>47,393,006</u>	<u>51,521,743</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 4,095,808</u></u>	<u><u>\$ 47,736,823</u></u>	<u><u>\$ 51,832,631</u></u>

The following represents combining statement of activities for the component units for the year ended June 30, 2018:

	<u>Association</u>	<u>Foundation</u>	<u>2018 Total</u>
<b>Changes in Net Assets without Donor Restrictions:</b>			
Revenues and Gains:			
Contributions	\$ -	\$ 156,909	\$ 156,909
Sales and Service	217,707	78,216	295,923
Student Fees	1,885,578	-	1,885,578
Grants and Contracts	-	250,000	250,000
Rental Income	-	4,853,896	4,853,896
Investment Return, Net	141,051	388,885	529,936
Other Revenues and Gains	-	46,755	46,755
Net Assets Released from Restriction	<u>69,781</u>	<u>2,360,392</u>	<u>2,430,173</u>
Total Revenues and Gains	<u>2,314,117</u>	<u>8,135,053</u>	<u>10,449,170</u>
Expenses and Losses			
Program Services:			
Scholarships and Grants	-	1,324,795	1,324,795
Student Activities and Programs	1,764,169	649,926	2,414,095
University Stores	251,059	-	251,059
Other Programs	-	4,296,668	4,296,668
Management and General	18,009	815,347	833,356
Fundraising	<u>-</u>	<u>1,119,358</u>	<u>1,119,358</u>
Total Expenses and Losses	<u>2,033,237</u>	<u>8,206,094</u>	<u>10,239,331</u>
<b>Changes in Net Assets without Donor Restrictions:</b>	\$ 280,880	\$ (71,041)	\$ 209,839

**CLARION UNIVERSITY OF PENNSYLVANIA  
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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

	<u>Association</u>	<u>Foundation</u>	<u>2018 Total</u>
<b>Changes in Net Assets with Donor Restrictions:</b>			
Contributions	\$ -	\$ 2,403,452	\$ 2,403,452
Investment Return, Net	56,906	2,173,150	2,230,056
Other Revenues and Gains	-	374,457	374,457
Other Expenses and Losses	-	(530,576)	(530,576)
Net Assets Released from Restriction	<u>(69,781)</u>	<u>(2,360,392)</u>	<u>(2,430,173)</u>
<b>Total Change in Net Assets with Donor Restriction</b>	<u>(12,875)</u>	<u>2,060,091</u>	<u>2,047,216</u>
<b>INCREASE IN NET ASSETS</b>	268,005	1,989,050	2,257,055
Net Assets - Beginning of Year	<u>3,860,732</u>	<u>45,403,956</u>	<u>49,264,688</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 4,128,737</u>	<u>\$ 47,393,006</u>	<u>\$ 51,521,743</u>

For the year ended June 30, 2019, the Student Housing Projects at Clarion University of Pennsylvania On-Campus Suites Phase I and II, owned by the Foundation, did not meet their required debt service covenant requirements under the applicable loan documents. The Foundation intends to comply with the provisions of the applicable loan documents to avoid an event of default. The Foundation was in compliance with all debt covenants required by applicable loan documents for the year ended June 30, 2018.

**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:

	<u>2019</u>	<u>2018</u>
Component Units Due from University	\$ 466,600	\$ 252,750
Estimated Allowance Recorded by Foundation that was not Recorded by the University	71,385	176,630
Timing Difference	<u>(28,277)</u>	<u>-</u>
University Due to Component Units	<u>\$ 509,708</u>	<u>\$ 429,380</u>
Component Units Due to University	<u>\$ 1,635,130</u>	<u>\$ 885,147</u>
University Due from Component Units	<u>\$ 1,635,130</u>	<u>\$ 885,147</u>

**CLARION UNIVERSITY OF PENNSYLVANIA  
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**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 \$15,976,494, and \$19,599,862 at June 30, 2019 and 2018, 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.

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.)

**CLARION UNIVERSITY OF PENNSYLVANIA  
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**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

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

**Moody's Rating:** The State System 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.



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**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

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

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

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

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

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

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

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**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

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](http://www.passhe.edu).

