

PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION



---

**FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

---

**Pennsylvania's State System of Higher Education  
Financial Statements  
June 30, 2020**

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report .....	1
Management's Discussion and Analysis.....	3
Balance Sheet.....	19
Statement of Revenues, Expenses, and Changes in Net Position .....	21
Statement of Cash Flows.....	22
Component Units Statement of Financial Position.....	23
Component Units Statement of Activities.....	24
Component Units Expenses by Nature and Function.....	26
Notes to Financial Statements .....	27
Required Supplementary Information .....	66



## INDEPENDENT AUDITORS' REPORT

Board of Governors  
Pennsylvania State System of Higher Education  
Harrisburg, 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 Pennsylvania's State System of Higher Education ("the State System"), a component unit of the Commonwealth of Pennsylvania as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the State System'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 certain of the discretely presented component units, which represent 81.85 percent, 91.37 percent, and 88.72 percent respectively, of the 2020 assets, net assets, and revenues and 80.94 percent, 85.34 percent, and 86.79 percent, respectively, of the 2019 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 reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**

In our opinion, based on our audit and the reports of 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 State System 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 on pages 3-18, and the various schedules of Proportionate Share of Net Pension Liability, OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 66-69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
September 29, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

As members of the Commonwealth of Pennsylvania's (Commonwealth) public four-year higher education system, the 14 universities of Pennsylvania's State System of Higher Education (State System) are charged with providing high-quality education at the lowest possible cost to the students. With approximately 96,000 degree-seeking students enrolled, and thousands more enrolled in certificate and other career-development programs, the State System is the largest producer of bachelor's degrees in the Commonwealth. The campuses of the 14 universities encompass more than 4,800 acres and 900 physical plant structures. The universities function independently, but being part of the State System enables them to share administrative resources and academic courses and benefit from economies of scale.

The State System's financial statements comprise:

- Bloomsburg University of Pennsylvania.
- California University of Pennsylvania.
- Cheyney University of Pennsylvania.
- Clarion University of Pennsylvania, including its branch campus in Oil City.
- East Stroudsburg University of Pennsylvania.
- Edinboro University of Pennsylvania.
- Indiana University of Pennsylvania, including its branch campuses in Punxsutawney and Freeport.
- Kutztown University of Pennsylvania.
- Lock Haven University of Pennsylvania, including its branch campus in Clearfield.
- Mansfield University of Pennsylvania.
- Millersville University of Pennsylvania.
- Shippensburg University of Pennsylvania.
- Slippery Rock University of Pennsylvania.
- West Chester University of Pennsylvania.
- Office of the Chancellor, including the Dixon University Center in Harrisburg and the State System @ Center City Philadelphia.

### SYSTEM REDESIGN

In 2016, the State System undertook a strategic review of all operations, with the goal of identifying the changes that are necessary to help ensure its long-term success. As a result of that review, the Board of Governors (Board) established three priorities:

- Ensuring student success.
- Leveraging university strengths.
- Transforming the governance/leadership structure.

In January 2019, the Board adopted the framework for System Redesign and endorsed the scope of measures for student and university success. System Redesign seeks long-range financial sustainability by leveraging the State System's operating scale and strengthening governance and accountability in a manner that drives to measurable outcomes with respect to universities' financial performance, operational efficiencies, and students' success. Small, tactical groups have been utilized to support the three strategic priorities.

In support of the System Redesign priorities, on July 1, 2020, the Governor of Pennsylvania signed into law Act 50 of 2020—legislation that passed the General Assembly with overwhelming bipartisan support. It requires the State System's Board of Governors to develop policies and procedures by which the Board may create, expand, consolidate, transfer or affiliate an institution or college; provides that before such may occur, the Board must call upon the chancellor to conduct a review and analysis of the relevant institutions using certain metrics,

including consultation with stakeholders and public hearings; makes changes to the appointment process of students to the Board and councils of trustees; and makes various changes to the sections relating to the powers and duties of councils of trustees and to the powers and duties of institution presidents, among other things. By updating and modernizing Act 188 of 1982, Act 50 enables the State System to better manage and optimize the System, address affordability for students and financial sustainability for its universities, as well as be flexible and responsive to the changing landscape of higher education.

On July 16, 2020, the Board 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. For the purposes of this review process the System is using an approach that could identify combinations of certain universities that, when integrated, would operate under a unified leadership team reporting through the chancellor to the Board of Governors, 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 of Governors. 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/>.

## COVID-19

On January 31, 2020, the United States Department of Health and Human Services declared a public health emergency for the United States to aid the nation's health care community in responding to the novel coronavirus ("COVID-19"). On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic and on March 13, 2020, the President of the United States declared a national state of emergency.

On March 6, 2020, Governor Wolf declared a disaster emergency in the Commonwealth. On April 1, 2020, Governor Wolf issued a stay-at-home order for all counties in the Commonwealth for all activities, except as needed to access, support, or provide life-sustaining business, emergency, or government services.

Beginning in March 2020, the System has followed state recommendations and restrictions that require remote working and remote education. The System continued remote education through the summer of 2020. Most universities began fall 2020 with primarily remote offerings and continue to monitor and modify fall activities as necessary. The System universities are in the midst of developing various planning scenarios for the spring 2021 semester and beyond, including academic activities returning to normal at the beginning of the spring semester or continuing remote education through the spring. Plans also include various potential impacts on enrollment, changing expectations for learning and living environments, and the requirements for health monitoring and social distancing.

