CALIFORNIA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2020 AND 2019

CALIFORNIA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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YEARS ENDED JUNE 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, Foundation for California University and the Student Association, Inc. at California University of Pennsylvania which represents 100% of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors, whose reports 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 audit 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 audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the aggregate discretely presented component units of the University as of June 30, 2020 and 2019, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), and the various schedules of Proportionate Share of Net Pension Liability, OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 76-79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

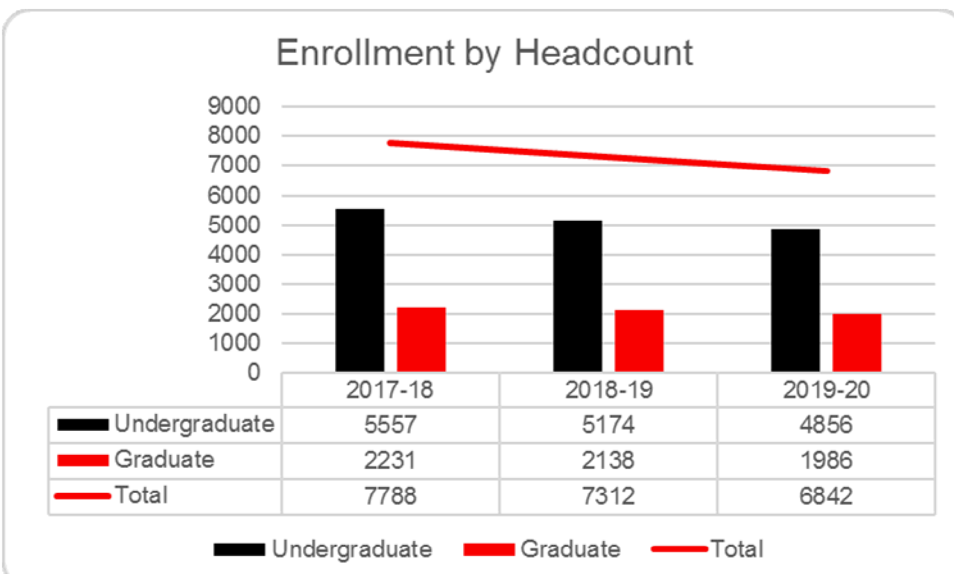
Plymouth Meeting, Pennsylvania
November 20, 2020

California University of Pennsylvania, a member of the State System of Higher Education (the University), located in California, Pennsylvania, was founded in 1852. The University is one of fourteen universities of the Pennsylvania State System of Higher Education (the State System). The University is a comprehensive public university that serves the state, national, and international communities by providing its students with high quality academic instruction and at the lowest possible cost, and the region with public service. 6,842 students were enrolled for the 2019-2020 year to which the University offers over 100 undergraduate majors, degrees, and certificates; over 95 graduate and professional degree and certificate programs, and over 75 programs delivered 100% online.

The following is an overview of the University's financial activities for the year ended June 30, 2020 as compared to the years ended June 30, 2019 and 2018, and is intended to analyze and discuss the University's financial performance as it relates to the financial statements and disclosures that follow.

Financial Highlights:

Enrollment for Fall 2019 included 4,856 undergraduate and 1,986 graduate students, for a total of 6,842 students (headcount). Fall 2019 total enrollment was comprised of 5,693 resident students, and 1,149 nonresident students. The chart below summarizes a three-year trend of undergraduate and graduate enrollment by headcount.



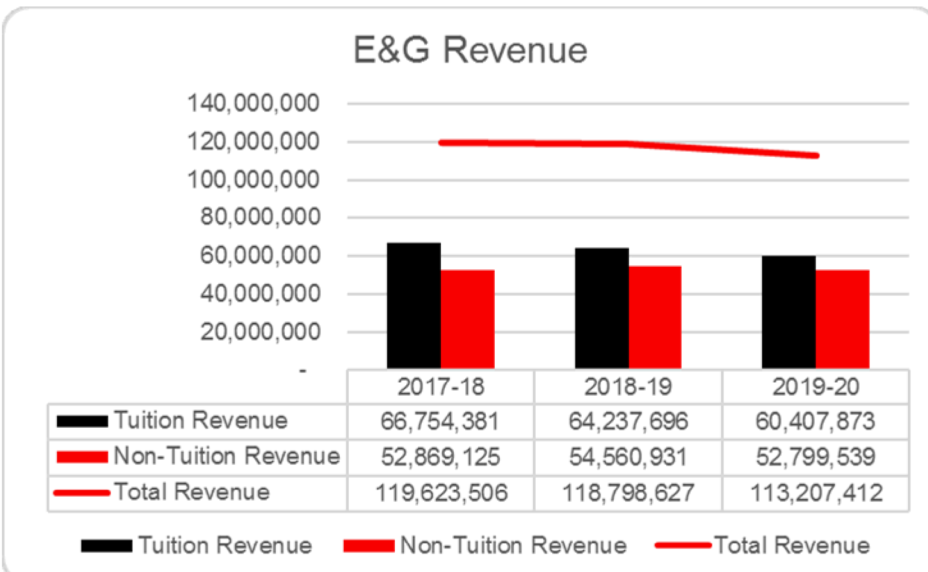
The State System of Higher Education's board of governor's approved no annual tuition increase for undergraduate resident students in fiscal year 2019/20.

In fiscal year 2019/20, the Commonwealth appropriation to the State System was $477.5 million, equal to the amount received in the prior fiscal year. Over the last three years, state appropriations have increased about $34.7 million, or 8.0%, but still are about $36 million less than received in fiscal year 2007/2008. The University's share of the base appropriation, through the appropriation formula, was $34.2 million.

Commonwealth capital funding, which include appropriations for furnishings and equipment, was $1.1 million, about the same amount as fiscal year 2018/19 where the University received $1.2 million.

The University has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires the University to report its share of the liabilities, expense, deferred outflows of resources, and deferred inflows of resources allocated to it by the Retired Employees Health Program and the Public School Employees' Retirement System Health Insurance Premium Assistance Program, both of which are defined benefit retiree healthcare plans administered by the Commonwealth of Pennsylvania. Statement No. 75 also has significantly increased the liability that the University records for the defined benefit retiree healthcare and tuition benefits plan that the University administers, and requires the recording of deferred outflows of resources and deferred inflows of resources associated with the plan.

The chart below summarizes Educational and General revenue, specifically tuition and non-tuition revenue.



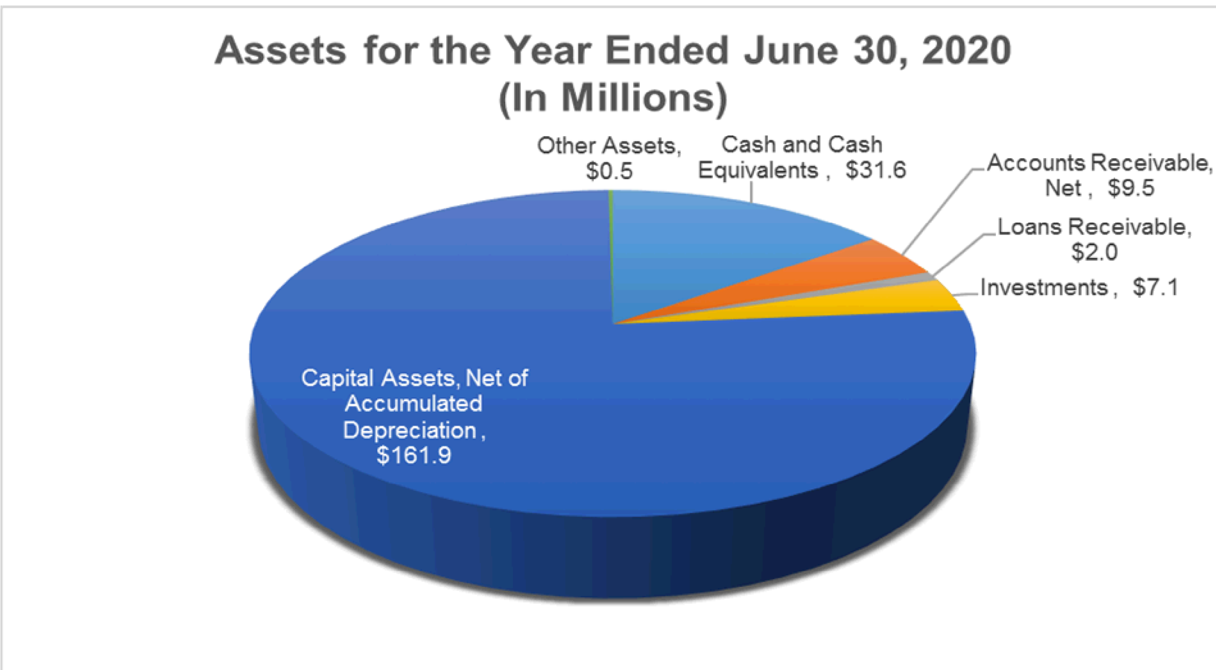
Educational and General Fund personnel expenditures, including salary, incremental benefits and employer paid fixed rate benefits, were $84.9 million and $1.3 million or 2% lower in fiscal year 2020 compared to fiscal year 2019.

Educational and General fund expenditures, including services, supplies, utilities, capital and other non-personnel expenditures, were $19.1 million in fiscal year 2020 or $2.3 million or 11% lower than in fiscal year 2019.

Financial Statements:

Balance Sheet
The Balance Sheet reports the balances of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year.

Assets include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation. In total Assets decreased by $10.8 million, or 4.9% for the year ended June 30, 2020, compared to a 4.3% decrease in the prior fiscal year 2018/19. The below chart shows a breakout of asset balance by type for fiscal year 2020.



Deferred Outflows of Resources, defined as a consumption of net position that applies to future periods, reports the deferred loss on bond defeasance and certain items associated with the pension and other postemployment benefits liabilities. The annual balances and variances are significantly reliant upon actuarial assumptions and primarily out of the University's control.

Liabilities include payments due to vendors, employees, and students; revenues received but not yet earned; the balance of bonds payable; and amounts estimated to be due for items such as workers' compensation (the University is self-insured), compensated absences (the value of sick and annual leave earned by employees), pension benefits, and other post-employment benefits (health and tuition benefits expected to be paid to certain current and future retirees).

Total liabilities decreased by $29.1 million, or 7.4% for the year ended June 30, 2020 compared to a decrease of 3.9% in the prior fiscal year 2018/19.

Deferred Inflows of Resources, defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance and certain items associated with the pension and other postemployment benefits liabilities. Like deferred outflows annual balances and variances are significantly reliant upon actuarial assumptions and primarily out of the University's control.

Net Position, informally referred to as Net Assets or Fund Balance (as it was previously called), is the sum of Assets plus Deferred Outflows of Resources less Liabilities less Deferred Inflows of Resources. In accordance with GASB requirements, the University reports three components of net position:

Net investment in capital assets is the cost of land, buildings, improvements, equipment, furnishings, and library books, net of accumulated depreciation, less any associated debt (primarily bonds payable). This balance is not available for the University's use in ongoing operations since the underlying assets would have to be sold in order to use the balance to pay current or long-term obligations. The Commonwealth prohibits the State System from selling university land and buildings without prior approval.

Restricted net position represents the portion of balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. *Nonexpendable restricted net position* represents the corpus of endowments and similar arrangements in which only the associated investment income can be spent. *Expendable restricted net position* represents the portion of restricted funds that is available for expenditure as long as any external purpose and time restrictions are met.