**University Local Deposits and Investments:** At June 30, 2019 and 2018, the carrying amounts of the University's demand and time deposits were \$1,123,644 and \$761,289, respectively, as compared to bank balances of \$742,743 and \$910,946, 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, 2019 and 2018, 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:

	2019	2018
Certificates of Deposit and Money Market Funds	\$ 433,064	\$ 339,610
Mutual Funds - Equity	39,274,985	28,638,576
Equity Securities	2,445,030	8,921,189
Mutual Funds - Fixed Income	1,046,116	2,331,018
Total	\$ 43,199,195	\$ 40,230,393

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**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:

	Life	2019				Ending Balance June 30, 2019
		Beginning Balance July 1, 2018	Additions	Retirements	Reclassifications	
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		<u>\$ 59,314,724</u>	<u>\$ (3,886,751)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,427,973</u>

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**NOTE 6 CAPITAL ASSETS (CONTINUED)**

	2018					Ending Balance June 30, 2018
	Life	Beginning Balance July 1, 2017	Additions	Retirements	Reclassifications	
Land		\$ 1,718,427	\$ -	\$ -	\$ -	\$ 1,718,427
Construction in Progress		5,138,620	1,515,136	-	(2,114,508)	4,539,248
Total Capital Assets Not Being Depreciated		6,857,047	1,515,136	-	(2,114,508)	6,257,675
Buildings, Including						
Improvements	40/20	103,804,527	38,365	-	904,678	104,747,570
Furnishings and Equipment	Varies	20,935,767	541,025	(56,058)	1,209,830	22,630,564
Library Books	10	8,192,340	15,874	(61,427)	-	8,146,787
Total Capital Assets Being Depreciated		132,932,634	595,264	(117,485)	2,114,508	135,524,921
Less: Accumulated Depreciation						
Buildings, Including						
Improvements		(45,033,707)	(3,224,788)	-	-	(48,258,495)
Land Improvements		(8,579,761)	(693,258)	-	-	(9,273,019)
Furnishings and Equipment		(15,761,414)	(1,371,076)	56,058	-	(17,076,432)
Library Books		(7,801,109)	(120,244)	61,427	-	(7,859,926)
Total Accumulated Depreciation		(77,175,991)	(5,409,366)	117,485	-	(82,467,872)
Total Capital Assets Being Depreciated, Net		55,756,643	(4,814,102)	-	2,114,508	53,057,049
Capital Assets, Net		\$ 62,613,690	\$ (3,298,966)	\$ -	\$ -	\$ 59,314,724

**NOTE 7 OPERATING LEASES**

Total rent expense for operating leases for the years ended June 30, 2019 and 2018 was \$1,508,144 and \$1,658,107, respectively. Future minimum lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 487,319
2021	376,106
2022	364,423
2023	373,534
2024	382,872
Thereafter	10,346,379
Total	<u>\$ 12,330,633</u>

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**NOTE 8 CAPITAL LEASE**

The University has entered into a capital lease agreement for certain of its buildings. As of June 30, 2019, the University has satisfied its capital lease obligations.

Capital lease activity for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Balance at July 1	\$ 133,074	\$ 256,232
Retirements	(133,074)	(123,158)
Balance at June 30	<u>\$ -</u>	<u>\$ 133,074</u>

Capital assets included holdings under capital lease with a cost basis of \$1,050,000 and accumulated depreciation of \$146,450 at June 30, 2018.

**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, 2019 and 2018 are as follows:

	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		<u>\$ 6,463,316</u>	<u>\$ 464,769</u>	<u>\$ (1,220,653)</u>	5,707,432
Plus: Unamortized Bond Premium Costs, Net					<u>164,106</u>
Outstanding at End of Year					<u>\$ 5,871,538</u>

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**NOTE 9 BONDS PAYABLE (CONTINUED)**

	2018				
	Weighted Average Interest Rate	Balance July 1, 2017	Bonds Issued	Bonds Redeemed	Balance June 30, 2018
Series AG issued in 2008	4.52 %	\$ 433,886	\$ -	\$ (433,886)	\$ -
Series AH issues in 2008	4.68 %	3,893,588	-	(3,893,588)	-
Series AI issued in 2008	4.27 %	491,554	-	-	491,554
Series AL issued in 2010	5.00 %	535,498	-	(123,910)	411,588
Series AS issued in 2016	3.83 %	1,709,157	-	(71,809)	1,637,348
Series AU issued in 2017	3.51 %	-	3,990,007	(67,181)	3,922,826
Total Bonds Payable		\$ 7,063,683	\$ 3,990,007	\$ (4,590,374)	6,463,316
Plus: Unamortized Bond Premium Costs, Net					177,897
Outstanding at End of Year					\$ 6,641,213