Prior to COVID-19, the System was anticipating negative operating results for fiscal year 2019/20 and its universities were implementing multi-year plans focused on cost control, increasing efficiencies, and aggressive

management of their workforce. These efforts have intensified in response to the pandemic. The System is supporting its universities in these efforts through expanding shared services and offering retirement incentive programs. The System's financial and operational planning is fluid at this time. As a result of the CARES Act funding awarded to the System, the associated costs incurred during fiscal year 2019/20 as a result of COVID-19 are anticipated to have minimal impact on the System's overall financial performance. However, the future financial impact will be dependent upon enrollment impacts, the continuing need for social distancing, ongoing response efforts to mitigate COVID-19, and any potential resurgence of the virus.

**The Coronavirus Aid, Relief, and Economic Security (CARES) Act** was enacted March 27, 2020 and is the largest economic relief bill in U.S. history, allocating \$2.2 trillion in support to individuals and businesses affected by the Coronavirus pandemic and economic downturn. Seven main groups receive support from this Act: individuals, small businesses, big corporations, hospitals and public health, federal safety net, state and local governments, and education. The State System universities have been awarded grants from the education section through the Higher Education Emergency Relief Fund (HEERF), administered through the US Department of Education (ED). Additionally, the Commonwealth was appropriated funds from the state and local governments section, administered through the US Treasury, of which a portion was appropriated by the Commonwealth to the State System. In August 2020, the Pennsylvania Department of Education also awarded a portion of the ED Governor's Education Emergency Relief Fund (GEERF) to State System universities to assist with fall 2020 reopening efforts.

Below is a summary of CARES Act funds awarded to the State System. All but GEERF were awarded in fiscal year 2019/20.

	<i>\$ in millions</i>
Emergency Aid for Students <sup>1</sup>	\$40.0
Institutional Share <sup>1</sup>	40.0
Strengthening Institutions Program <sup>1</sup>	2.6
Appropriated Coronavirus Relief Funds <sup>2</sup>	30.0
Governor's Education Emergency Relief <sup>3</sup>	<u>4.2</u>
Total CARES Act Funds	\$116.8
For University Use (less Emergency Aid)	\$76.8

<sup>1</sup>HEERF, US Department of Education

<sup>2</sup>Title V, Assistance for State, Local and Tribal Governments, US Department of the Treasury

<sup>3</sup>GEERF, US Department of Education, as distributed by Pennsylvania Department of Education

In addition to the CARES Act funds, universities may submit expenses associated with COVID-19 mitigation to the Pennsylvania Emergency Management Agency (PEMA) for reimbursement from the Federal Emergency Management Agency (FEMA) and PEMA. No such funds were received in 2019/20; universities are identifying such costs and managing the reimbursement process in fiscal year 2020/21.

In regard to the current impact of COVID-19, the largest component of the 2019/20 fiscal impact is the almost \$70 million in refunds of spring semester housing, dining and other fees that System universities provided to students, excluding approximately \$25 million in student housing refunds provided by university affiliates. Housing ownership and management varies by university and System universities are working closely with their affiliated entities that either own or manage on-campus housing with respect to the financial impact of housing refunds and reduced housing demand during remote learning. The HEERF Institutional Funds have been used primarily to offset the costs of the university refunds. Universities continue to incur costs for remote learning, remote working and pandemic mitigation, as well as revenue losses due to the impact on enrollment and auxiliary functions.

During the summer, counties in the Commonwealth began to phase in a lifting of the stay-at-home order on a regional basis, though such declaration and order remains in effect for several counties and regions in the Commonwealth. The Board provided a framework to guide operations of the System's universities for the fall 2020 semester. The framework provides flexibility for universities to plan locally while meeting Systemwide, state, and federal standards.

The System and its universities continue to monitor and assess the effects of the COVID-19 pandemic and its impact on the System's operations and financial position. A full assessment of the impact on the System depends, in part, on the Commonwealth, federal and student responses to the impact of COVID-19. It is not possible, at present, to project the total impact on the System's revenues, expenditures or financial position. Such impact will depend heavily on future events and actions by other governmental entities.

## FINANCIAL HIGHLIGHTS

Following is an overview of the State System's financial activities for the year ended June 30, 2020, as compared to the year ended June 30, 2019, as well as future economic factors.

### **Tuition and Fees**

In response to COVID-19 and to continue its efforts to address affordability, in April 2020, the Board voted to **freeze basic in-state tuition** for the 2020/21 academic year. This action resulted in an unprecedented two consecutive years in which tuition was frozen, even while confronting financial challenges brought on in part by the coronavirus pandemic. The Board also, for the first time, set a tentative tuition increase of 1% for the 2021/22 academic year. These actions provide assurances and financial relief to current and potential students and ensure that the State System will maintain its place as the affordable higher education option for students of the Commonwealth.

The base tuition rate for most full-time Pennsylvania residents will remain at \$3,858 per term, or \$7,716 for the full 2020/21 academic year. **Nonresident, undergraduate tuition** also was frozen, with rates ranging from \$10,032 to \$19,290 for the 2020/21 academic year. The basic resident **graduate tuition** rate remained at \$516 per credit, while the typical nonresident, graduate tuition rate remained at \$774 per credit.

The **technology tuition fee** remains at \$478 for full-time in-state students and \$728 for full-time out-of-state students. All funds raised by the technology tuition fee are used directly to benefit student learning. Universities have used the funds to install multimedia classrooms, design online instructional materials, increase university capacity for connectivity for students, and provide hardware, software, and support for students and faculty.