Unrestricted net position includes funds that the Board or president have designated for specific purposes, auxiliary funds, and all other funds not appropriately classified as restricted or invested in capital assets. Unrestricted net position includes three unfunded liabilities that will be realized gradually over future years, and because of their size, the universities are expected to fund these liabilities only on a "pay-as-you-go" basis; i.e., as they become due:

- The liability for compensated absences represents the dollar value of annual and sick leave that employees have earned and could potentially receive in the form of cash payouts upon retirement or other termination. As employees earn and accumulate leave, the compensated absences liability is increased; as employees use leave, and as terminated employees receive payouts, the liability is decreased. The compensated absences liability increased by $1 million to $9.2 million for the year ended June 30, 2020, compared to a $0.2 million increase from the prior year for the year ended June 30, 2019. The University only funds this liability as cash payouts are made to employees for annual and vested sick leave balances upon termination or retirement.

- The net pension liability is the University's allocated share of the difference between the Commonwealth's defined benefit pension obligations and the funding set aside by the Commonwealth in a qualified trust to pay the future benefits that are promised to current employees, retirees, and their beneficiaries. The annual increase in the liability is the amount that current employees earn each fiscal year as a pension benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability decreases when funding of the qualified trust increases and when employees or retirees leave the pension plans. The liability decreased by $10.2 million to $71.0 million for the year ended

June 30, 2020, compared to a increase of $12.5 million for the year ended June 30, 2019. The University funds this liability on a "pay-as-you-go" basis; that is, the University funds only the annual contractually required contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).

- The liability for other postemployment benefits, or OPEB, represents the estimated future healthcare costs for current and future retirees. The annual increase in the liability is the amount that current employees earn each fiscal year as a retiree healthcare benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability also increases as healthcare costs increase. The liability decreases when required contributions by retirees are increased, when the number of eligible employees decreases, and when retirees leave the plan. The liability decreased by $11.9 million to $111.7 million for the year ended June 30, 2020, compared to an decrease of $21.1 million for the year ended June 30, 2019. The majority of this significant increase in fiscal year ending June 30, 2018 was due to the implementation of GASB Statement No. 75. Like the pension liability, the University funds these liabilities on a "pay-as-you-go" basis: For the State System plan, universities make biweekly contributions to fund the actual claims incurred by retirees during the year; for the REHP and PSERS OPEB plans, the universities make contractually required contributions as determined by the Commonwealth.

Net position overall, including GASB 68 and GASB 75 for pension liabilities and postretirement benefit liabilities respectfully, as well as compensated absences, decreased by $3.7 million in fiscal year 2019/20. This compares to a decrease of $3.8 million in fiscal year 2018/19.

California University
Balance Sheet Summary, Year Ended June 30

	2020	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 31,620,577	$ 34,581,940	$ 35,154,960
Accounts Receivable, Net	9,496,824	7,211,305	8,014,585
Inventory	107,384	103,434	96,720
Prepaid Expenses	64,290	877,118	971,002
Other Current Assets	95,197	60,298	129,031
Total Current Assets	**41,384,272**	**42,834,095**	**44,366,298**
NONCURRENT ASSETS			
Accounts Receivable	185,000	188,263	189,247
Loans Receivable	1,952,478	2,316,271	2,712,516
Investments	7,126,727	7,141,358	7,034,353
Capital Assets, Net	161,884,299	170,902,359	179,187,491
Total Noncurrent Assets	**171,148,504**	**180,548,251**	**189,123,607**
Total Assets	**212,532,776**	**223,382,346**	**233,489,905**
Total Deferred Outflows of Resources	**14,998,184**	**22,669,444**	**14,534,041**
Total Assets and Deferred Outflows of Resources	**$ 227,530,960**	**$ 246,051,790**	**$ 248,023,946**

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	$ 11,056,151	$ 12,202,251	$ 11,259,863
Unearned Revenue	10,407,284	8,830,474	9,235,303
Deposit Liabilities	140,292	274,794	245,954
Personnel Obligations	6,859,110	7,434,770	7,049,055
Debt Obligations	7,458,294	9,092,358	8,575,372
Other Current Liabilities	346,152	465,933	472,929
Total Current Liabilities	**36,267,283**	**38,300,580**	**36,838,476**
NONCURRENT LIABILITIES			
Workers' Compensation	410,146	280,811	440,468
Unearned Revenue	58,521	58,521	120,926
Personnel Obligations	185,017,030	205,662,416	214,974,613
Debt Obligations	139,503,567	145,661,553	153,937,028
Other Noncurrent Liabilities	1,697,122	2,138,184	2,227,214
Total Noncurrent Liabilities	**326,686,386**	**353,801,486**	**371,138,855**
Total Liabilities	**362,953,669**	**392,102,067**	**407,977,331**
Total Deferred Inflows of Resources	**49,501,079**	**35,209,175**	**17,551,398**
NET POSITION			
Net Investment in Capital Assets	15,052,918	16,219,424	16,702,874
Restricted			
Nonexpendable:			
Student Loans	320,975	389,815	381,863
Expendable:			
Scholarships and Fellowships	281,421	273,058	323,729
Capital Projects	2,137,482	2,050,354	1,967,215
Unrestricted	(202,716,584)	(200,192,103)	(196,880,464)
Total Net Position	**(184,923,788)**	**(181,259,452)**	**(177,504,783)**
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 227,530,960**	**$ 246,051,790**	**$ 248,023,946**

The Statement of Revenues, Expenses, and Changes in Net Position
The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues earned and the expenses incurred during the fiscal year. The result is reported as an increase or decrease in net position. In accordance with GASB requirements, the University has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public colleges' and universities' state appropriations are nonoperating revenues. In addition, GASB requires classification of gifts, Pell grants, investment income and expenses, unrealized gains and losses on investments, interest expense, and gains and losses on disposals and acquisitions of assets as nonoperating. The University classifies all of its remaining activities as operating.

Operating Revenues for fiscal year 2019/20 decreased overall by 7.8%, or $7.2 million from the prior fiscal year. Much of this loss is due to the COVID 19 pandemic. On March 19, 2020, due to the Governor's shut down order, the University had to move all operations to online learning modality. The residence halls were closed as well as the rest of the campus. This closure made it necessary to issue refunds to the students for the unused portion of housing, dining plans, and 40% of most fees. Although the University received some funding through the CARES act, it was not enough to cover the refunds issued.

Tuition and fees are shown net of scholarship discounts and allowances and bad debt expense. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the State System allocates the cost of scholarships, waivers, and other student financial aid between scholarship discounts and allowances 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. Bad debt expense is an estimate of the amount owed by students that will not be collected. Overall net tuition and fee revenue decreased by $3.4 million, or 5.6%, from fiscal year 2018/19. For the first in many years, the State System implemented a zero percent tuition increase for FY 2019/20. This, together with the loss due to COVID 19 and an enrollment decline, accounts for the decrease in tuition and fee revenue.

Governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University increased by $0.1 million, or 1.1% from fiscal year 2018/19.

Auxiliary enterprises revenue, which includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of student union and recreation center, decreased by $3.0 million, or 15.9%, from fiscal year 2018/19. This is a direct result of the COVID 19 pandemic which resulted in the University refunding auxiliary fees for dining, housing, recreation center, student center, and parking fees.

Nonoperating Revenues for fiscal year 2019/20 increased overall by 9.4%, or $4 million from the prior fiscal year.

State appropriations include cash as well as capital appropriations that are received in the form of noncash furnishings and equipment for the Commonwealth-funded construction projects. The fiscal year 2019/20 general cash appropriation was $34.1 million, a $.7 million increase over fiscal year 2018/19.

Investment income (net of related investment expenses) for fiscal year 2019/20 was $1.2 million. This represents a decrease of $0.2 million over fiscal year 2018/19.

Gifts, Nonoperating Grants, and other nonoperating revenue includes contributions from the Commonwealth for PSERS, gifts (cash or capital), gains on the disposal of assets, parking and library fines, capital grants and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the University. Overall these balances increased by $3.7 million from fiscal year 2018/19. This is due to the CARES ACT funds received amounting to $4.8 million. Of this $4.8 million, 2.1 million was used to provide emergency grants directly to students, as mandated by the CARES Act.

Operating Expenses for fiscal year 2019/20 were $136.3 million compared to $139.6 million in fiscal year 2018/19. Much of this decrease was due to the University being closed due to COVID 19 from March 19, 2020 through June 30, 2020.

Salaries and wages as a whole, decreased $1.2 million, or 1.9% for fiscal year 2019/20 and is the result of the University holding positions vacant and no bargaining unit or non-represented pay increases.

Benefit expenses decreased by $1.9 million compared to the prior fiscal year. Benefits will fluctuate annually based upon the number of employees receiving them and based on the change in rates each year.

Financial aid to students in the form of grants, waivers, and scholarships was $8.6 million in fiscal year 2019/20, compared to $5.9 million in fiscal year 2018/19.

Nonoperating Expenses are primarily related to Interest expense on capital asset-related debt, which was $5.1 million, a decrease of $1.0 million over fiscal year 2018/19. The decrease is due primarily to the State System's annual practice of refunding existing debt with debt that carries lower interest rates. Also offsetting debt increases is the faster amortization of the State System's older, more expensive, debt, as a higher ratio of debt service is applied to principal rather than interest in the later years of the payment schedules.

California University of Pennsylvania
Statement of Revenues, Expenses, and Change in Net Position

	2020	2019	2018
OPERATING REVENUES			
Tuition and Fees, Net of Discounts	$ 57,732,439	$ 61,175,871	$ 63,608,075
Governmental Grants and Contracts	8,692,470	8,595,207	8,702,712
Nongovernmental Grants and Contracts	278,929	520,824	378,114
Sales and Services of Educational Departments	1,076,739	1,412,902	1,602,269
Auxiliary Enterprises, Net of Refunds	16,022,297	19,042,779	18,946,602
Other Revenues	787,329	1,040,572	1,893,126
Total Operating Revenues	84,590,203	91,788,155	95,130,898
OPERATING EXPENSES			
Instruction	49,388,952	51,436,644	49,071,720
Research	71,900	90,179	100,276
Public Service	2,383,738	2,776,173	2,419,649
Academic Support	7,280,840	8,943,790	9,599,015
Student Services	16,415,239	14,766,323	13,462,167
Institutional Support	17,269,766	15,229,508	18,315,748
Operations and Maintenance of Plant	10,033,122	12,660,331	10,707,813
Depreciation	10,667,418	11,060,680	11,041,230
Student Aid	8,580,541	5,887,758	6,406,024
Auxiliary Enterprises	14,229,800	16,771,306	16,237,879
Total Operating Expenses	136,321,316	139,622,692	137,361,521
OPERATING LOSS	(51,731,113)	(47,834,537)	(42,230,623)
NONOPERATING REVENUES (EXPENSES)			
State Appropriations, General and Restricted	34,181,375	33,442,584	32,486,231
Federal CARES Act COVID Relief	4,759,557	-	-
Commonwealth On-Behalf Contributions to PSERS	682,731	629,271	655,866
Pell Grants	9,601,440	10,362,689	10,934,482
Investment Income, Net of Related Investment Expense	1,151,054	1,386,535	1,188,985
Unrealized Gain (Loss) on Investments	(8,970)	226,295	264,264
Gifts for Other than Capital Purposes	1,577,282	2,889,523	1,482,638
Interest Expense on Capital Asset-Related Debt	(5,087,357)	(6,128,593)	(6,291,920)
Gain on Disposal of Capital Assets	-	-	9,589
Other Nonoperating Revenue	30,346	43,390	40,796
Net Nonoperating Revenues	46,887,458	42,851,694	40,770,931
LOSS BEFORE OTHER REVENUES	(4,843,655)	(4,982,843)	(1,459,692)
OTHER REVENUES			
State Appropriations, Capital	1,127,454	1,176,309	1,156,549
Capital Gifts and Grants	51,865	51,865	51,865
Total Other Revenues	1,179,319	1,228,174	1,208,414
Change in Net Position	(3,664,336)	(3,754,669)	(251,278)
Net Position – Beginning of Year	(181,259,452)	(177,504,783)	(96,779,832)
Restatement for July 1, 2017 - GASB 75 OPEB Liability	-	-	(80,473,673)
Net Position-Beginning of Year, Restated	(181,259,452)	(177,504,783)	(177,253,505)
NET POSITION – END OF YEAR	$ (184,923,788)	$ (181,259,452)	$ (177,504,783)

Statement of Cash Flows

This Statement's Primary purpose is to provide relevant information about the cash receipts and cash payments of the University. It may be used to determine the University's ability to generate future net cash flows and meet its obligations as they come due, as well as its possible need for external financing.