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

Series	2020	2021	2022	2023	2024	2025-2029	Total
AL							
Principal	\$ 137,124	\$ 143,839	\$ -	\$ -	\$ -	\$ -	\$ 280,963
Interest	14,048	7,192	-	-	-	-	21,240
Total	151,172	151,031	-	-	-	-	302,203
AS							
Principal	162,308	165,260	169,194	177,556	186,409	617,264	1,477,991
Interest	64,073	60,826	57,521	49,061	40,184	62,735	334,399
Total	226,381	226,086	226,715	226,617	226,593	679,999	1,812,390
AU							
Principal	364,883	371,470	378,056	384,642	392,546	1,670,297	3,561,894
Interest	79,958	74,485	67,984	60,423	52,730	113,252	448,832
Total	444,841	445,955	446,040	445,065	445,276	1,783,549	4,010,726
AV							
Principal	74,566	78,909	233,109	-	-	-	386,584
Interest	19,329	15,601	11,655	-	-	-	46,585
Total	93,895	94,510	244,764	-	-	-	433,169
Total							
Principal	738,881	759,478	780,359	562,198	578,955	2,287,561	5,707,432
Interest	177,408	158,104	137,160	109,484	92,914	175,987	851,055
Total	\$ 916,289	\$ 917,582	\$ 917,519	\$ 671,682	\$ 671,869	\$ 2,463,548	\$ 6,558,489

In August 2019, Moody's Investors Service, Inc., maintained the State System's bond rating of Aa3 with an outlook of *stable*. In August 2019, 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. This program will provide \$100,000,000 in funding over the next several years. The State System issued bonds to provide a pool for funding for AFRP, \$9,228,259 and \$13,298,828 was outstanding as of June 30, 2019 and 2018.

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**NOTE 9 BONDS PAYABLE (CONTINUED)**

Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the AFRP pool of funding were as follows:

	2019	2018
Balance at July 1	\$ 969,097	\$ 1,278,153
Repayments	(296,625)	(309,056)
Balance at June 30	\$ 672,472	\$ 969,097

**NOTE 10 COMPENSATED ABSENCES**

Compensated absences activity for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Balance at July 1	\$ 7,131,817	\$ 6,757,169
Current Changes in Estimate	592,732	853,878
Payouts	(607,319)	(479,230)
Balance at June 30	\$ 7,117,230	\$ 7,131,817

**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.

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**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, 2019 and 2018.

	SSHE Plan		REHP		PSERS		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Net OPEB liabilities	\$ 68,909,674	\$ 77,909,566	\$ 37,020,787	\$ 45,380,471	\$ 125,158	\$ 105,915	\$ 106,055,619	\$ 123,395,952
Deferred outflows of resources:								
Net difference between actual and expected experience	\$ -	\$ -	\$ -	\$ -	\$ 785	\$ -	\$ 785	\$ -
Net difference between projected and actual investment earnings on OPEB plan								
investments	N/A	N/A	-	-	196	115	196	115
Changes in assumptions	-	-	-	-	1,962	-	1,962	-
Changes in proportion	-	-	1,978,112	-	1,504	-	1,979,616	-
Contributions after the measurement date	1,939,666	1,973,903	1,485,900	1,205,937	8,206	6,669	3,433,772	3,186,509
Total deferred outflows of resources	1,939,666	1,973,903	3,464,012	1,205,937	12,653	6,784	5,416,331	3,186,624
Deferred inflows of resources:								
Net difference between projected and actual experience	7,680,132	-	11,338,626	-	-	-	19,018,758	-
Net difference between projected and actual investment earnings on OPEB plan								
investments	N/A	N/A	56,582	37,901	-	-	56,581	37,901
Changes in assumptions	5,508,423	6,367,794	4,866,707	4,134,780	4,741	4,937	10,379,871	10,507,511
Changes in proportion	N/A	N/A	-	-	1,112	1,177	1,112	1,177
Total deferred inflows of resources	\$ 13,188,555	\$ 6,367,794	\$ 16,261,915	\$ 4,172,681	\$ 5,853	\$ 6,114	\$ 29,456,322	\$ 10,546,589
OPEB expense	\$ 1,283,647	\$ 3,132,758	\$ (361,254)	\$ 2,106,686	\$ 11,573	\$ 8,720	\$ 933,966	\$ 5,248,164
Contributions recognized by OPEB plans	N/A	N/A	\$ 1,485,900	\$ 1,205,937	\$ 8,206	\$ 6,669	\$ 1,494,106	\$ 1,212,606

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling \$1,939,666 for the System Plan, \$1,485,900 for the REHP plan, and \$8,206 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

Fiscal Year Ended	Amortization		
	SSHE	REHP	PSERS
June 30, 2020	\$ (2,887,923)	\$ (3,638,500)	\$ (392)
June 30, 2021	(2,887,923)	(3,638,500)	(425)
June 30, 2022	(2,887,923)	(3,638,500)	(425)
June 30, 2023	(2,887,923)	(3,349,123)	(425)
June 30, 2024	(1,636,863)	(1,973,275)	(458)
Thereafter	-	1,954,095	719
Total	\$ (13,188,555)	\$ (14,283,803)	\$ (1,406)



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**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 System Plan contributions that have been collected from the universities (employer) 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 pre-Medicare 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.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

Plan Description (Continued)

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, 2019.