The State System's average **price of attendance** (tuition, mandatory fees, room, and board) for in-state undergraduate students decreased slightly for academic year 2020/21 at \$22,278, compared to \$22,362 in academic year 2019/20. This is a result of actions of the System's Board of Governors and universities' Councils of Trustees to address the impact of COVID-19 on student affordability through freezing tuition and most fees. The average price of attendance among all four-year public universities in the United States in academic year 2019/20 was \$21,950, while the average price of attendance for the Middle States region was \$22,770.

### **Appropriations**

As part of the System Redesign strategy affirmed by the Board of Governors in January 2019, the System is developing a new methodology for distributing resources. In anticipation of changes to the **allocation formula** and to provide universities with greater stability and predictability of funding in the upcoming fiscal year, the Board suspended the use of the current allocation formula for fiscal years 2019/20 and 2020/21.

In fiscal year 2020/21, the State System will receive \$477.5 million in **General Fund appropriations**, equal to fiscal year 2019/20. Each university's fiscal year 2020/21 appropriation was set at the same amount as it received in fiscal year 2019/20.

Over the previous five years, the Commonwealth had restored about \$65 million of the nearly \$90 million in funding that was cut from the State System's annual appropriation at the beginning of the 2008 recession that severely impacted both the state and national economies and led to several years of funding cuts to the State System. Even so, the current year's appropriation is just slightly higher than what the System received in fiscal year 2008/09. Pennsylvania ranks 47<sup>th</sup> in the nation in public higher education appropriations per FTE student.

The State System received a \$17.6 million Realty Transfer Tax allocation in fiscal year 2019/20 from the Commonwealth's **Key '93** (Keystone Recreation, Park and Conservation) Fund, a decrease of \$0.8 million, or 4.3%, from fiscal year 2018/19. With the exception of fiscal years 2009/10 and 2010/11, when no funding was

received, Key '93 funds have provided a consistent revenue stream for university deferred maintenance projects since 1993.

The State System was allocated \$73 million in **Commonwealth capital funding** in fiscal year 2019/20, primarily for the renovation, replacement, and demolition of existing educational and general (E&G) buildings, all of which is completed under the direction and project management of the Commonwealth. This compares to \$70 million allocated in fiscal years 2020/21 and 2018/19, which was a \$5 million increase over the \$65 million in capital funding that has been allocated to the State System annually since fiscal year 2000/01, with the exception of fiscal years 2009/10 and 2010/11, when \$130 million was allocated. Except for associated furnishings and equipment, the universities do not record the value of Commonwealth-funded capital projects as revenue or assets, since the Commonwealth retains title to any part of a capital project for which they directly provide funding.

On January 15, 2020, an additional \$45 million of Commonwealth Public Improvement Project Capital Funding (PIP) was allocated to the State System, over and above the System's annual PIP funding for fiscal years 2019/20, 2020/21, and 2021/22. The System received \$17 million of these funds on a reimbursement basis in fiscal year 2019/20 and will be provided approximately \$15 million increments in each of fiscal years 2020/21, and 2021/22.

**Enrollment**

Fall 2019 student headcount was 95,782, a decrease of 2,568 students, or 2.6%, from fall 2018, and a decrease of 22,442 students, or 19%, from fall 2011. Following is the history of State System student headcount enrollment since 2011, for credit-bearing and clock hour students.

Year	Fall Enrollment	% Change from Prior Year
2019	95,782	(2.6%)
2018	98,350	(4.1%)
2017	102,547	(2.4%)
2016	105,038	(2.2%)
2015	107,386	(2.2%)
2014	109,808	(2.2%)
2013	112,225	(2.1%)
2012	114,688	(3.0%)
2011	118,224	(1.1%)

In academic year 2018/19, the universities awarded 26,789 degrees and certificates, a slight increase of 0.4% from the 26,682 degrees awarded in academic year 2017/18, and a 2.5% increase over the 26,131 completions in academic year 2016/17.

Degrees and Certificates Awarded (Academic Year)			
	2018/19	2017/18	2016/17
Undergraduate	20,646	20,589	20,297
Graduate	6,143	6,093	5,834
Total	26,789	26,682	26,131

With an undergraduate population comprising 88% Pennsylvania residents—and the majority of those being traditional-age students enrolling right out of high school—the State System's enrollment historically has been closely tied to the state's high school demographic trends. As the number of high school graduates in the state

continues to drop, most of the universities are expecting their enrollments to continue to decline, resulting in reduced revenue-

Since peaking at 131,733 students in academic year 2011/12, the number of **high school graduates** has dropped by 6.0% to 123,808 in academic year 2019/20. Following is the projected number of Pennsylvania high school graduates based on estimates from the Pennsylvania Department of Education.

<b>Projected Pennsylvania High School Graduates</b>		
<b>Fiscal Year</b>	<b>Number of Graduates</b>	<b>% Increase (Decrease)</b>
2019/20	123,808	-1.4%
2020/21	124,832	0.8%
2021/22	125,367	0.4%
2022/23	125,145	-0.2%
2023/24	127,051	1.5%
2024/25	129,158	1.7%
2025/26	129,726	0.4%
2026/27	126,762	-2.3%

The impact to the universities of the reductions in the number of high school graduates is compounded by a decline in the proportion of those who pursue higher education, an overcrowded higher education marketplace in the state, increased admissions standards at several universities designed to improve long-range retention, and the impact of COVID-19.