Net cash used in operating activities decreased by $8.8 million from the prior fiscal year. The decrease relates to revenue loss due to COVID-19 as well as additional financial aid awarded through the University merit scholarship program.

Net cash used by noncapital financing activities increased by $4.9 million from the prior fiscal year, which is a function of the CARES Act Funds received.

Net cash provided used in capital financing activities decreased by $1.9 million from the prior fiscal year.

Net Cash provided by investing activities decreased by $.3 million in fiscal year 2019/20 mostly due to the effect of COVID 19 on the stock market.

Future Considerations

Due to the ongoing COVID 19 pandemic, the University operated in a remote setting for fall 2020. Limited staff were on campus, all classes were delivered via remote technology, and all residence halls and dining operations were closed. A decision regarding spring 2021 semester operations was recently announced by the University as follows:

- About 50% of undergraduate "on-campus" classes will be conducted in person; these primarily will be labs, studio and performance courses, and courses that require specialized facilities and equipment. Most evening graduate courses will be offered in person as well. The remaining "on-campus" courses will be delivered through real-time remote learning, a hybrid format (blended in-person and remote learning) or entirely online.
- Residence halls will be open this spring. With limited exceptions, students will be housed singly, with one student per bedroom/bathroom. Students in majors that require labs and other hands-on coursework will be prioritized when assigning rooms. Student-athletes also will be housed on campus
- Dining services will be available for resident and commuter students, including students who live at Vulcan Village. Grab-and-go options will be available. Social distancing will be required in dining areas; masks must be worn unless a diner is seated and eating or drinking.

The effects of COVID 19 will be felt the deepest on our auxiliary operations of housing and dining. While the total dollar amount is not known at this point, the university projects that it has enough cash and unrestricted net assets to cover the FY 2020/2021 deficits in auxiliary funds.

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

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

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

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

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

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 31,620,577	$ 34,581,940
Accounts Receivable, Net	9,496,824	7,211,305
Inventory	107,384	103,434
Prepaid Expenses	64,290	877,118
Other Current Assets	95,197	60,298
Total Current Assets	41,384,272	42,834,095
NONCURRENT ASSETS		
Accounts Receivable	185,000	188,263
Loans Receivable	1,952,478	2,316,271
Investments	7,126,727	7,141,358
Capital Assets, Net of Accumulated Depreciation	161,884,299	170,902,359
Total Noncurrent Assets	171,148,504	180,548,251
Total Assets	212,532,776	223,382,346
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	122,979	145,074
Defined Benefit Retirement Plans	8,840,884	16,451,599
Other Post Employment Benefit Plans	6,034,321	6,072,771
Total Deferred Outflows of Resources	14,998,184	22,669,444
Total Assets and Deferred Outflows of Resources	$ 227,530,960	$ 246,051,790

See accompanying Notes to Financial Statements.

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT	2020	2019
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 11,056,151	$ 12,202,251
Unearned Revenue	10,407,284	8,830,474
Students' Deposits and Other Deposit Liabilities	140,292	274,794
Compensated Absences	3,370,176	3,453,026
Postretirement Benefits	3,488,934	3,981,744
Debt Obligations	7,458,294	9,092,358
Other	346,152	465,933
Total Current Liabilities	36,267,283	38,300,580
NONCURRENT LIABILITIES		
Workers' Compensation	410,146	280,811
Unearned Revenue	58,521	58,521
Compensated Absences	5,820,042	4,760,933
Postretirement Benefits	108,192,211	119,633,833
Debt Obligations	139,503,567	145,661,553
Net Pension Liability	71,004,777	81,267,651
Other	1,697,122	2,138,185
Total Noncurrent Liabilities	326,686,386	353,801,487
Total Liabilities	362,953,669	392,102,067
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	489,451	22,233
Defined Benefit Retirement Plans	7,211,454	1,968,435
Other Post Employment Benefit Plans	41,800,174	33,218,507
Total Deferred Inflows of Resources	49,501,079	35,209,175
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	15,052,918	16,219,424
Restricted for:		
Nonexpendable:		
Student Loans	320,975	389,815
Expendable:		
Scholarships and Fellowships	281,421	273,058
Capital Projects	2,137,482	2,050,354
Unrestricted	(202,716,584)	(200,192,103)
Total Net Deficit	(184,923,788)	(181,259,452)
Total Liabilities, Deferred Inflows of Resources, and Net Deficit	$ 227,530,960	$ 246,051,790

See accompanying Notes to Financial Statements.

CALIFORNIA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Tuition and Fees, Net of Discounts of $16,220,126 in 2020 and $17,536,235 in 2019	$ 57,732,439	$ 61,175,871
Governmental Grants and Contracts:		
Federal	3,379,338	3,382,821
State	5,313,133	5,212,386
Nongovernmental Grants and Contracts	278,929	520,824
Sales and Services of Educational Departments	1,076,739	1,412,902
Auxiliary Enterprises, Net of Refunds	16,022,296	19,042,779
Other Revenues	787,329	1,040,572
Total Operating Revenues	84,590,203	91,788,155
OPERATING EXPENSES		
Instruction	49,388,952	51,436,644
Research	71,900	90,179
Public Service	2,383,738	2,776,173
Academic Support	7,280,840	8,943,790
Student Services	16,415,239	14,766,323
Institutional Support	17,269,766	15,229,508
Operations and Maintenance of Plant	10,033,122	12,660,331
Depreciation	10,667,418	11,060,680
Student Aid	8,580,541	5,887,758
Auxiliary Enterprises	14,229,800	16,771,306
Total Operating Expenses	136,321,316	139,622,692
OPERATING LOSS	(51,731,113)	(47,834,537)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	34,181,375	33,442,584
COVID-19 Emergency Relief Funds	4,759,557	-
Commonwealth On-Behalf Contributions to PSERS	682,731	629,271
Pell Grants	9,601,440	10,362,689
Investment Income, Net of Related Investment Expense of $76,939 in 2020 and $76,703 in 2019	1,151,054	1,386,535
Unrealized Gain (Loss) on Investments	(8,970)	226,295
Gifts for Other than Capital Purposes	1,577,282	2,889,523
Interest Expense on Capital Asset-Related Debt	(5,087,357)	(6,128,593)
Other Nonoperating Revenue	30,346	43,390
Net Nonoperating Revenues	46,887,458	42,851,694
LOSS BEFORE OTHER REVENUES	(4,843,655)	(4,982,843)
OTHER REVENUES		
State Appropriations, Capital	1,127,454	1,176,309
Capital Gifts and Grants	51,865	51,865
Total Other Revenues	1,179,319	1,228,174
DECREASE IN NET POSITION	(3,664,336)	(3,754,669)
Net Position – Beginning of Year	(181,259,452)	(177,504,783)
NET POSITION – END OF YEAR	$ (184,923,788)	$ (181,259,452)

See accompanying Notes to Financial Statements.

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

	2020	2019
CASH FLOWS USED BY OPERATING ACTIVITIES		
Net Tuition and Fees	$ 57,472,066	$ 60,268,943
Grants and Contracts	8,105,303	9,625,368
Payments to Suppliers for Goods and Services	(25,918,842)	(27,362,584)
Payments to Employees	(90,280,823)	(91,877,505)
Loans Collected from Students	363,794	396,245
Student Aid	(8,580,541)	(5,887,758)
Auxiliary Enterprise Charges	15,993,944	19,006,837
Sales and Services of Educational Departments	1,903,036	407,530
Other Receipts	(1,953,899)	1,356,257
Net Cash Used by Operating Activities	(42,895,962)	(34,066,667)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations, including Federal ARRA	36,323,919	33,442,584
Gifts and Nonoperating Grants for Other than Capital Purposes	15,310,442	13,252,212
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	59,046,991	62,925,817
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(59,046,991)	(62,925,817)
Agency Transactions, Net	(4,400)	(300)
Other	30,349	43,390
Net Cash Provided by Noncapital Financing Activities	51,660,310	46,737,886
CASH FLOWS USED BY CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	28,827,189	-
Capital Appropriations	1,127,454	1,176,309
Capital Grants and Gifts Received	51,865	51,865
Purchases of Capital Assets	(1,649,358)	(1,837,376)
Principal Repayments on Capital Debt and Leases	(34,979,717)	(11,894,252)
Interest Paid on Capital Debt and Leases	(6,259,858)	(2,246,610)
Net Cash Used by Capital Financing Activities	(12,882,425)	(14,750,064)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Proceeds from Sale and Maturities of Investments	5,660	119,290
Investment Income	1,151,054	1,386,535
Net Cash Provided by Investing Activities	1,156,714	1,505,825
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,961,363)	(573,020)
Cash and Cash Equivalents – Beginning of Year	34,581,940	35,154,960
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 31,620,577	$ 34,581,940

See accompanying Notes to Financial Statements.

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

	2020	2019
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (51,731,113)	$ (47,834,537)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	10,667,418	11,060,680
Expenses Paid by Commonwealth or Donor	682,731	629,271
Changes in Assets and Liabilities:		
Receivables, Net	(310,931)	(241,569)
Inventories	(3,950)	(6,714)
Other Assets	(1,193,394)	1,208,450
Accounts Payable	(969,538)	920,381
Unearned Revenue	62,103	(467,234)
Students' Deposits	(130,102)	29,140
Compensated Absences	976,258	124,747
Loans to Students and Employees	363,794	396,245
Other Postretirement Benefits Match	(11,934,433)	(21,140,092)
Defined Benefit Pensions	(10,262,874)	12,529,332
Other Liabilities	(585,782)	(788,469)
Deferred Outflows of Resources Related to OPEB	38,450	(5,784,668)
Deferred Outflows of Resources Related to Pensions	7,610,715	(2,373,305)
Deferred Inflows of Resources Related to OPEB	8,581,667	(3,194,306)
Deferred Inflows of Resources Related to Pensions	5,243,019	20,865,981
Net Cash Used by Operating Activities	$ (42,895,962)	$ (34,066,667)
NONCASH TRANSACTIONS		
Capital Assets Acquired Through Capital Lease	$ -	$ 938,172
Commonwealth on Behalf Contributions to PSERS	$ 682,731	$ 629,271

See accompanying Notes to Financial Statements.

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

	2020	2019
ASSETS		
Cash and Cash Equivalents	$ 2,276,032	$ 1,944,693
Accounts and Interest Receivable, Net	355,843	249,492
Contributions Receivable, Net	1,380,241	2,091,828
Due from University	170,561	177,740
Inventories and Prepaid Expenses	359,792	352,825
Restricted Cash and Equivalents	1,687,518	1,687,518
Short-Term Investments	8,443,247	8,807,243
Long-Term Investments	35,668,570	35,854,757
Capital Assets, Net	15,933,522	16,821,967
Other Assets	11,200	11,200
Total Assets	$ 66,286,526	$ 67,999,263
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 2,049,155	$ 2,430,157
Annuity Liabilities	125,635	131,844
Due to University	229,769	204,153
Deposits Payable	7,158,568	7,172,988
Capitalized Leases	137,463	274,925
Bonds and Notes Payable	26,067,743	26,303,557
Other Liabilities	526,241	501,089
Total Liabilities	36,294,574	37,018,713
NET ASSETS		
Without Donor Restriction	1,006,968	1,343,075
With Donor Restriction	28,984,984	29,637,475
Total Net Assets	29,991,952	30,980,550
Total Liabilities and Net Assets	$ 66,286,526	$ 67,999,263

See accompanying Notes to Financial Statements.