- Plan members who retired prior to July 1, 2005, are not required to make contributions.
- Plan members, with the exception of nonfaculty coaches, who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65, pay the same dollar amount they paid as active employees on the day of retirement. When these plan members become eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.
- Plan members, with the exception of nonfaculty coaches, who retire on or after July 1, 2008, pay 18% of the plan premium in effect for active employees on their retirement date. Future adjustments will apply if contributions increase for active employees.
- Nonfaculty coaches who retired on or after July 1, 2005, pay 3.0% of their final annual gross salary at the time of retirement.

Actuarial Assumptions and Other Inputs

The actuarial valuation on which the total OPEB liability is based is dated July 1, 2018, which is the measurement date. 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.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

- 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 RP-2014 Total Mortality Tables, which incorporate rates based on a generational projection using Scale MP-2018 to reflect mortality improvement, updated from Scale MP-2017.
- The discount rate decreased from 3.13% to 2.98%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2018.
- Participant data is based on census information as of July 1, 2018.
- 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, 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 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%)
2019	\$ 57,692,061	\$ 68,909,674	\$ 83,425,990

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**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, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the healthcare cost trend rates used (6.0% decreasing to 3.9%).

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Health Care Cost Trend Rate			
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 64,507,889	\$ 77,909,566	\$ 95,401,024

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 current discount rate (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

The following presents the University's share of the System Plan's net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the discount rate used (3.13%).

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 91,825,437	\$ 77,909,566	\$ 66,924,426

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

OPEB Liability

The System Plan'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.

The System Plan's total OPEB liability as of June 30, 2018 of \$77,909,566 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016, that was rolled forward to July 1, 2017.

**State System Plan OPEB Liability**

Determined as of the June 30 measurement dates

<b>Changes in the System Plan Total OPEB Liability</b>	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018
Total OPEB Liability - Beginning Balance	\$ 77,909,566	\$ 84,203,648
Service Cost	2,260,605	3,089,252
Interest	2,468,005	2,505,167
Changes in Assumptions	(10,052,146)	(9,095,782)
Benefit Payments	(3,676,356)	(2,792,719)
Net Changes	(8,999,892)	(6,294,082)
Total OPEB Liability - Ending Balance	\$ 68,909,674	\$ 77,909,566
Covered Employee Payroll	30,551,659	31,602,879
OPEB Liability as a Percent of Covered Payroll	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.*

**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](http://www.budget.pa.us).

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**REHP (Continued)**

Plan Description (Continued)

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. The rate during the period July 1, 2017, through January 18, 2018, was \$300, and the rate from January 19, 2018, through June 30, 2018, was \$188.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 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.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**REHP (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

- Inflation of 2.60%.
- Healthcare cost trend rate of 6.2%, with rates gradually decreasing to 4.1% in 2075 and later, based on the SOA-Getzen trend rate model version 2016\_a.
- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase. Projected benefits based on estimates of future years of service and projected health benefit costs.
- 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, 2017.

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

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

- Discount rate of 3.87% as of June 30, 2018, and 3.58% as of June 30, 2017.
- 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.
- 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	47.0 %	6.6%
International Equity	20.0	8.6%
Fixed Income	25.0	3.0%
Real Estate	8.0	6.9%
Cash	0.0	1.0%
Total	<u>100.0 %</u>	

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**REHP (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

The actuarial valuation on which the total REHP OPEB liability at June 30, 2019 is based was dated June 30, 2018. 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 4.57% for the measurement date of June 30, 2018.

The actuarial valuation on which the total REHP OPEB liability at June 30, 2018 is based was dated July 1, 2017. The Commonwealth calculated an allocated share of the REHP OPEB liability for each participating employer based upon their actual contributions made to the REHP. The State System's proportion of the collective net OPEB liability was 4.37% for the measurement date of July 1, 2017.

The following presents the University's share of the REHP net OPEB liability at June 30, 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 current healthcare cost trend rates (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 3.1%)	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, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the healthcare cost trend rates used (6.0% decreasing to 3.9%).