#### **Employee Compensation Costs**

Approximately 86% of PASSHE's FTE employees are covered by nine collective bargaining agreements. During 2019/20, new collective bargaining agreements were established with nearly all unions through fiscal year 2022/23. The only exceptions are two minor unions: the agreement for police supervisors with the International Union, Security, Police, and Fire Professionals of America (SPFPA), which expired on August 31, 2020 and for which a tentative agreement has been reached, and the Professional Doctors Association (PDA). The terms of the prior contracts remain in effect until a successor agreement is ratified.

In May 2019 the Board approved a **Voluntary Phased Retirement Program** in anticipation of full retirement for employee members of APSCUF. The program allows eligible faculty members to reduce their work commitment over a period of one to three years. During fall 2019, the System and faculty union successfully negotiated a second retirement incentive: the **Enhanced Sick Leave Program**, which provided for increased accrued sick leave reimbursement for faculty who would retire prior to the start of the fall 2020 semester. Due to the success of this program, it was expanded to all employee groups, resulting in over 400 participants.

#### **Pension and OPEB Liabilities**

The State System's liabilities related to **unfunded future pension and retiree healthcare costs total \$3.25 billion** when combined with the respective deferred inflows of resources and deferred outflows of resources. The System has virtually no control over \$1.8 billion of this amount, which represents its share of the plans administered by the Commonwealth, since the Commonwealth determines the associated benefits as well as the employer and retiree contribution rates for these plans.

The **Commonwealth's combined net pension and OPEB liabilities** totaled \$85.6 billion at June 30, 2020, compared to \$87.4 billion at June 30, 2019. Credit rating agencies consistently site these liabilities as significant challenges for both the State System and the Commonwealth and as factors that have contributed to credit rating downgrades. Recently enacted Commonwealth **pension legislation** will modify the pension benefits for new hires, slowing the rate of growth of the pension liability, but it will not aid in reducing the existing liability. No legislation has been enacted or proposed to either reduce or slow the growth of the OPEB liabilities administered by the Commonwealth, in which the AFSCME employees participate. The State System, however, closed the State System OPEB plan to new employees—except for employees represented by APSCUF—hired after January 2016. Although this will not reduce the existing liability, the new hires bring no additional OPEB liability, now or in the future.

### **Capital Investment and Debt**

The State System purchased \$219.1 million in **capital assets** in fiscal year 2019/20, which includes \$114.1 million to build or improve academic and auxiliary facilities across all 14 universities.

During fiscal year 2019/20, the State System issued Series AW bonds, totaling \$85 million. Of this amount, \$70.7 million was used to current refund portions of Series AJ and Series AK bonds, and the remaining \$14.3 million was used to undertake various capital projects at the universities, comprising:

- \$2.5 million to finance replacement of HVAC equipment at Bloomsburg University.
- \$11.8 million to reimburse the acquisition of parking garages at West Chester University.

Bond principal and refundings of \$174.9 million and bond interest of \$41.0 million were paid, bringing the total outstanding **bond debt** to \$1,064.8 million at June 30, 2020.

In June 2020, Moody's Investors Service, Inc. maintained the State System's **bond rating** of Aa3, stable outlook. In June 2020, Fitch Ratings affirmed the State System's rating of A+ with stable outlook. These rates were reaffirmed September 11, 2020. Both rating agencies acknowledged the coronavirus pandemic and related mitigation measures have created an uncertain environment for the U.S. public higher education sector, constraining enrollment and revenue and contracting operating performance.

## THE 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 State System 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.
- *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, or OPEB, liabilities (health and tuition benefits expected to be paid to eligible current and future retirees).
- *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 State System is self-insured), compensated absences (the value of sick and annual leave earned by employees), pension benefits, and OPEB.
- *Deferred Inflows of Resources*, defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance, the fair value of irrevocable split-interest agreements, and certain items associated with the pension and OPEB.
- *Net Position*, informally referred to as *Net Assets* or *Fund Balance* (as it was previously called), is the sum of Assets and Deferred Outflows of Resources less Liabilities and Deferred Inflows of Resources.

Following is a summary of the State System's balance sheet at June 30, 2020, 2019, and 2018.

(in millions)

**Balance Sheet**

	June 30, 2020	Change from Prior Year	June 30, 2019	Change from Prior Year	June 30, 2018	Change from Prior Year
<b>Assets</b>						
<b>Cash and investments</b>	\$1,257.6	(3.9%)	\$1,308.9	0.2%	\$1,305.8	(4.4%)
<b>Capital assets, net</b>	2,084.6	3.4%	2,016.2	5.0%	1,920.4	1.1%
<b>Other assets</b>	221.9	14.3%	194.1	(0.8%)	195.7	6.5%
<b>Deferred outflows</b>	224.6	(32.0%)	330.5	54.2%	214.4	(11.1%)
<b>Total assets and deferred outflows</b>	<u>\$3,778.7</u>	(1.8%)	<u>\$3,849.7</u>	5.9%	<u>\$3,636.3</u>	(1.5%)
<b>Liabilities</b>						
<b>Workers' compensation</b>	\$21.8	(4.0%)	\$22.7	1.3%	\$22.4	9.8%
<b>Compensated absences</b>	143.4	12.4%	127.6	1.1%	126.2	5.6%
<b>Net pension liability</b>	955.9	(13.8%)	1,108.3	18.2%	937.8	(8.3%)
<b>Net OPEB liability</b>	1,738.3	(12.1%)	1,976.6	(15.0%)	2,324.6	103.0%
<b>Bonds payable</b>	1,064.8	(7.8%)	1,154.7	11.5%	1,035.6	(3.5%)
<b>Capital Lease Obligations</b>	120.5	290.0%	30.9	(28.6%)	43.3	(6.5%)
<b>Other Liabilities</b>	524.4	11.4%	470.8	4.3%	451.6	(2.8%)
<b>Deferred inflows</b>	773.8	36.1%	568.4	111.0%	269.4	469.6%
<b>Total liabilities and deferred inflows</b>	<u>5,342.9</u>	(2.1%)	<u>5,460.0</u>	4.8%	<u>5,210.9</u>	32.3%
<b>Net Position</b>						
<b>Net investment in capital assets</b>	895.9	6.7%	839.6	5.1%	798.7	10.6%
<b>Restricted</b>	151.0	(0.8%)	152.3	2.7%	148.2	22.2%
<b>Unrestricted</b>	<u>(2,611.1)</u>	0.3%	<u>(2,602.2)</u>	3.2%	<u>(2,521.5)</u>	130.8%
<b>Total net position</b>	<u>(1,564.2)</u>	(2.9%)	<u>(1,610.3)</u>	2.3%	<u>(1,574.6)</u>	532.6%
<b>Total liabilities, deferred inflows, and net position</b>	<u>\$3,778.7</u>	(1.8%)	<u>\$3,849.7</u>	5.9%	<u>\$3,636.3</u>	(1.5%)