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

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND GAINS		
Contributions	$ 34,279	$ 28,645
Sales and Services	218,076	270,644
Student Fees	1,719,625	2,279,693
Rental Income	4,088,386	4,382,907
Investment Return, Net	383,194	513,936
Other Revenues and Gains	140,970	131,718
Net Assets Released From Restrictions	4,251,710	4,209,489
Total Revenues and Other Additions	10,836,240	11,817,032
EXPENSES AND LOSSES		
Program Services		
Scholarships and Grants	1,536,987	1,651,675
Student Activities and Programs	2,067,995	2,727,229
University Stores	50,000	50,000
Housing	4,588,488	4,638,008
Other Programs	2,320,341	2,252,453
Management and General	674,419	705,273
Fundraising	8,832	42,408
Total Expenses and Losses	11,247,062	12,067,046
Other Expenses and Losses	(74,715)	38,153
Change in Net Assets Without Donor Restriction	(336,107)	(288,167)
CHANGES IN NET ASSETS WITH DONOR RESTRICTION		
Contributions	1,104,239	2,825,321
Investment Return, Net	799,110	1,716,234
Other Revenues and Gains	1,695,870	1,197,831
Net Assets Released From Restrictions	(4,251,710)	(4,209,489)
Change in Net Assets With Donor Restriction	(652,491)	1,529,897
CHANGE IN NET ASSETS	(988,598)	1,241,730
Net Assets – Beginning of Year	30,980,550	29,738,820
NET ASSETS – END OF YEAR	$ 29,991,952	$ 30,980,550

See accompanying Notes to Financial Statements.

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

2020	**Program Activities**						**Supporting Activities**			
Natural Expense	Scholarships and Grants	Student Activities and Programs	University Stores	Housing	Other Programs	Total Programs	Management and General	Fundraising	Total Supporting	**Total Expenses**
Salaries and Benefits	$ -	$ 808,680	$ -	$ 488,835	$ 53,618	$ 1,351,133	$ 432,684	$ -	$ 432,684	$ 1,783,817
Gifts and Grants	1,532,987	1,100	-	-	-	1,534,087	3,050	-	3,050	1,537,137
Supplies and Travel	-	8,341	-	-	11,634	19,975	10,506	2,681	13,187	33,162
Services and Professional Fees	-	-	-	8,333	-	8,333	183,138	-	183,138	191,471
Office and Occupancy	-	-	50,000	1,313,111	-	1,363,111	19,122	-	19,122	1,382,233
Depreciation	-	243,198	-	1,118,554	-	1,361,752	-	-	-	1,361,752
Interest	-	-	-	1,488,027	-	1,488,027	-	-	-	1,488,027
Other	4,000	1,006,676	-	171,628	2,255,089	3,437,393	25,919	6,151	32,070	3,469,463
Total Expenses	**$ 1,536,987**	**$ 2,067,995**	**$ 50,000**	**$ 4,588,488**	**$ 2,320,341**	**$ 10,563,811**	**$ 674,419**	**$ 8,832**	**$ 683,251**	**$ 11,247,062**

2019	**Program Activities**						**Supporting Activities**			
Natural Expense	Scholarships and Grants	Student Activities and Programs	University Stores	Housing	Other Programs	Total Programs	Management and General	Fundraising	Total Supporting	**Total Expenses**
Salaries and Benefits	$ -	$ 943,339	$ -	$ 479,233	$ 52,443	$ 1,475,015	$ 444,977	$ -	$ 444,977	$ 1,919,992
Gifts and Grants	1,647,675	1,100	-	-	-	1,648,775	17,632	-	17,632	1,666,407
Supplies and Travel	-	12,671	-	-	7,340	20,011	11,077	9,908	20,985	40,996
Services and Professional Fees	-	-	-	8,333	-	8,333	191,041	-	191,041	199,374
Office and Occupancy	-	-	50,000	1,375,699	-	1,425,699	15,269	-	15,269	1,440,968
Depreciation	-	248,699	-	1,030,424	-	1,279,123	-	-	-	1,279,123
Interest	-	-	-	1,515,896	-	1,515,896	-	-	-	1,515,896
Other	4,000	1,521,420	-	228,423	2,192,670	3,946,513	25,277	32,500	57,777	4,004,290
Total Expenses	**$ 1,651,675**	**$ 2,727,229**	**$ 50,000**	**$ 4,638,008**	**$ 2,252,453**	**$ 11,319,365**	**$ 705,273**	**$ 42,408**	**$ 747,681**	**$ 12,067,046**

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

California University of Pennsylvania of the State System of Higher Education (the University), located in California, Pennsylvania, was founded in 1852. The University is one of fourteen universities of the Pennsylvania State System of Higher Education (the State System). The University is a comprehensive public university that serves the state, national, and international communities by providing its students with academic instruction and the region with public service. 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).

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB 14*, the University has determined that the Student Association, Inc. (Student Association or SAI) and the Foundation for California University (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.

Both the Student Association and the Foundation are legally separate, tax-exempt organizations. The Student Association, Inc. exists for and is owned by the students of the University. The Student Congress and the SAI Board of Directors determine the programs to be provided and an annual operating budget, with the concurrence of the University President. SAI coordinates and provides extracurricular programs, assists recognized student clubs and organizations, maintains a recreation park and provides financial operating and scholarship support to the University's athletic programs. Because the economic resources received and held by SAI are for the direct benefit of the University and the influence of the University over SAI, SAI is considered a component unit of the University and is included within the University's financial reporting entity. The financial activity of SAI is presented as of and for the years ended June 30, 2020 and 2019.

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

Reporting Entity (Continued)

The Foundation acts as a repository for gifts given for the benefit of the University. Resources held by the Foundation are used solely to supplement the capital, public service, financial aid, and educational programs of the University and administratively operate the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources and income thereon is restricted for the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is included within the University's financial reporting entity. The financial activity of the Foundation is presented as of and for the years ended June 30, 2020 and 2019.

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. The economic resources measurement focus reports all inflows, outflows and balances that effect an entity's net position. 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.

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

Operating Revenues and Expenses

The University records tuition; all academic, instructional, and other student fees; student financial aid; auxiliary activity, and corporate partnerships as operating revenue. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All expenses, with the exception of interest expense, loss on investments, loss on the disposal of assets, and extraordinary expenses, are recorded as operating expenses. Appropriations, gifts, investment income, capital grants, gains on investments, gains on the disposal of assets, parking and library fines, and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the University are reported as nonoperating revenue.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on students' behalf. To the extent that revenues from such programs are used to satisfy tuition and fees and other student services, the University has recorded a scholarship discount and allowance.

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 classification of net position.

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

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

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

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

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

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

Cash Equivalents

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

Accounts and Loans Receivable

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

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

Inventory

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

Capital Assets

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

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. Buildings, portions of buildings, and capital improvements acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt are stated at cost less accumulated depreciation.

Equipment and furnishings are stated at cost less accumulated depreciation. Library books are capitalized and depreciated. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The University provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 20 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years.

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

Capital Assets (Continued)

Library books are depreciated over 10 years. Amortization of assets under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any writedowns due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2020 and 2019.

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets and liabilities, the statements of net position report separate sections of deferred outflows of resources and deferred inflows of resources.

Deferred outflows of resources, reported after *total assets*, is defined by GASB as a consumption of net position that applies to future periods. The expense is recognized in the applicable future period(s). *Deferred inflows of resources*, reported after *total liabilities*, is defined by GASB as an acquisition of net position that applies to future periods. The revenue is recognized in the applicable future period(s).

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

The University is required to report the following as d*eferred outflows of resources* or d*eferred inflows of resources*.

- Deferred gain or loss on bond refunding, which results when the carrying value of a refunded bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.
- For defined benefit pension plans and other postemployment benefit (OPEB) plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, the net difference between projected (actuarial) and actual earnings on pension and OPEB plan investments, changes in the University's proportion of expenses and liabilities 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 respective pension or OPEB plan valuation measurement date.

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

Unearned Revenue

Unearned revenues include 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, is tax-exempt; accordingly, no provision for income taxes has been made in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

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 May 2020, GASB issued Statement No. 95, *Postponement of Effective Dates*, which is effective immediately. Statement 95 provides relief to governments and other stakeholders in light of the COVID-19 pandemic. It postpones the following standards, which are evaluated below, by one year from the original effective date: Statements 84, 89, 92 and 93. It postpones the effective date of Statement 87 by 18 months. Statement 94 and those issued after were not affected by Statement 95.

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

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

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

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

New Accounting Standards (Continued)

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

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

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

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

Subsequent Events

Management's practice is to evaluate subsequent events through the date for which their approval regarding the issuance of the financial statements is granted. The University has evaluated subsequent events through November 20, 2020, which is the date that the financial statements were available to be issued.

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

The following represents combining condensed statements of financial position information for the component units as of June 30, 2020 and 2019:

	June 30, 2020			June 30, 2019		
	The Foundation	Student Association	Total	The Foundation	Student Association	Total
Due from University	$ -	$ 170,561	$ 170,561	$ -	$ 177,740	$ 177,740
Investments	37,015,089	7,096,728	44,111,817	36,981,610	7,680,390	44,662,000
Capital Assets, Net	-	15,933,522	15,933,522	-	16,821,967	16,821,967
Other Assets	1,918,785	4,151,841	6,070,626	2,358,207	3,979,349	6,337,556
Total Assets	$ 38,933,874	$ 27,352,652	$ 66,286,526	$ 39,339,817	$ 28,659,446	$ 67,999,263
Due to University	$ 30,122	$ 199,647	$ 229,769	$ -	$ 204,153	$ 204,153
Deposits Payable	7,126,727	31,841	7,158,568	7,141,357	31,631	7,172,988
Long-Term Debt	-	26,205,206	26,205,206	-	26,578,482	26,578,482
Other Liabilities	648,022	2,053,009	2,701,031	649,640	2,413,450	3,063,090
Total Liabilities	7,804,871	28,489,703	36,294,574	7,790,997	29,227,716	37,018,713
Net Assets:						
Without Donor Restriction	2,144,019	(1,137,051)	1,006,968	1,911,345	(568,270)	1,343,075
With Donor Restriction	28,984,984	-	28,984,984	29,637,475	-	29,637,475
Total Net Assets	31,129,003	(1,137,051)	29,991,952	31,548,820	(568,270)	30,980,550
Total Liabilities and Net Assets	$ 38,933,874	$ 27,352,652	$ 66,286,526	$ 39,339,817	$ 28,659,446	$ 67,999,263

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2020 and 2019:

	June 30, 2020			June 30, 2019		
	The Foundation	Student Association	Total	The Foundation	Student Association	Total
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS						
REVENUES AND GAINS						
Contributions	$ 19,120	$ 15,159	$ 34,279	$ 7,565	$ 21,080	$ 28,645
Sales and Services	-	218,076	218,076	-	270,644	270,644
Student Fees	-	1,719,625	1,719,625	-	2,279,693	2,279,693
Rental Income	-	4,088,386	4,088,386	-	4,382,907	4,382,907
Investment Return, Net	213,071	170,123	383,194	292,418	221,518	513,936
Other Revenues and Gains	19,806	121,164	140,970	15,519	116,199	131,718
Net Assets Released From Restrictions	4,251,710	-	4,251,710	4,209,489	-	4,209,489
Total Revenues and Other Additions	4,503,707	6,332,533	10,836,240	4,524,991	7,292,041	11,817,032
EXPENSES AND LOSSES						
Program Services						
Scholarships and Grants	1,531,737	5,250	1,536,987	1,646,425	5,250	1,651,675
Student Activities and Programs	-	2,067,995	2,067,995	-	2,727,229	2,727,229
University Stores	-	50,000	50,000	-	50,000	50,000
Housing	-	4,588,488	4,588,488	-	4,638,008	4,638,008
Other Programs	2,320,341	-	2,320,341	2,252,453	-	2,252,453
Management and General	410,123	264,296	674,419	410,132	295,141	705,273
Fundraising	8,832	-	8,832	42,408	-	42,408
Total Expenses and Losses	4,271,033	6,976,029	11,247,062	4,351,418	7,715,628	12,067,046
Other Expenses and Losses	-	(74,715)	(74,715)	-	38,153	38,153
Change in Net Assets Without Donor Restriction	232,674	(568,781)	(336,107)	173,573	(461,740)	(288,167)
CHANGES IN NET ASSETS WITH DONOR RESTRICTION						
Contributions	1,104,239	-	1,104,239	2,825,321	-	2,825,321
Investment Return, Net	799,110	-	799,110	1,716,234	-	1,716,234
Other Revenues and Gains	1,695,870	-	1,695,870	1,197,831	-	1,197,831
Net Assets Released			-			
From Restrictions	(4,251,710)	-	(4,251,710)	(4,209,489)	-	(4,209,489)
Change in Net Assets With Donor Restriction	(652,491)	-	(652,491)	1,529,897	-	1,529,897
CHANGE IN NET ASSETS	(419,817)	(568,781)	(988,598)	1,703,470	(461,740)	1,241,730
Net Assets – Beginning of Year	31,548,820	(568,270)	30,980,550	29,845,350	(106,530)	29,738,820
NET ASSETS – END OF YEAR	$ 31,129,003	$ (1,137,051)	$ 29,991,952	$ 31,548,820	$ (568,270)	$ 30,980,550

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns all assets. The University does not participate in the unrealized gains or losses of 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 $30,691,488 and $32,910,245 at June 30, 2020 and 2019, respectively.