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 39,383,201	\$ 45,380,471	\$ 54,358,190



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**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 a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate (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 following presents the University's share of the REHP net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the discount rate used (3.58%).

Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
2018	\$ 53,171,177	\$ 45,380,471	\$ 40,213,235

Fiduciary Net Position

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

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

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**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.

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.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Premium Assistance**

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2019, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2017, to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method was entry age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- 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, 2016, determined the employer contribution rate for fiscal year 2017/18.
- 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 2.98% at June 30, 2018, and 3.13% at June 30, 2017.
- 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 2.98%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

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**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.

Asset Class	2019		2018	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.9 %	0.3%	76.4 %	0.6%
US Core Fixed Income	92.8	1.2%	92.8	1.5%
Non-US Developed Fund	1.3	0.4%	0.0	N/A
Total	<u>100.0 %</u>		<u>100.0 %</u>	

The actuarial valuation on which the total Premium Assistance OPEB liability at June 30, 2019 is based was dated June 30, 2017, and was 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 0.18% for the measurement date of June 30, 2018.

The actuarial valuation on which the total Premium Assistance OPEB liability at June 30, 2018 is based was dated June 30, 2016, and was rolled forward to June 30, 2017. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.18% for the measurement date of June 30, 2017.

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 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	

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**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, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4% and 7%) or one percentage point higher (between 6% and 9%) than the healthcare cost trend rates used (between 5% and 8%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (between 4% and 7%)	Healthcare Cost Trend Rates (between 5% and 8%)	1% Increase (between 6% and 9%)
2018	\$ 105,887	\$ 105,915	\$ 105,944

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 current discount rate (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

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current discount rate (3.13%).

Sensitivity of the Premium Assistance Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 120,382	\$ 105,915	\$ 93,889

**Fiduciary Net Position**

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

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**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).

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, 2019 and June 30, 2018.

	SERS		PSERS		Total	
	2019	2018	2019	2018	2019	2018
Net Pension Liabilities	<u>\$ 63,987,163</u>	<u>\$ 53,268,593</u>	<u>\$ 2,851,900</u>	<u>\$ 2,558,507</u>	<u>\$ 66,839,063</u>	<u>\$ 55,827,100</u>
Deferred Outflows of Resources:						
Difference Between Expected and Actual Experience	\$ 960,227	\$ 900,662	\$ 22,942	\$ 26,689	\$ 983,169	\$ 927,351
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	6,225,574	-	13,978	59,299	6,239,552	59,299
Changes in Assumptions	1,704,775	2,666,939	53,163	69,512	1,757,938	2,736,451
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	11,259	14,483	11,259	14,483
Changes in Proportion	917,750	1,273,504	48,666	45,826	966,416	1,319,330
Contributions After the Measurement Date	3,563,730	3,404,686	326,888	254,964	3,890,618	3,659,650
Total Deferred Outflows of Resources	<u>\$ 13,372,056</u>	<u>\$ 8,245,791</u>	<u>\$ 476,896</u>	<u>\$ 470,773</u>	<u>\$ 13,848,952</u>	<u>\$ 8,716,564</u>
Deferred Inflows of Resources						
Difference Between Expected and Actual Experience	\$ 693,365	\$ 1,011,440	\$ 44,136	\$ 15,447	\$ 737,501	\$ 1,026,887
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	2,117,931	-	-	-	2,117,931
Difference Between Employer Contributions and Proportionate Share of Contributions	341,795	307,643	-	-	341,795	307,643
Changes in Proportion	506,091	835,201	30,125	37,101	536,216	872,302
Total Deferred Inflows of Resources	<u>\$ 1,541,251</u>	<u>\$ 4,272,215</u>	<u>\$ 74,261</u>	<u>\$ 52,548</u>	<u>\$ 1,615,512</u>	<u>\$ 4,324,763</u>
Contributions Recognized by Pension Plans	<u>\$ 6,256,929</u>	<u>\$ 5,941,757</u>	<u>\$ 326,888</u>	<u>\$ 254,964</u>	<u>\$ 6,583,817</u>	<u>\$ 6,196,721</u>
Pension Expense						
SERS and PSERS	<u>\$ 9,118,271</u>	<u>\$ 6,418,384</u>	<u>\$ 949,901</u>	<u>\$ 931,059</u>	\$ 10,068,172	\$ 7,349,443
ARP					2,052,387	2,056,901
Total Pension Expense					<u>\$ 12,120,559</u>	<u>\$ 9,406,344</u>

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

The University will recognize the \$3,563,730 reported as 2019 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$326,888 reported as 2019 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, 2020.