**Net Position**

Overall, **net position increased by \$46.1 million** in fiscal year 2019/20. This compares to a decrease of \$35.7 million in fiscal year 2018/19 from fiscal year 2017/18, and a decrease of \$1.326 billion in fiscal year 2017/18 from fiscal year 2016/17. The exceptionally large decrease in fiscal year 2017/18 is primarily the result of the implementation of GASB Statement No. 75, which alone caused net position to decrease by \$1.280 billion from the prior year. In accordance with GASB requirements, the State System reports three components of net position:

- *Net investment in capital assets*, informally referred to as *NIP* (from its former name, *Net Investment in Plant*), 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 State System'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, chancellor, or university presidents 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 liabilities that the State System does not fund**, along with the respective deferred outflows and deferred inflows of resources. Because these liabilities 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, based on an employee’s current salary, of annual and sick leave that employees have earned and could potentially receive in the form of cash payouts upon retirement or other termination. All full-time employees are eligible to be paid, upon termination, for their accumulated unused annual, personal, and holiday leave, with a maximum annual accumulation of 45 days. Sick leave payouts, however, are subject to vesting requirements, and the value of accumulated unused sick leave is paid only to those employees who retire and meet service and/or age requirements, and it is capped depending upon the number of days accumulated. The liability for sick leave is estimated based on historical sick leave payouts.

As employees earn and accumulate leave, the compensated absences liability increases; as employees use leave or terminate, the liability decreases. The liability increased by \$15.8 million to \$143.4 million for the year ended June 30, 2020, compared to a \$1.4 million increase over the prior year for the year ended June 30, 2019. Universities fund this liability only as cash payouts are made to employees upon termination. In fiscal year 2019/20, cash leave payouts to employees totaled \$12.7 million, compared to \$12.3 million and \$10.4 million in fiscal years 2018/19 and 2017/18, respectively. At June 30, 2020, the vested value of sick leave payable to employees upon retirement was \$60.9 million, and the value of annual leave payable upon any termination was \$41.4 million, for a total of \$102.3 million, or 71.3% of the total liability, due and payable to employees. By contrast, at June 30, 2019, the vested value of sick leave payable to employees upon retirement was \$50.8 million, and the value of annual leave payable upon any termination was \$35.3 million, for a total of \$86.1 million, or 67.5% of the total liability, due and payable to employees.

- The **net pension liability**, along with the related deferred outflows and inflows of resources, is the State System’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 negative effect of this liability, along with the related deferred outflows and inflows of resources, on net position at June 30, 2020, was \$932.1 million, compared to \$910.4 million at June 30, 2019 and \$861.4 million at June 30, 2018. Universities fund this liability on a “pay-as-you-go” basis; that is, they fund 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 negative effect of this liability, along with the related deferred outflows and inflows of resources, on net position at June 30, 2020 was \$2.3 billion, at June 30, 2019, was \$2.4 billion, and at June 30, 2018 was \$2.5 billion. Like the pension liability, universities fund 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 Retired Employees Health Program (REHP) and PSERS OPEB plans, the universities make contractually required contributions as determined by the Commonwealth.

Following is a summary of the effect of the three unfunded liabilities, including the related deferred outflows of resources (DOR) and deferred inflows of resources (DIR), on the State System's net position. The State System's Alternative Retirement Plan is a defined contribution plan and has no liability.