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued):

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.

At June 30, 2020 and 2019, the carrying amount of the University's local demand and time deposits were $929,089 and $1,671,695, respectively, as compared to bank balances of $920,444 and $1,662,811, respectively. The differences are primarily caused by items in-transit and outstanding checks. All bank balances were covered by federal depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions, or uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2020 and 2019, none of the University's demand and time deposits were exposed to foreign currency risk.

The carrying value (fair value) of the University's investments on June 30, 2020 and 2019 is presented below:

	Fair Value Hierarchy	2020	2019
Funds Held by Foundation in Fiduciary Capacity	3	$ 7,126,727	$ 7,141,358

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2020		2019	
	Current	Noncurrent	Current	Noncurrent
Student Tuition and Fees	$ 11,714,209	$ -	$ 10,566,203	$ -
Government Grants and Contracts	1,778,011	-	824,811	-
Employee Conversion Pay	1,644	-	-	3,263
Due from Component Units and Other	1,974,354	185,000	933,407	185,000
Total	15,468,218	185,000	12,324,421	188,263
Less: Allowance for Uncollectible Accounts	(5,971,394)		(5,113,116)	-
Total	$ 9,496,824	$ 185,000	$ 7,211,305	$ 188,263

NOTE 5 STUDENT LOANS

The student loans receivable represents loans to students funded primarily by advances to the University from the federal government under the Federal Perkins Loan Program (the Program). The University matches and contributes one third of the amount contributed by the federal government. The University match has been predominantly provided, on a restricted basis, by the Pennsylvania Higher Education Assistance Agency (PHEAA). In the event such matches were insufficient in any one year, the University provided the balance. In the event that the University ceases to participate in the Program, portions are refundable to the federal government and PHEAA. As of June 30, 2020 and 2019, the University's liability to the federal government and PHEAA were as follows:

	2020	2019
Current	$ 342,000	$ 342,000
Long-Term	1,697,124	2,138,185
Total	$ 2,039,124	$ 2,480,185

NOTE 6 CAPITAL ASSETS

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following for the year ended June 30, 2020.

	Beginning Balance June 30, 2019	Additions	Reclassifications	Retirements	Ending Balance June 30, 2020
Capital Assets Not Being Depreciated:					
Land	$ 2,381,119	$ 15,237	$ 31,111	$ -	$ 2,427,467
Construction in Progress	1,382,958	920,006	(1,037,125)	-	1,265,839
Total Assets Not Being Depreciated	3,764,077	935,243	(1,006,014)	-	3,693,306
Capital Assets Being Depreciated:					
Buildings and Improvements	216,413,989	223,142	66,337	-	216,703,468
Land Improvements	32,703,652	244,873	939,677	-	33,888,202
Furnishings and Equipment	28,170,553	221,521	-	-	28,392,074
Library Books	4,400,147	24,580	-	(30,107)	4,394,620
Total Assets Being Depreciated	281,688,341	714,116	1,006,014	(30,107)	283,378,364
Less: Accumulated Depreciation	(114,550,059)	(10,667,418)	-	30,107	(125,187,370)
Total Assets Being Depreciated, Net	167,138,282	(9,953,302)	1,006,014	-	158,190,994
Capital Assets, Net	$ 170,902,359	$ (9,018,059)	$ -	$ -	$ 161,884,299

NOTE 6 CAPITAL ASSETS (CONTINUED)

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following for the year ended June 30, 2019.

	Beginning Balance June 30, 2018	Additions	Reclassifications	Retirements	Ending Balance June 30, 2019
Capital Assets Not Being Depreciated:					
Land	$ 2,381,119	$ -	$ -	$ -	$ 2,381,119
Construction in Progress	565,703	1,021,059	(203,804)		1,382,958
Total Assets Not Being Depreciated	2,946,822	1,021,059	(203,804)	-	3,764,077
Capital Assets Being Depreciated:					
Buildings and Improvements	215,714,669	495,516	203,804	-	216,413,989
Land Improvements	32,703,652	-	-	-	32,703,652
Furnishings and Equipment	26,950,134	1,228,555	-	(8,136)	28,170,553
Library Books	4,401,503	30,418	-	(31,774)	4,400,147
Total Assets Being Depreciated	279,769,958	1,754,489	203,804	(39,910)	281,688,341
Less: Accumulated Depreciation	(103,529,289)	(11,060,680)	-	39,910	(114,550,059)
Total Assets Being Depreciated, Net	176,240,669	(9,306,191)	203,804	-	167,138,282
Capital Assets, Net	$ 179,187,491	$ (8,285,132)	$ -	$ -	$ 170,902,359

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2020		2019	
	Current	Noncurrent	Current	Noncurrent
Employees	$ 8,296,887	$ -	$ 8,994,782	$ -
Suppliers and Services	1,276,281	-	1,574,943	-
Workers' Compensation	445,530	410,146	450,646	280,811
Interest	239,858	-	262,147	-
Other/Component Units	797,595	-	919,733	-
Total	$ 11,056,151	$ 410,146	$ 12,202,251	$ 280,811

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	2020		2019	
	Current	Noncurrent	Current	Noncurrent
Summer Sessions	$ 8,569,136	$ -	$ 8,438,030	$ -
Grants	250,610	-	163,508	-
Summer Conferences	3,331	-	109,032	-
Federal Appropriations	1,514,707	-	-	-
Other	69,500	58,521	119,904	58,521
Total	$ 10,407,284	$ 58,521	$ 8,830,474	$ 58,521

NOTE 9 DEBT OBLIGATIONS

The following represent the changes in debt obligations for the years ended June 30:

	Beginning Balance June 30, 2019	Additions	Retirements	Ending Balance June 30, 2020	Current Portion
Capital Leases	$ 1,135,437	$ -	$ (412,023)	$ 723,414	$ 399,636
Bonds Payable	148,313,656	23,473,362	(34,292,522)	137,494,496	5,755,300
Unamortized Bond Premiums	4,614,746	4,676,328	(962,025)	8,329,049	1,179,212
PASSHE Bond – AFRP	690,072	-	(275,170)	414,902	124,146
Total	$ 154,753,911	$ 28,149,690	$ (35,941,740)	$ 146,961,861	$ 7,458,294

	Beginning Balance June 30, 2018	Additions	Retirements	Ending Balance June 30, 2019	Current Portion
Capital Leases	$ 730,915	$ 938,172	$ (533,650)	$ 1,135,437	$ 468,035
Bonds Payable	155,445,195	-	(7,131,539)	148,313,656	7,685,948
Unamortized Bond Premiums	5,341,826	-	(727,080)	4,614,746	663,203
PASSHE Bond – AFRP	994,464	-	(304,392)	690,072	275,172
Total	$ 162,512,400	$ 938,172	$ (8,696,661)	$ 154,753,911	$ 9,092,358

NOTE 9 DEBT OBLIGATIONS (CONTINUED)

Lease Obligations

The University leases equipment and facilities under various leasing arrangements. Certain equipment leases have bargain purchase options at the end of the lease term, and are classified as capital leases. No equipment was acquired through capital lease during the year ended June 30, 2020. The University acquired equipment totaling $868,265 for the year ended June 30, 2019. The University has also entered into various long-term operating leases for the use of facilities and equipment. Future annual minimum payments in the aggregate, under noncancelable capital and operating leases are as follows:

Year Ending June 30,	Capital	Operating
2021	$ 343,624	$ 323,637
2022	242,749	323,637
2023	85,807	323,637
2024	85,807	323,637
2025	-	50,496
Total Minimum Lease Payments	757,987	1,345,044
Less: Amount Representing Interest	34,573	-
Total	$ 723,414	$ 1,345,044

Total rent expense for operating leases was $291,392 and $310,834 for years ended June 30, 2020 and 2019, respectively.

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

	2020	2019
Assets Held under Lease Agreement	$ 2,686,432	$ 2,686,432
Accumulated Depreciation	(1,978,989)	(1,577,744)
Total	$ 707,443	$ 1,108,688

Depreciation expense includes capital lease amortization of $401,245 and $537,286 for the years ended June 30, 2020 and 2019, respectively.

NOTE 9 DEBT OBLIGATIONS (CONTINUED)

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 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.

Activity for the various bond series allocated to the University for the year ended June 30, 2020 is as follows:

2020	Weighted Average Interest Rate	Balance June 30, 2019	Bonds Issued	Bonds Redeemed/ Refunded	Transfers Between Projects	Balance June 30, 2020
Student Center Expansion:						
Series AK Issued in September 2009	4.00%	$ 30,139	$ -	$ (30,139)	$ -	$ -
Series AM Issued in July 2011	4.61%	4,904,452	-	(229,369)	-	4,675,083
Series AO Issued in July 2013	4.50%	9,655,000	-	(340,000)	-	9,315,000
Series AR Issued in September 2015	3.89%	9,568,721	-	(296,334)	-	9,272,387
Academic Buildings:						
Series AK Issued in September 2009	4.00%	36,384	-	(36,384)	-	-
Series AU Issued in September 2017	3.52%	547,246	-	(126,801)		420,445
Infrastructure and Deferred Maintenance:						
Series AM Issued in July 2011	4.61%	6,560,000	-	(805,000)	-	5,755,000
Quad Landscaping:						
Series AN Issued in March 2012	5.00%	229,815	-	(72,424)	-	157,391
Campus Improvements:						
Series AN Issued in March 2012	5.00%	470,146	-	(110,569)	-	359,577
Series AP Issued in May 2014	4.77%	91,657	-	(16,836)	-	74,821
Series AU Issued in September 2017	3.52%	685,418	-	(158,817)		526,601
Building Renovations:						
Series AL Issued in July 2010	5.00%	552,908	-	(38,897)	-	514,011
Series AQ Issued in May 2015	4.56%	413,449	-	(413,449)	-	-
Series AU Issued in September 2017	3.52%	7,167,911	-	(649,865)	-	6,518,046
Convocation Center:						
Series AJ Issued in July 2009	4.85%	16,400,000	-	(16,400,000)	-	-
Series AM Issued in July 2011	4.61%	11,560,000	-	(460,000)	-	11,100,000
Series AW issued in September 2019	3.11%	-	23,473,361	-	-	23,473,361
Parking Garage:						
Series AJ Issued in July 2009	4.85%	11,930,240	-	(11,930,240)	-	-
Soccer Complex:						
Series AL Issued in July 2010	5.00%	2,450,170	-	(172,398)	-	2,277,772
Student Housing Repurchase:						
Series AR Issued in September 2015	3.89%	65,060,000	-	(2,005,000)	-	63,055,000
Total		$ 148,313,656	$ 23,473,361	$ (34,292,521)	$ -	$ 137,494,496