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

Fiscal Year Ended	Amortization	
	SERS	PSERS
June 30, 2020	\$ 3,110,386	\$ 81,949
June 30, 2021	1,740,026	30,862
June 30, 2022	1,145,729	(26,733)
June 30, 2023	2,257,052	(10,331)
June 30, 2024	13,882	-
	<u>\$ 8,267,075</u>	<u>\$ 75,747</u>

**SERS**

Plan Description

SERS is the administrator of the State Employees' Retirement fund, a cost-sharing multiple-employer defined benefit pension plan. SERS also is the administrator of the State Employees' Defined Contribution Plan, which was established as part of Commonwealth Act 2017-5. Both the defined benefit plan and the defined contribution plan were established by the Commonwealth to provide retirement 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](http://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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Benefits Provided (Continued)

Employees who were hired prior to January 1, 2011, and retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit; members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service. Act 120 of 2010 (Act 120) preserved all benefits in place for members, but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2% of members' final average salary instead of the previous 2.5%. The 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 34.63% of active members' annual covered payroll at June 30, 2019, with less common rates ranging between 23.94% and 27.71%, 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 16.17% or 16.42% of annual covered payroll, depending upon the hybrid plan chosen by the employee. In addition, the State System was required to contribute to the defined benefit plan 14.89% of the annual covered payroll of employees who selected the straight 401(a) defined contribution plan.



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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Contributions (Continued)

The University's contributions to SERS for the years ended June 30, 2019, 2018, and 2017, were \$6,256,929, \$5,941,757, and \$5,259,284, 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, 2019, depending on the plan chosen by the employee. The University recognized \$343 in SERS defined contribution pension expense 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

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

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Actuarial Methods and Assumptions (Continued)

Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the 18th Investigation of Actuarial Experience at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its April 2017 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.5% to 7.25%. The next SERS review occurred in summer 2019 and will be used for its 2019 annual valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2018, 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 7.25%, 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. Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2018 and 2017, are summarized below.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Actuarial Methods and Assumptions (Continued)

<u>Asset Class</u>	<u>December 31, 2018</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	- %
<b>Total</b>	<b>100.0 %</b>	

<u>Asset Class</u>	<u>December 31, 2017</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Private Equity	16.0 %	8.00 %
Global Public Equity	43.0	5.30 %
Real Assets	12.0	5.44 %
Multi-Strategy	12.0	5.10 %
Fixed Income	14.0	1.63 %
Cash	3.0	(0.25)%
<b>Total</b>	<b>100.0 %</b>	

The discount rate used to measure the total SERS pension liability was 7.25%. 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.

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**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 and 2018, 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
June 30, 2018 Liability	\$ 67,614,458	\$ 53,268,593	\$ 40,979,698

Fiduciary Net Position

The fiduciary net position of SERS, as well as additions to and deductions from SERS fiduciary net position, have been determined on the same basis as they are reported in the SERS financial statements, which can be found at [www.sers.state.pa.us](http://www.sers.state.pa.us).

Proportionate Share

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

At June 30, 2018, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2017, was \$53,268,593.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Proportionate Share (Continued)

The allocation percentage assigned to each participating employer is based on a projected-contribution method. 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.

For the allocation of the December 2017 amounts this methodology applies the most recently calculated contribution rates for fiscal year 2018/19 from the December 31, 2017 funding valuation to the expected funding payroll.

At December 31, 2018, the State System's proportion was 4.897% an increase of 0.009% from its proportion calculated as of December 31, 2017, measurement date.

At December 31, 2017, the State System's proportion was 4.906%, an increase of .07% from its proportion calculated as of December 31, 2016.

**PSERS**

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania.

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–8535) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established. 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. PSERS issues a comprehensive annual financial report that may be obtained at [www.psers.state.pa.us](http://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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

Benefits Provided (Continued)

Act 120 preserved the benefits of members who joined prior to July 1, 2011, and introduced benefit reductions for individuals who become new members on or after July 1, 2011, by creating two new membership classes: Class T-E and Class T-F. To qualify for normal retirement, Class T-E and Class T-F members must complete a minimum of 35 years of service with a combination of age and service that totals 92 or greater, or they must work until age 65 with a minimum of three years of service.

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

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

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

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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

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, 2019, June 30, 2018, and June 30, 2017, was \$326,888, \$254,964, and \$203,311, respectively, equal to the required contractual contribution.

Actuarial Assumptions

The total PSERS pension liability as of June 30, 2018, was determined by rolling forward PSERS' total pension liability at June 30, 2017, to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement.