(in millions)

**Effect of the Unfunded Liabilities,  
 including the respective Deferred Outflows of Resources and Deferred Inflows of Resources,  
 on Unrestricted Net Position**

	June 30, 2020	June 30, 2019	June 30, 2018
<b>Unrestricted Net Position when the effect of the unfunded liabilities is included</b>	(\$2,611.1)	(\$2,602.2)	(\$2,521.5)
Pension Liabilities, including DOR and DIR			
SERS Pension	852.8	833.2	785.5
PSERS Pension	79.3	77.2	75.9
Alternative Retirement Plan	0	0	0
Total Pension Liabilities	932.1	910.4	861.4
OPEB Liabilities, including DOR and DIR			
SSHE OPEB Plan	1,496.7	1,529.1	1,541.7
REHP OPEB Plan	815.0	886.4	918.6
PSERS OPEB Plan	3.6	3.7	3.7
Total OPEB Liabilities	2,315.3	2,419.2	2,464.0
Compensated Absences Liability	143.4	127.6	126.2
Total Unfunded Liabilities, including DOR and DIR	\$3,390.9	\$3,457.2	\$3,451.6
<b>Unrestricted Net Position when the effect of the unfunded liabilities is excluded</b>	<b>\$779.7</b>	<b>\$855.0</b>	<b>\$930.1</b>

When the unfunded liabilities and related DOR and DIR are excluded, unrestricted net position decreased by \$75.2 million, or 8.8%, from fiscal year 2018/19 to 2019/20, compared to a decrease of \$75.2 million, or 8.1%, from fiscal year 2017/18 to 2018/19. The cumulative two-year decrease of \$150.4 million, or 16.2%, is indicative of the declining revenues from enrollment losses as well as the continuing increases in employee salary and benefit costs, which together are straining university operations, draining cash, and requiring universities to draw from their reserves to balance operating budgets.

**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 State System has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public colleges' and universities' **state appropriations and appropriations and grants received as a result of the CARES Act 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 State System classifies all of its remaining activities as operating.

## Revenues and Gains

Following is a summary of revenues and gains for the years ending June 30, 2020, 2019, and 2018.

(in millions)

Revenues and Gains						
	June 30, 2020	Change from Prior Year	June 30, 2019	Change from Prior Year	June 30, 2018	Change from Prior Year
<b>Operating revenues</b>						
Tuition and fees, net	\$818.9	(2.7%)	\$841.4	(1.1%)	\$850.5	(0.6%)
Grants and contracts	163.7	(0.7%)	164.8	5.4%	156.3	(1.1%)
Auxiliary enterprises, net	245.7	(23.4%)	320.9	1.1%	317.4	(3.2%)
Other	44.5	(24.2%)	58.7	(3.8%)	61.0	2.0%
<b>Total operating revenues</b>	<b>1,272.8</b>	<b>(8.2%)</b>	<b>1,385.8</b>	<b>0.0%</b>	<b>1,385.2</b>	<b>(1.2%)</b>
<b>Nonoperating revenues and gains</b>						
State appropriations	512.2	5.3%	486.4	3.2%	471.1	2.3%
Federal & state approp. & grants-COVID	74.6	-	-	-	-	-
Investment income, net	50.3	0.2%	50.2	27.4%	39.4	12.6%
Unrealized gain on investments	-	(100.0%)	0.4	-	-	-
Gifts, nonoperating grants, and other	169.0	(6.7%)	181.2	(3.1%)	187.0	8.3%
<b>Total nonoperating revenues and gains</b>	<b>806.1</b>	<b>12.2%</b>	<b>718.2</b>	<b>3.0%</b>	<b>697.5</b>	<b>4.4%</b>
<b>Total revenues and gains</b>	<b>\$2,078.9</b>	<b>(1.2%)</b>	<b>\$2,104.0</b>	<b>1.0%</b>	<b>\$2,082.7</b>	<b>0.6%</b>

Overall, fiscal year 2019/20 **operating revenues** decreased from the prior fiscal year due to campus closures as a result of the coronavirus. Nonoperating revenues increased by 12.2%, due to increased appropriations and CARES Act funding. The overall decrease in revenues and gains was (1.2%).

Tuition and fee revenue is shown net of discounts and allowances and bad debt expense. Discounts and allowances represent financial aid to students in the form of grants, scholarships, and waivers. A freeze in tuition and most mandatory fees, combined with a decline in enrollment resulted in an overall decrease of **net tuition and fee revenue** of \$22.5 million in fiscal year 2019/20, or (2.7%), from fiscal year 2018/19. This follows a decrease in net tuition and fee revenue of \$9.1 million, or (1.1%), in fiscal year 2018/19 over fiscal year 2017/18. **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 centers, decreased by \$75.2 million in fiscal year 2019/20, or (23.4%), over fiscal year 2018/19. This compares to an increase of \$3.5 million or 1.1% in fiscal year 2018/19 from fiscal year 2017/18. The 2019/20 decrease can be attributed primarily to spring 2020 housing and dining refunds provided to students resulting from the mid-semester campus closures due to COVID-19.

**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 appropriation was \$512.2 million, a \$25.8 million increase over fiscal year 2018/19.

**Other Revenue** includes CARES Act funds that have been provided to State System universities for emergency aid to students whose lives have been disrupted by the pandemic, as well as funds that can be used by the institution to help cover costs associated with providing a safe campus and work environment throughout this pandemic. An overview of these funds is provided on page 5. A total of \$116.8 million in federal CARES Act funds have been awarded to date, of which \$74.6 million were recorded as revenue in 2019/20; the remaining will be recorded in 2020/21, when expended.

### Expenses and Losses

Following is a summary of expenses and losses for the years ending June 30, 2020, 2019, and 2018.