NOTE 9 DEBT OBLIGATIONS (CONTINUED)

Bonds Payable (Continued)

Activity for the various bond series allocated to the University for the year ended June 30, 2019 is as follows:

2019	Weighted Average Interest Rate	Balance June 30, 2018	Bonds Issued	Bonds Redeemed/ Refunded	Transfers Between Projects	Balance June 30, 2019
Student Center Expansion:						
Series AK Issued in September 2009	4.00%	$ 144,367	$ -	$ (114,228)	$ -	$ 30,139
Series AM Issued in July 2011	4.64%	5,123,157	-	(218,705)	-	4,904,452
Series AO Issued in July 2013	4.49%	9,980,000	-	(325,000)	-	9,655,000
Series AR Issued in September 2015	3.92%	9,849,123	-	(280,402)	-	9,568,721
Academic Buildings:						
Series AK Issued in September 2009	4.00%	71,484	-	(35,100)	-	36,384
Series AU Issued in September 2017	3.51%	668,374	-	(121,128)		547,246
Infrastructure and Deferred Maintenance:						
Series AM Issued in July 2011	4.64%	7,325,000	-	(765,000)	-	6,560,000
Quad Landscaping:						
Series AN Issued in March 2012	5.00%	299,202	-	(69,387)	-	229,815
Campus Improvements:						
Series AN Issued in March 2012	5.00%	576,410	-	(106,264)	-	470,146
Series AP Issued in May 2014	4.62%	107,843	-	(16,186)	-	91,657
Series AU Issued in September 2017	3.51%	837,130	-	(151,712)		685,418
Building Renovations:						
Series AL Issued in July 2010	5.00%	590,013	-	(37,105)	-	552,908
Series AQ Issued in May 2015	4.61%	805,459	-	(392,010)	-	413,449
Series AU Issued in September 2017	3.51%	7,509,332	-	(341,421)	-	7,167,911
Convocation Center:						
Series AJ Issued in July 2009	4.85%	17,135,000	-	(735,000)	-	16,400,000
Series AM Issued in July 2011	4.64%	12,000,000	-	(440,000)	-	11,560,000
Parking Garage:						
Series AJ Issued in July 2009	4.85%	12,838,672	-	(908,432)	-	11,930,240
Soccer Complex:						
Series AL Issued in July 2010	5.00%	2,614,629	-	(164,459)	-	2,450,170
Student Housing Repurchase:						
Series AR Issued in September 2015	3.92%	66,970,000	-	(1,910,000)	-	65,060,000
Total		$ 155,445,195	$ -	$ (7,131,539)	$ -	$ 148,313,656

NOTE 9 DEBT OBLIGATIONS (CONTINUED)

Bonds Payable (Continued)

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

Series		2021	2022	2023	2024	2025	2026-2030	2031-2035	2036-2040	Total
AL	Principal	$ 221,952	$ 233,073	$ 244,657	$ 257,168	$ 269,679	$ 1,565,254	$ -	$ -	$ 2,791,783
	Interest	139,589	128,491	116,838	104,605	91,747	242,433	-	-	823,703
	Total	361,541	361,564	361,495	361,773	361,426	1,807,687	-	-	3,615,486
AM	Principal	1,571,388	1,647,500	1,726,023	1,820,143	1,919,411	6,067,821	5,549,885	1,227,912	21,530,083
	Interest	991,435	912,865	830,490	739,874	644,316	2,269,866	1,026,270	55,266	7,470,382
	Total	2,562,823	2,560,365	2,556,513	2,560,017	2,563,727	8,337,687	6,576,155	1,283,178	29,000,465
AN	Principal	191,900	200,337	124,731	-	-	-	-	-	516,968
	Interest	14,680	4,470	686	-	-	-	-	-	19,836
	Total	206,580	204,807	125,417	-	-	-	-	-	536,804
AO	Principal	355,000	375,000	390,000	410,000	425,000	2,375,000	2,915,000	2,070,000	9,315,000
	Interest	400,144	382,394	363,644	344,144	330,306	1,401,638	861,813	189,000	4,273,083
	Total	755,144	757,394	753,644	754,144	755,306	3,776,638	3,776,813	2,259,000	13,588,083
AP	Principal	17,486	18,201	19,111	20,023	-	-	-	-	74,821
	Interest	3,566	2,867	1,957	1,001	-	-	-	-	9,391
	Total	21,052	21,068	21,068	21,024	-	-	-	-	84,212
AR	Principal	2,414,080	2,535,012	2,665,943	2,796,875	2,935,994	16,393,016	19,309,009	23,277,458	72,327,387
	Interest	2,812,742	2,692,038	2,565,287	2,431,990	2,292,147	9,764,344	6,836,705	2,866,472	32,261,725
	Total	5,226,822	5,227,050	5,231,230	5,228,865	5,228,141	26,157,360	26,145,714	26,143,930	104,589,112
AU	Principal	983,494	1,030,751	1,084,146	789,537	830,275	2,746,890	-	-	7,465,093
	Interest	373,255	324,080	272,542	218,335	178,858	279,151	-	-	1,646,221
	Total	1,356,749	1,354,831	1,356,688	1,007,872	1,009,133	3,026,041	-	-	9,111,314
AW	Principal	-	1,541,624	1,419,442	1,419,099	2,194,986	11,243,209	5,655,001	-	23,473,361
	Interest	1,117,118	1,117,118	1,040,037	969,065	898,110	2,725,081	576,200	-	8,442,729
	Total	1,117,118	2,658,742	2,459,479	2,388,164	3,093,096	13,968,290	6,231,201	-	31,916,090
Total	Principal	5,755,300	7,581,498	7,674,053	7,512,845	8,575,345	40,391,190	33,428,895	26,575,370	137,494,496
	Interest	5,852,529	5,564,323	5,191,481	4,809,014	4,435,484	16,682,513	9,300,988	3,110,738	54,947,070
	Total	$ 11,607,829	$ 13,145,821	$ 12,865,534	$ 12,321,859	$ 13,010,829	$ 57,073,703	$ 42,729,883	$ 29,686,108	$ 192,441,566

NOTE 9 DEBT OBLIGATIONS (CONTINUED)

Bonds Payable (Continued)

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. The State System will issue bonds to provide a pool for funding for AFRP ($5,548,427 and $9,228,259 was outstanding at June 30, 2020 and 2019, respectively). 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. As of June 30, 2020 and 2019, the balance owed by the University to the State System's AFRP pool of funding was $414,902 and $690,074, respectively.

Debt Refunding

In September 2019, $23,473,361 of the net proceeds from the Series AW tax-exempt revenue bonds were used to current refund portions of the Series AJ and Series AK bonds. The refunding was performed to reduce the debt service by $5.9 million and an economic gain (difference between the present values of the old and new debt service payments) of approximately $5.7 million. The accounting gain, or deferred gain on refunding, is reported as a deferred inflow of resources that will be amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

NOTE 10 COMPENSATED ABSENCES

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

	2020	2019
Balance – July 1	$ 8,213,959	$ 8,089,212
Current Changes in Estimate	1,687,384	848,407
Payouts	(711,125)	(723,660)
Balance – June 30	$ 9,190,218	$ 8,213,959

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB)

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.

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

	System Plan		REHP		Premium Assistance		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Net OPEB liabilities	$ 84,397,858	$ 84,654,493	$ 27,030,706	$ 38,712,289	$ 252,581	$ 248,795	$ 111,681,145	$ 123,615,577
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	$ -	$ -	$ -	$ -	$ 1,448	$ 1,560	$ 1,448	$ 1,560
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	N/A	N/A	-	-	441	390	441	390
Changes in Assumptions	-	-	864,811	-	8,312	3,900	873,123	3,900
Changes in Proportion	-	-	1,648,246	2,068,493	8,123	2,990	1,656,369	2,071,483
Contributions After the Measurement Date	$ 2,350,054	$ 2,450,094	1,138,880	1,531,650	14,006	13,694	3,502,940	3,995,438
Total Deferred Outflows of Resources	$ 2,350,054	$ 2,450,094	$ 3,651,937	$ 3,600,143	$ 32,330	$ 22,534	$ 6,034,321	$ 6,072,771
Deferred Inflows of Resources:								
Difference Between Expected and Actual Experience	$ 7,733,107	$ 9,434,926	$ 20,103,855	$ 11,856,695	$ -	$ -	$ 27,836,962	$ 21,291,621
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	N/A	N/A	47,873	59,167	-	-	47,873	59,167
Changes in Assumptions	9,007,258	6,767,014	3,744,044	5,089,070	7,494	9,424	12,758,796	11,865,508
Changes in Proportion	N/A	N/A	1,154,843	-	1,700	2,211	1,156,543	2,211
Total Deferred Inflows of Resources	$ 16,740,365	$ 16,201,940	$ 25,050,615	$ 17,004,932	$ 9,194	$ 11,635	$ 41,800,174	$ 33,218,507
OPEB Expense	$ 2,731,885	$ 1,576,940	$ (2,548,816)	$ (377,760)	$ 18,968	$ 23,006	$ 202,037	$ 1,222,186
Contributions Recognized by OPEB Plans	N/A	N/A	$ 1,138,880	$ 1,531,650	$ 14,006	$ 13,694	$ 1,152,886	$ 1,545,344

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $2,350,054 for the System Plan, $1,138,880 for the REHP plan, and $14,006 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.

	Amortization		
Fiscal Year Ending June 30,	System Plan	REHP	Premium Assistance
2021	$ 4,389,956	$ 5,666,167	$ (1,071)
2022	4,389,956	5,666,167	(1,071)
2023	4,389,956	5,368,234	(1,008)
2024	2,815,345	4,066,448	(945)
2025	755,152	1,761,931	(3,212)
Thereafter	-	8,611	(1,823)
Total	$ 16,740,365	$ 22,537,558	$ (9,130)

System Plan

Plan Description

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

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

Nonspouse dependents may be covered until age 19 or until age 25 if a certified full-time student. SCUPA, SPFPA, OPEIU, and nonrepresented employees whose retirement date is on or after January 1, 2016, and APSCUF employees whose retirement date is on or after July 1, 2017, receive the same pre-Medicare benefits as active employees, with benefits changing as active employee benefits change. All other retirees continue to receive the same benefits to which they were entitled at retirement.

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

System Plan (Continued)

Plan Description (Continued)

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

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

- Plan members who retired prior to July 1, 2005, are not required to make contributions.
- Plan members, with the exception of nonfaculty coaches, who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65, pay the same dollar amount they paid as active employees on the day of retirement. When these plan members become eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.
- 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 was rolled forward to the measurement date of July 1, 2019. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Healthcare cost trend rate of 6.0% in 2018 and 5.5% in 2019 through 2021, with rates gradually decreasing from 5.4% in 2022 to 3.8% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Annual salary increase of 4%.

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- 90% of employees eligible for a subsidy and 15% of employees not eligible for a subsidy are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- The cost due to the excise tax under the Patient Protection and Affordable Care Act beginning in 2022 is 40% of the projected premiums in excess of the annual limits, calculated using an inflation rate of 2%.
- The annual cost of living increase beginning in 2018 is assumed to be 2.2% per year.
- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates based on the PubG-2010 Mortality Tables, including rates for contingent survivors, and which incorporates rates based on a generational projection using Scale MP-2018 to reflect mortality improvement.
- The discount rate decreased from 2.98% to 3.36%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2019.
- Participant data is based on census information as of July 1, 2018.
- Experience assumptions for withdrawal and retirement, expected vs. actual, and election percentages were reviewed in 2019, and it was determined that the results were reasonable and did not warrant a further formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all eligible retirees, regardless of employee bargaining unit when active, and including those not represented when active, who meet years of service and/or age criteria.