- 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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

Actuarial Assumptions (Continued)

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

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, 2018 and 2017:

Asset Class	2018	
	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 %	

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



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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

Actuarial Assumptions (Continued)

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

The following presents the University's proportionate share of the PSERS net pension liability at June 30, 2019 and 2018, calculated using the discount rate of 7.25%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the rate used for the periods presented.

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, 2019 Liability	\$ 3,535,130	\$ 2,851,900	\$ 2,274,187
June 30, 2018 Liability	\$ 3,149,319	\$ 2,558,507	\$ 2,059,718

Fiduciary Net Position

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

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

Proportionate Share

At June 30, 2019 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:

	<u>2019</u>	<u>2018</u>
Total PSERS Net Pension Liability Associated with the University	\$ 5,703,800	\$ 5,117,014
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	<u>2,851,900</u>	<u>2,558,507</u>
University's Proportionate Share of the PSERS Net Pension Liability	<u>\$ 2,851,900</u>	<u>\$ 2,558,507</u>

PSERS measured the 2019 and 2018 net pension liabilities as of June 30, 2018, and June 30, 2017, 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, 2018, the State System's proportion was .1836%, an increase of .0025% from its proportion calculated as of June 30, 2017.

**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, 2019 and 2018, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2019 and 2018, were \$2,052,387 and \$2,056,901, respectively, from the University; and \$1,104,622 and \$1,107,051, respectively, from active members. No liability is recognized for the ARP.

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**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 \$28,445 and \$60,214 to the Reserve Fund during the years ended June 30, 2019 and 2018, respectively. During the year ended June 30, 2017, the University received a refund of \$18,772 from the Reserve Fund.

Changes in the University claims liability are as follows:

<u>Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2019	\$ 437,194	\$ 122,686	\$ (145,890)	\$ 413,990
2018	\$ 457,430	\$ 90,052	\$ (110,288)	\$ 437,194
2017	\$ 526,592	\$ -	\$ (69,162)	\$ 457,430

**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, 2019 and 2018 follow:

	<u>2019</u>	<u>2018</u>
Deferred Outflows of Resources:		
Unamortized Loss on Refunding of Debt	\$ 93,630	\$ 108,863
OPEB Liability Related	5,416,331	3,186,624
Net Pension Liability Related	13,848,952	8,716,564
Total Deferred Outflows of Resources	<u>\$ 19,358,913</u>	<u>\$ 12,012,051</u>
Deferred Inflows of Resources:		
OPEB Liability Related	\$ 29,456,322	\$ 10,546,589
Net Pension Liability Related	1,615,512	4,324,763
Total Deferred Inflows of Resources	<u>\$ 31,071,834</u>	<u>\$ 14,871,352</u>

**NOTE 15 BENEFICIAL INTERESTS**

At June 30, 2019 and 2018, the fair value of beneficial interest totaled \$434,331 and \$431,233, 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.

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**NOTE 16 COMMITMENTS AND CONTINGENCIES**

Authorized University expenditures for services, supplies, equipment and construction projects unexpended as of June 30, 2019 and 2018 were \$5,754,152 and \$2,401,518, respectively.

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

The University is 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.

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

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

**Cheyney University Loan Forgiveness**

On August 22, 2017, the Board of Governors (Board) approved a motion to forgive \$34.4 million in loans made to Cheyney University of Pennsylvania (Cheyney University or Cheyney) from the other 13 State System universities and the Office of the Chancellor, provided that Cheyney meets certain conditions that hold Cheyney accountable for operating within available financial resources. The plan states that one-third will be forgiven if Cheyney reduces \$7.5 million of annual expenses from its fiscal year 2017/18 current operations and maintains a balanced budget of revenues greater than or equal to annual expenses in fiscal year 2018/19, one-third will be forgiven when Cheyney maintains a balanced budget of revenues greater than or equal to annual expenses in fiscal year 2019/20, and the remaining third will be forgiven when Cheyney maintains a balanced budget of revenues greater than or equal to annual expenses in fiscal year 2020/21. While the Board's loan forgiveness plan for Cheyney remains in effect, the Board has not yet made a determination regarding the first installment of debt forgiveness.

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**NOTE 16 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Cheyney University Loan Forgiveness (Continued)**

Cheyney University has been borrowing the funds under a line-of-credit arrangement from the State System's pooled investment account since fiscal year 2013/14. The loans have been reported only at the consolidated State System financial statements level, as a reduction of the pooled investment account, since the expectation had been that Cheyney would repay the loans and the individual universities would not be affected. Clarion University will record its share of the expense and reduction of the pooled investments account only as Board determines that the loan forgiveness conditions are met. An allocation of the loan forgiveness to each of the universities has not been finalized, and Clarion University's share of the liability is unknown.