(in millions)

<b>Expenses and Losses</b>						
	<b>June 30, 2020</b>	<b>Change from Prior Year</b>	<b>June 30, 2019</b>	<b>Change from Prior Year</b>	<b>June 30, 2018</b>	<b>Change from Prior Year</b>
<b>Operating expenses</b>						
Instruction	\$717.9	(4.3%)	\$750.5	(0.7%)	\$755.6	(3.1%)
Research and public service	61.2	3.0%	59.4	16.5%	51.0	4.3%
Academic support	174.6	(4.7%)	183.3	(4.1%)	191.1	3.1%
Student services	184.8	(2.8%)	190.2	(0.1%)	190.3	0.4%
Institutional support	266.3	4.0%	256.0	(3.7%)	265.7	5.0%
Operations and maintenance of plant	122.6	(15.6%)	145.3	(10.3%)	162.0	1.7%
Depreciation	148.6	3.3%	143.9	5.5%	136.4	3.1%
Student aid	120.9	68.2%	71.9	(4.6%)	75.4	(1.3%)
Auxiliary enterprises	184.1	(27.7%)	254.5	(0.2%)	255.1	(1.5%)
<b>Total operating expenses</b>	<u>1,981.0</u>	(3.6%)	<u>2,055.0</u>	(1.3%)	<u>2,082.6</u>	(0.1%)
<b>Other expenses and losses</b>						
Interest expense on capital asset-related debt	41.0	(2.4%)	42.0	13.2%	37.1	(2.9%)
Loss on disposal/acquisition of assets	1.7	(94.0%)	28.3	1130.4%	2.3	(95.8%)
Unrealized loss on investment	9.1	(0.5%)	-	(100%)	19.6	(0.5%)
<b>Total other expenses and losses</b>	<u>51.8</u>	(26.3%)	<u>70.3</u>	19.2%	<u>59.0</u>	(47.6%)
<b>Total expenses and losses</b>	<u>\$2,032.8</u>	(4.4%)	<u>\$2,125.3</u>	(0.8%)	<u>\$2,141.6</u>	(2.5%)

The decrease in **operating expenses** of \$74.0 million, or (3.6%), in fiscal year 2019/20 compared to fiscal year 2018/19 is attributed to the \$86.9 million decrease in the actuarially calculated pension and OPEB expenses in excess of pay-as-you-go contributions.

**Salaries and wages** totaled \$934.3 million in fiscal year 2019/20, an increase of \$2.5 million, or 0.3%, over fiscal year 2018/19. The increase is the result of the salary increases granted in collective bargaining agreements and a slight decrease in complement. Annualized full-time equivalent employees, decreased to 11,164 in fiscal year 2019/20, compared to 11,401 in fiscal year 2018/19 and 11,397 in fiscal year 2017/18.

When the effects of the non-cash pension and OPEB expenses in excess of contributions are factored out, fiscal year 2019/20 **employee benefits** totaled \$440.8 million, a decrease of \$1.5 million, or (0.3%), below fiscal year 2018/19.

Following is a summary of salaries, wages, and benefits expenses for the years ending June 30, 2020, 2019, and 2018.

(in millions)

<b>Salaries, Wages, and Benefits</b>						
	<b>June 30, 2020</b>	<b>Change from Prior Year</b>	<b>June 30, 2019</b>	<b>Change from Prior Year</b>	<b>June 30, 2018</b>	<b>Change from Prior Year</b>
<b>Salaries and wages</b>	\$934.3	0.3%	\$931.8	2.2%	\$912.0	0.6%
<b>Employer benefit contributions</b>						
Employee healthcare	129.4	4.7%	123.6	(3.6%)	128.2	(2.3%)
Pension benefits	152.3	0.1%	152.2	3.0%	147.7	8.4%
Retiree healthcare	56.0	(11.3%)	63.1	6.4%	59.3	(15.9%)
Other benefits	103.1	(0.3%)	103.4	1.0%	102.4	4.1%
<b>Total employer benefit contributions</b>	440.8	(0.3%)	442.3	1.1%	437.6	(0.3%)
<b>Noncash pension and OPEB expense</b>						
Pension expense	32.2	(45.1%)	58.7	(64.9%)	35.6	(40.5%)
Retiree healthcare expense	(103.5)	(131.5%)	(44.7)	(212.6%)	39.7	1.5%
<b>Total noncash pension and OPEB expense</b>	(71.3)	(609.3%)	14.0	(81.4%)	75.3	(23.9%)
<b>Total salaries, wages, and benefits</b>	<u>\$1,303.8</u>	(6.1%)	<u>\$1,388.1</u>	(2.6%)	<u>\$1,424.9</u>	(1.2%)

The employer share of **employee healthcare contributions** increased by \$5.8 million in fiscal year 2019/20, or 4.7%, from fiscal year 2018/19. This follows a decrease of \$4.6 million, or (3.6%), in fiscal year 2018/19, and a decrease of \$3.0 million, or (2.3%), in fiscal year 2017/18, over the prior fiscal years. This cumulative three-year \$1.8 million decrease can be attributed to design changes in the plan administered by the State System, which increased employees' share of expenses through higher employee premium contributions, copays, deductibles, and coinsurance, and limited spousal participation.

The employer share of **retiree benefits contributions** decreased by \$7.0 million, or (11.2%), in fiscal year 2019/20 over fiscal year 2018/19. This follows an increase of \$8.2 million, or 4.0%, and an increase of \$0.3 million, or 0.1%, in fiscal years 2018/19 and 2017/18, respectively, over the prior fiscal years. Following is a summary of the State System's contributions for retiree pension and healthcare benefits for the years ending June 30, 2020, 2019, and 2018.