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

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

	1% Decrease (4.5% Decreasing to 2.8%)	Healthcare Cost Trend Rates (5.5% decreasing to 3.8%)	1% Increase (6.5% Decreasing to 4.8%)
2020	$ 70,392,484	$ 84,397,857	$ 102,534,676

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Healthcare 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	$ 70,873,824	$ 84,654,493	$ 102,487,568

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

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

	1% Decrease 2.36%	Current Rate 3.36%	1% Increase 4.36%
2020	$ 98,520,449	$ 84,397,857	$ 73,142,316

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	$ 99,357,844	$ 84,654,493	$ 72,990,363

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

System Plan (Continued)

University OPEB Liability

The University's portion of the System Plan's total OPEB liability as of June 30, 2020 of $84,397,857 was measured as of July 1, 2019, and was determined by an actuarial valuation as of July 1, 2018, that was rolled forward to 2019.

The University's portion of the System Plan's total OPEB liability as of June 30, 2019 of $84,654,493 was measured as of July 1, 2018, and was determined by an actuarial valuation as of July 1, 2018.

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

	Fiscal Year Ending June 30, 2020	Fiscal Year Ending June 30, 2019
Balance - Beginning of Year	$ 84,654,493	$ 92,925,611
Service Cost	2,293,220	2,696,307
Interest	2,547,525	2,943,682
Changes of Benefit Terms	-	(64,816)
Differences Between Expected and Actual Experience	-	(11,190,141)
Changes in Assumptions	(4,422,424)	(734,608)
Benefit Payments	(674,957)	(1,921,542)
Net Changes	(256,636)	(8,271,118)
Balance - End of Year	$ 84,397,857	$ 84,654,493
Covered Employee Payroll	$ 38,452,995	$ 37,532,251
OPEB Liability as a Percent of Covered Payroll	219.48%	225.55%

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

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.

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

REHP (Continued)

Plan Description (Continued)

The REHP does not have a governing board. Benefit provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity, but is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The CAFR is an audited financial statement and is available at www.budget.pa.us.

The REHP provides eligible retirees and their eligible dependents with healthcare benefits, including hospital, medical/surgical, prescription drugs, and major medical coverage, as well as a Medicare supplement for individuals over age 65. Retirees receive varying coverages based on the plan they choose, and benefits may continue for the retiree's lifetime. Spouse benefits cease upon the retiree's death, but the surviving spouse may continue coverage at full cost. 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, 2020.

- 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 June 30, 2018, was also $300.

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs

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

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

The 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 inflation assumption was selected by the SERS board during an April 2017 meeting based on a review of actual plan experience and the prevalent economic outlook.

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

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	47.0%	5.6%
International Equity	20.0%	5.8%
Fixed Income	25.0%	1.7%
Real Estate	8.0%	4.6%
Cash	0.0%	0.9%
Total	100.00%	

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	100.00%	

The actuarial valuation on which the total REHP OPEB liability at June 30, 2020 is based was dated July 30, 2019. The Commonwealth calculated an allocated share of the REHP OPEB liability for each participating employer based upon their actual contributions made to the REHP. The State System's proportion of the collective net OPEB liability was 4.37% for the measurement date of June 30, 2019.

The actuarial valuation on which the total REHP OPEB liability at June 30, 2019 is based was dated July 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.

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (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, 2020, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 3.1%) or one percentage point higher (7.0% decreasing to 5.1%) than the current healthcare cost trend rates (6.0% decreasing to 4.1%).

	Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate		
	1% Decrease (5.0% Decreasing to 3.1%)	Healthcare Cost Trend Rates (6.0% Decreasing to 4.1%)	1% Increase (7.0% Decreasing to 5.1%)
2020	$ 23,481,126	$ 27,030,706	$ 31,396,925

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	$ 33,231,340	$ 38,712,290	$ 45,525,025

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

	Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate		
	1% Decrease 2.50%	Current Rate 3.50%	1% Increase 4.50%
2020	$ 30,667,836	$ 27,030,706	$ 23,986,290

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (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	$ 44,351,154	$ 38,712,290	$ 34,066,561

REHP Fiduciary Net Position

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

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

Premium Assistance

Plan Description

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Plan Description (Continued)

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

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.83% of covered payroll for the fiscal years ended June 30, 2020 and 2019. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 0.415% of covered payroll.

Actuarial Assumptions and Other Inputs

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

- Valuation Date – June 30, 2018
- Actuarial cost method was entry age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at $1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2017, determined the employer contribution rate for fiscal year 2018/19.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Participation rate assumed that 63% of eligible retirees will elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	13.2%	0.2%
U.S. Core Fixed Income	83.1%	1.0%
Non-U.S. Developed Fund	3.7%	0.0%
Total	100.00%	

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- 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, 2018.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.9%	0.3%
U.S. Core Fixed Income	92.8%	1.2%
Non-U.S. Developed Fund	1.3%	0.4%
Total	100.00%	

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

The actuarial valuation on which the total Premium Assistance OPEB liability at June 30, 2019 is based was dated June 30, 2017, 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 0.1836% for the measurement date of June 30, 2018.

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

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

	Healthcare Cost Trend Rates Between 4% and 6.50%	Healthcare Cost Trend Rates Between 5% and 7.50%	Healthcare Cost Trend Rates Betwee 6% and 8.50%
2020	$ 252,582	$ 252,582	$ 252,645

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

	Healthcare Cost Trend Rates Between 4% and 6.75%	Healthcare Cost Trend Rates Between 5% and 7.75%	Healthcare Cost Trend Rates Betwee 6% and 8.75%
2019	$ 248,730	$ 248,795	$ 248,860

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

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

	1% Decrease 1.79%	Current Rate 2.79%	1% Increase 3.79%
2020	$ 287,783	$ 252,582	$ 223,425

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	$ 282,917	$ 248,795	$ 220,458

Fiduciary Net Position

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

NOTE 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, deferred outflows and deferred inflows of resources related to pensions, and the pension expense for the fiscal years ended June 30, 2020 and 2019.

	SERS		PSERS		ARP		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Net Pension Liabilities	$ 65,438,785	$ 75,657,922	$ 5,565,992	$ 5,609,729	$ -	$ -	$ 71,004,777	$ 81,267,651
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	$ 815,924	$ 1,135,365	$ 30,658	$ 45,126	$ -	$ -	$ 846,582	$ 1,180,491
Net Difference Between Projected and Actual Investment Earnings	-	7,361,070	-	27,496	-	-	-	7,388,566
Changes in Assumptions	2,521,676	2,015,713	53,179	104,573	-	-	2,574,855	2,120,286
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	-	16,168	22,145	-	-	16,168	22,145
Change in Proportions	677,399	1,085,139	148,562	95,726	-	-	825,961	1,180,865
Contributions After the Measurement Date	4,010,335	4,018,954	566,983	540,292	-	-	4,577,318	4,559,246
Total Deferred Outflows of Resources	$ 8,025,334	$ 15,616,241	$ 815,550	$ 835,358	$ -	$ -	$ 8,840,884	$ 16,451,599
Deferred Inflows of Resources:								
Net Difference Between Projected and Actual Investment Earnings	$ 4,667,019	$ -	$ 15,960	$ -	$ -	$ -	$ 4,682,979	$ -
Difference Between Projected and Actual Experience	443,228	819,829	184,457	86,816	-	-	627,685	906,645
Change in Proportions	1,522,981	598,398	35,642	59,257	-	-	1,558,623	657,655
Difference Between Employer Contributions and Proportionate Share of Total Contributions	342,167	404,135	-	-	-	-	342,167	404,135
Total Deferred Inflows of Resources	$ 6,975,395	$ 1,822,362	$ 236,059	$ 146,073	$ -	$ -	$ 7,211,454	$ 1,968,435
Pension Expense	$ 9,813,731	$ 10,973,095	$ 1,302,358	$ 1,085,379	$ 2,800,305	$ 2,857,031	$ 13,916,394	$ 14,915,505
Contributions Recognized by Pension Plans	$ 7,288,928	$ 7,350,122	$ 566,983	$ 540,292	N/A	N/A	$ 7,855,911	$ 7,890,414

The University will recognize the $4,010,335 reported as 2020 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $566,983 reported as 2020 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2021.

NOTE 12 PENSION BENEFITS (CONTINUED)

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

	Amortization	
Fiscal Year Ending June 30,	SERS	PSERS
2021	$ (214,687)	$ 66,398
2022	(913,543)	(49,169)
2023	385,084	(16,057)
2024	(2,243,391)	11,339
2025	26,141	-
Total	$ (2,960,396)	$ 12,508

SERS

Plan Description

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

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 provision of the plan to the General Assembly. Cost of Living Adjustments (COLA) are provided ad hoc at the discretion of the General Assembly.

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

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

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 to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. In fiscal year 2017/18, the Commonwealth paid the full actuarially required rate after being collared in previous years due to Act 120.

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

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

The University's contributions to SERS for the years ended June 30, 2020, 2019, and 2018, were $7,288,928, $7,350,122 and $7,025,487, respectively, equal to the required contractual contribution.

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Contributions (Continued)

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

For the SERS defined contribution plan, the University contributed actuarially determined rates of between 2.0% and 3.5% of active members' annual covered payroll at June 30, 2020, depending on the plan chosen by the employee. The University recognized $10,193 in SERS defined contribution pension expense for the year ended June 30, 2020 and $1,657 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).

Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability.

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

The SERS Board adopted the actuarial assumptions set forth in the 18th *Investigation of Actuarial Experience* at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its June 2019 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.5% to 7.125%. The next SERS review occurred in summer 2020 and will be used for its 2020 annual valuation.

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

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

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' current and target asset allocation as of December 31, 2019 and 2018 are summarized below:

	2019		2018	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Cash	3.0%	0.00%	3.0%	0.00%
Fixed Income	11.0%	1.26%	11.0%	1.26%
Global Public Equity	48.0%	5.15%	48.0%	5.15%
Private Equity	16.0%	7.25%	16.0%	7.25%
Real Estate	12.0%	5.26%	12.0%	5.26%
Multi-Strategy	10.0%	4.44%	10.0%	4.44%
Total	100.0%		100.0%	

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

The discount rate used to measure the total SERS pension liability was 7.125% as of December 31, 2019 and 7.25% as of December 31, 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and nonactive SERS members. The long-term expected rate of return on SERS' investments, therefore, was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the SERS net pension liability at June 30, 2020, calculated using the discount rate of 7.125%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.125%) or one percentage point higher (8.125%) than the rate used for the current period.

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

1% Decrease 6.125%	Current Rate 7.125%	1% Increase 8.125%
$ 83,151	$ 65,439	$ 50,275

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

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

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$ 92,902	$ 75,658	$ 60,881

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

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.

Proportionate Share

At June 30, 2020, the amount recognized as the University's proportionate share of the SERS net pension liability, measure at December 31, 2019 was $65,438,785.

At June 30, 2019, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2018, was $75,657,922.

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

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

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

PSERS

Plan Description

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

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–8535) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established and may be amended. The Code requires contributions by active members, the employer (State System), and the Commonwealth of Pennsylvania. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the PSERS website at www.psers.state.pa.us.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Plan Description (Continued)

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

Benefits Provided

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

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

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

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Member Contributions

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2020, was 33.36% 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 16.68% of covered payroll. The University's contribution to PSERS for the years ended June 30, 2020, 2019, and 2018 was $566,983, $540,292, and $501,520, respectively, equal to the required contractual contribution.