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

**NOTE 17 GOING CONCERN CONSIDERATIONS**

As shown in the accompanying financial statements, the University has suffered recurring net losses of \$7.7 million, \$3.0 million, and \$4.3 million, respectively, during the years ended June 30, 2019, 2018, and 2017. The University also has a negative unrestricted net position of \$185.3 million as of June 30, 2019.

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 60.7%, or \$17.0 million, from \$28.0 million at June 30, 2015, to \$11.0 million at June 30, 2019. 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 and the impact of the new 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.

**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 17 GOING CONCERN CONSIDERATIONS (CONTINUED)**

*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:

- The University will continue to implement the STEP UP strategic enrollment plan which resulted in a 4% increase in the freshman class for the Fall of 2019, achieving the first year of freshman growth in ten years. The University will target an additional 2% increase in the Fall of 2020 freshman class.
- The University will undergo an aggressive academic undergraduate program review to revitalize current programming for employability.
- The University will ramp up Healthcare UG and Grad Programming, when possible use hybrid or digital-online delivery (e.g. Nursing, Athletic training).
- The University will enhance cross college programming in Business, Security, and Healthcare.
- The University will enhance current and establish new partnerships with other PASSHE university (e.g. Bloomsburg).
- The University will target an increase in retention of first year students from 75% to 76% in 2020/21 and one percent each year for the next 5 years until 80% is reached.
- The University will target an increase in retention of second year students from 75% to 76% in 2020/21 and one percent each year for the next 5 years until 80% is reached.
- The University will continue developing two-year healthcare program offerings (e.g. ASN programs such as Somerset partnership with community college.)
- The University will use Venango campus to leverage local industry partnerships for two year and badging credentials (e.g. applied tech degree, plastics program, criminal justice).
- The University will reduce housing costs making them more affordable and in line with other PASSHE schools.
- The University will continue strategic alignment of position mix with a targeted reduction of roughly 10 FTE per year.

**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, 2019 AND 2018  
(UNAUDITED)**

**State System Plan OPEB Liability**

Determined as of the June 30 measurement dates

<b>Changes in the System Plan Total OPEB Liability</b>	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018
Total OPEB Liability - Beginning Balance	\$ 77,909,566	\$ 84,203,648
Service Cost	2,260,605	3,089,252
Interest	2,468,005	2,505,167
Changes in Assumptions	(10,052,146)	(9,095,782)
Benefit Payments	(3,676,356)	(2,792,719)
Net Changes	(8,999,892)	(6,294,082)
Total OPEB Liability - Ending Balance	<u>\$ 68,909,674</u>	<u>\$ 77,909,566</u>
Covered Employee Payroll	30,551,659	31,602,879
OPEB Liability as a Percent of Covered Payroll	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
2018/19	4.483%	\$ 37,020,787	\$ 6,603,081	560.7%	2.2%
2017/18	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
2018/19	\$ 1,485,900	\$ 1,485,900	\$ -	\$ 8,452,999	17.58%
2017/18	\$ 1,205,937	\$ 1,205,937	\$ -	\$ 8,191,410	14.72%

**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)  
(CONTINUED)  
JUNE 30, 2019 AND 2018  
(UNAUDITED)**

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
2018/19	0.1836%	\$ 125,157	\$ 125,157	\$250,314	\$ 1,616,336	7.74%	5.56%
2017/18	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 Covered-Employee Payroll
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, 2019 AND 2018  
(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 %

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

Fiscal Year	Contractually Required Contributions	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%

**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, 2019 AND 2018  
(UNAUDITED)**

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

Fiscal Year	State System's Proportion	PSERS Net Pension Liability			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
		University's Proportionate Share	Commonwealth's Proportionate Share	Total			
2014/15	0.1785%	\$ 1,149	\$ 1,149	\$ 2,298	\$ 370	310 %	57.2 %
2015/16	0.1852%	\$ 2,044	\$ 2,044	\$ 4,088	\$ 1,214	200 %	54.4 %
2016/17	0.1833%	\$ 2,191	\$ 2,191	\$ 4,381	\$ 1,145	200 %	50.1 %
2017/18	0.1811%	\$ 2,559	\$ 2,559	\$ 5,117	\$ 1,380	200 %	51.8 %
2018/19	0.1836%	\$ 2,852	\$ 2,852	\$ 5,704	\$ 1,600	200 %	54.0 %

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in	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	0.1 %
2018/19	\$ 327	\$ 327	\$ -	\$ 2,186	15.0 %