Actuarial Assumptions

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

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

PSERS' policy in regard to the allocation of invested Plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019 and 2018:

	2019		2018	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Absolute Return	10.0%	3.4%	10.0%	3.5%
Alternative Investments	15.0%	7.4%	15.0%	6.7%
Cash	3.0%	0.3%	3.0%	0.4%
Commodities	8.0%	2.7%	8.0%	3.2%
Financing (LIBOR)	-20.0%	0.7%	-20.0%	0.9%
Fixed Income	36.0%	1.9%	36.0%	2.2%
Global Public Equity	20.0%	5.6%	20.0%	5.2%
Infrastructure/MLPs	8.0%	5.5%	8.0%	5.2%
Real Estate	10.0%	4.1%	10.0%	4.2%
Risk Parity	10.0%	4.1%	10.0%	3.9%
Total	100.0%		100.0%	

The discount rate used to measure the total PSERS pension liability was 7.25% for the years ended June 30, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

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

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$ 6,933	$ 5,566	$ 4,408

The following presents the University's proportionate share of the PSERS net pension liability at June 30, 2019 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:

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

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$ 6,954	$ 5,610	$ 4,473

Fiduciary Net Position

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Proportionate Share

At June 30, 2020 and 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:

	2020	2019
Total PSERS Net Pension Liability Associated with the University	$ 11,131,984	$ 11,219,458
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	5,565,992	5,609,729
University's Proportionate Share of the PSERS Net Pension Liability	$ 5,565,992	$ 5,609,729

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

At June 30, 2019, the State System's proportion was .1886%, an increase of .0050% from its proportion calculated as of June 30, 2018.

At June 30, 2018, the State System's proportion was .1836%, a decrease of .0025% from its proportion calculated as of June 30, 2017.

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2020 and 2019 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2020 and 2019, were $2,800,305 and $2,857,031, respectively, from the University; and $1,507,161 and $1,537,692, respectively, from active members. No liability is recognized for the ARP.

NOTE 13 WORKERS' COMPENSATION

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University must pay up to $100,000; for claims occurring on or after July 1, 1995, the University must pay up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which the University contributes an amount as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed $82,760, $80,634 and $132,529 during the years ended June 30, 2020, 2019, and 2018 respectively.

Changes in the University's claims liability amount for the fiscal years ended June 30, 2020, 2019, and 2018 were as follows:

Year	2020	2019	2018
Balance - July 1	$ 731,457	$ 817,757	$ 547,644
Current Year Claims and Changes in Estimates	436,944	443,268	756,264
Claims Payments	(312,725)	(529,568)	(486,151)
Balance - June 30	$ 855,676	$ 731,457	$ 817,757

NOTE 14 COMMITMENTS AND CONTINGENCIES

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2020 and 2019 were approximately $1,619,461 and $439,645, respectively.

Contingencies

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

The University is self-insured for workers' compensation up to stated limits (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.

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies (Continued)

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

The University receives support from federal and Commonwealth grant programs. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Such audits could lead to reimbursement to the grantor agencies. The University's management believes disallowances, if any, will be immaterial.

Covid-19 Pandemic

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

NOTE 15 UNRESTRICTED NET POSITION

Unrestricted net positions, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations; however, they are subject to internal designations. Unrestricted net positions have been internally designated at June 30, 2020 and 2019 as follows:

	2020	2019
Designated Accounts for Educational and General Activities	$ 8,473,141	$ 10,451,807
Designated Accounts for Healthcare Reserve	-	328,343
Designated Accounts for Auxiliary Enterprise	10,270,392	9,579,586
Designated Accounts for Plant Acquisition and Renewal Activities	4,552,444	5,207,920
Compensated Absences Deficit	(9,190,217)	(8,213,959)
Other Postretirement Benefit Deficit	(147,446,997)	(150,761,313)
Pension Benefit Deficit	(69,375,347)	(66,784,487)
Total	$ (202,716,584)	$ (200,192,103)

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

NOTE 16 RELATED PARTIES

Foundation

During the 2020 and 2019 fiscal years, the Foundation provided the following support to the University:

	2020	2019
Contributions (Including Scholarships)	$ 1,746,304	$ 2,000,364
Fees for Services	305,819	179,766
Other Support	163,895	168,627
Total	$ 2,216,018	$ 2,348,757

The Foundation holds investments in a fiduciary capacity for the University (Note 3). These investments totaled $7,126,727 and $7,141,358 at June 30, 2020 and 2019, respectively.

SAI

During the years ended June 30, 2020 and 2019, SAI provided $223,213 and $206,653, respectively, of athletic scholarship support.

SAI is operated in part by a student activity fee, which funds various student organizations and services to the student body. These fees are billed, collected, and remitted by the University to SAI on a scheduled basis throughout the year.

In cooperation with the University, SAI has constructed two off-campus student housing complexes (Vulcan Village Phase I & Phase II) to supplement the University's on-campus student housing. During FY 2017-18, the initial tax-exempt bond financing of Vulcan Village Phase I (Series 2000) & Phase II (Series 2003) was called and paid off with new funds issued through the Series 2017 Vulcan Village (Phase I & Phase II are now combined into one financing arrangement). During the 2017-18 fiscal year, SAI offered student housing at Vulcan Village situated on land owned by SAI and managed by a private housing manager. The University assisted SAI in facilitating student rent payments through the application of student financial aid awards. In return for allowing SAI to provide supplementary student housing, the University and SAI have entered into contractual arrangements to share any residual net cash flows from Vulcan Village housing project. During the years ended June 30, 2020 and 2019, the University recognized no income from the residual net cash flows of the Vulcan Village project.

The University entered a lease agreement with SAI for the use of Roadman Park. The Roadman Park agreement requires the University to provide maintenance support payments for the park through 2038. The University estimates these payments to be approximately $100,000 per year. The costs paid for use of these properties for the years ended June 30, 2020 and 2019 was $92,727 and $95,592, respectively.

NOTE 17 RATING ACTIONS

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

NOTE 18 SUBSEQUENT EVENTS

Bonds Issuance and Refunding

In July 2020, PHEFA issued Series AX tax-exempt revenue bonds in the amount of $2,318,685 on behalf of the University. The net proceeds from the Series AX revenue bonds were used to current refund Series AH, Series AJ, and Series AL revenue bonds. The refunding was performed to reduce debt service by approximately $629,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $577,000. In connection with the bond issuance, the State System, on behalf of the University entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

In October 2020, PHEFA issued Series AY taxable revenue bonds, in the amount of $21,191,841 on behalf of the University. The purpose of this issue is to advance refund a portion of Series AM revenue bonds and will result in a reduction of debt service of approximately $3.1 million and an economic gain of $2.8 million for the University. The State System, on behalf of the University will enter into a loan agreement with PHEFA under which the State System will pledge its full faith and credit for repayment of the bonds.

System Redesign

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

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

NOTE 18 SUBSEQUENT EVENTS (CONTINUED)

The phases, and the most expeditious path for their completion are outlined below. Phase 1 involves a review of the financial impacts of a potential integration, which is underway.

Phase 2 involves the development of a detailed plan or plans to integrate selected institutions. Phase 3 involves a public comment period. Phase 4 involves implementing the plan.

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

CALIFORNIA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020 AND 2019
(UNAUDITED)

	Fiscal Year Ending June 30, 2020	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018
Balance - Beginning of Year	$ 84,654,493	$ 92,925,611	$ 100,753,636
Service Cost	2,293,220	2,696,307	3,842,140
Interest	2,547,525	2,943,682	3,115,707
Changes of Benefit Terms	-	(64,816)	-
Differences Between Expected and Actual Experience	-	(11,190,141)	-
Changes in Assumptions	(4,422,424)	(734,608)	(11,312,534)
Benefit Payments	(674,957)	(1,921,542)	(3,473,338)
Net Changes	(256,636)	(8,271,118)	(7,828,025)
Balance - End of Year	$ 84,397,857	$ 84,654,493	$ 92,925,611
Covered Employee Payroll	$ 38,452,995	$ 37,532,251	$ 37,693,919
OPEB Liability as a Percent of Covered Payroll	219.48%	225.55%	246.63%

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

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

Fiscal Year	State System's Proportion	University's Proportionate Share	University's Covered Employee Payroll	University's Proportionate Share Net OPEB Liability a % of Covered-Employee Payroll	REHP's Fiduciary Net Position as a % of Total OPEB Liability
2019/20	4.3701%	$ 27,031	$ 6,941	389.4%	3.8%
2018/19	4.4830%	$ 38,712	$ 6,905	560.7%	2.2%
2017/18	4.3740%	$ 51,588	$ 7,033	733.5%	1.4%

CALIFORNIA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020 AND 2019
(UNAUDITED)

REHP Schedule of Contributions
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2019/20	$ 1,139	$ 1,139	$ -	$ 8,750	13.0%
2018/19	$ 1,532	$ 1,532	$ -	$ 9,073	16.9%
2017/18	$ 1,261	$ 1,261	$ -	$ 8,628	14.6%

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

	PSERS Net OPEB Liability						
Fiscal Year	State System's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total OPEB Liability
2019/20	0.1886%	$ 253	$ 253	$ 506	$ 3,276	7.71%	5.56%
2018/19	0.1836%	$ 249	$ 249	$ 498	$ 3,213	7.74%	5.56%
2017/18	18.1100%	$ 242	$ 242	$ 484	$ 3,167	7.65%	5.73%

PSERS Schedule of Contributions
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2019/20	$ 14	$ 14	$ -	$ 3,412	0.41%
2018/19	$ 14	$ 14	$ -	$ 3,409	0.40%
2017/18	$ 13	$ 13	$ -	$ 3,277	0.40%

CALIFORNIA UNIVERSITY OF PENNSYLVANIA
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REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020 AND 2019
(UNAUDITED)

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

Fiscal Year	State System's Proportion	University's Proportion Share	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2019/20	4.773%	$ 65,439	$ 23,757	275.5%	63.1%
2018/19	4.897%	$ 75,658	$ 23,622	320%	56.4%
2017/18	4.906%	$ 62,870	$ 22,906	274%	63.0%
2016/17	4.837%	$ 71,174	$ 22,981	310%	57.8%
2015/16	4.721%	$ 67,519	$ 23,417	288%	58.9%
2014/15	4.901%	$ 56,657	$ 23,109	245%	64.8%

SERS Schedule of Contributions
Determined as of State System June 30 Fiscal Year End
(In Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS in fiscal year	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2019/20	$ 7,289	$ 7,289	$ -	$ 23,252	31.4%
2018/19	$ 7,350	$ 7,350	$ -	$ 24,007	30.6%
2017/18	$ 7,025	$ 7,025	$ -	$ 22,895	30.7%
2016/17	$ 6,207	$ 6,207	$ -	$ 22,409	27.7%
2015/16	$ 5,273	$ 5,273	$ -	$ 22,219	23.7%
2014/15	$ 4,485	$ 4,485	$ -	$ 23,109	19.4%

CALIFORNIA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020 AND 2019
(UNAUDITED)

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

	PSERS Net Pension Liability						
Fiscal Year	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2019/20	0.1836%	$ 5,566	$ 5,566	$ 11,132	$ 3,282	200%	55.7%
2018/19	0.1836%	$ 5,609	$ 5,609	$ 11,218	$ 3,147	200%	54.0%
2017/18	0.1811%	$ 5,869	$ 5,869	$ 11,738	$ 3,165	200%	51.8%
2016/17	0.1833%	$ 5,821	$ 5,821	$ 11,642	$ 3,043	200%	50.1%
2015/16	0.1852%	$ 5,715	$ 5,715	$ 11,430	$ 3,396	200%	54.4%
2014/15	17.8500%	$ 4,604	$ 4,604	$ 9,208	$ 1,484	310%	57.2%

PSERS Schedule of Contributions
Determined as of University June 30 Fiscal Year-End
(In Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in fiscal year	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2019/20	$ 567	$ 567	$ -	$ 3,412	16.6%
2018/19	$ 540	$ 540	$ -	$ 3,409	15.9%
2017/18	$ 501	$ 501	$ -	$ 3,277	15.3%
2016/17	$ 466	$ 466	$ -	$ 3,302	14.1%
2015/16	$ 385	$ 385	$ -	$ 3,150	12.2%
2014/15	$ 373	$ 373	$ -	$ 1,484	25.0%