(in millions)

<b>State System Employer Contributions for Retiree Pension and Healthcare Benefits</b>						
	<b>June 30, 2020</b>	<b>Change from Prior Year</b>	<b>June 30, 2019</b>	<b>Change from Prior Year</b>	<b>June 30, 2018</b>	<b>Change from Prior Year</b>
<b>Pension</b>						
SERS	\$97.2	(0.3%)	\$97.5	3.0%	\$94.7	13.0%
PSERS	8.8	2.3%	8.6	8.9%	8.0	11.3%
ARP	46.3	0.4%	46.1	2.2%	45.1	(0.4%)
<b>Retiree Healthcare</b>						
System Plan	36.2	(2.4%)	37.1	(1.6%)	37.7	(2.1%)
REHP	19.6	(24.0%)	25.8	20.6%	21.4	(32.9%)
PSERS Healthcare	0.2	0.0%	0.2	0.0%	0.2	0.0%
<b>Totals</b>	<u>\$208.3</u>	(3.3%)	<u>\$215.3</u>	4.0%	<u>\$207.1</u>	0.1%

- **Employer contributions to SERS**, a defined benefits pension plan, were 36.04% of a participating employee's salary for the majority of participants in fiscal year 2019/20 and are expected to increase in the near future, but at a lesser rate than recent historical experience. This rate has been steadily and significantly increasing since fiscal year 2010/11, when the rate was 4.11% of an employee's salary. At December 31, 2019, 56.5% of the SERS liability was funded
- **Employer contributions to PSERS**, a defined benefits pension plan, were 16.7% of a participating employee's salary in fiscal year 2019/20. This rate is expected to increase in the near future, but at a lesser rate than recent historical experience. This rate has been significantly increasing, with some fluctuation, since fiscal year 2010/11, when the rate was 2.82% of an employee's salary. The Commonwealth makes annual pension contributions to PSERS on behalf of State System employees at the same annual rate. At June 30, 2019, 55.7% of the PSERS liability was funded.
- **Employer contributions to the ARP**, a defined contribution plan, were 9.29% of a participating employee's salary in fiscal year 2019/20, the same rate since the plan's inception, and are expected to remain at the same rate for the near future. Because it is a defined contribution plan, the ARP has no unfunded liability.
- **Employer contributions to the State System OPEB Plan**, a defined benefits retiree healthcare plan administered by the State System, are made to a third-party health insurance vendor based on claims estimates agreed to by the State System and the third-party vendor. The vendor charges an additional assessment or issues a cash refund in the following year to reconcile to the actual claims paid. Despite the increasing population of retirees and rising healthcare costs, the State System has seen flat or declining healthcare spending in this plan from retirees for the last several years. This can be attributed in part to design changes that increased retirees' share of expenses through higher retiree premium contributions, copays, deductibles, and coinsurance. The employer rate for fiscal year 2019/20 was set at \$194 per pay period per active participating employee and will decrease to \$171 in fiscal year 2020/21. Future year changes will depend upon actual claims experience. As of June 30, 2020, no funds have been placed in a trust to fund the future liability.
- **Employer contributions to the REHP**, a defined benefits retiree healthcare plan administered by the PEBTF, were \$230 per pay period per active participating employee in fiscal year 2019/20 and will remain the same during 2020/21. The contribution rate is set at the discretion of the Commonwealth and periodically fluctuates, ranging from \$200 in fiscal year 2010/11 to \$418 in fiscal year 2015/16. At June 30, 2019, only 3.8% of the REHP liability was funded.
- **Employer contributions to the PSERS Health Insurance Premium Assistance Program**, a defined benefits retiree healthcare plan administered by PSERS, were 0.42% of a participating employee's salary in fiscal year 2019/20. The rate has been and is expected to remain at approximately the same amount. Any State System retiree who is a member of PSERS is eligible for this additional healthcare benefit, which offers up to \$100 per month of reimbursements for healthcare costs, including insurance premiums.

The cost for **all other employee benefits**, such as Social Security and workers' compensation, decreased in fiscal year 2019/20 by a total of \$0.3 million, or (0.3%), over fiscal year 2018/19, compared to a fiscal year 2018/19 increase of \$1.0 million, or 1.0%, over fiscal year 2017/18. The decrease is due to a decline in workers compensation expense.

#### **Other Expenses and Losses**

**Interest expense on capital asset-related debt** was \$41.0 million, a decrease of \$1.0 million below fiscal year 2018/19, which can be attributed 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.

### **Statement of Cash Flows**

The *Statement of Cash Flows* provides information about the State System's cash receipts and cash payments. It can be used to determine the State System's ability to generate future net cash flows and meet its obligations as they come due and its need for external financing.

The universities record their share of the State System pooled deposits and investments account at cost; that is, without regard to the fair value of the underlying investments. The associated markup or markdown for the fair value, as well as the annual unrealized gains or losses on investments, are recorded only at the consolidated level. In fiscal year 2019/20, the unrealized loss on the State System pooled deposits and investments account was \$9.7 million, while the accumulated fair value markup at June 30, 2020, was \$55.3 million. This compares to an unrealized loss on investments in fiscal year 2018/19 of \$3.7 million and an accumulated fair value markup of \$65.1 million at June 30, 2019.

The combination of factors such as years of relatively low appropriations, declining enrollment, low interest rates, increasing personnel costs, and high long-term debt, and COVID-19 related campus closures continues to cause **cash flow pressures** for some State System universities. Total unrestricted operating cash (combined Educational & General and Auxiliary) decreased by \$84.9 million, or 8.7%, in fiscal year 2019/20, to \$894.7 million, compared to a balance of \$979.6 million at June 30, 2019. Cash flow weaknesses, which can seriously challenge financial viability, have begun to significantly affect most universities, with Slippery Rock University and West Chester University being notable exceptions. The Office of the Chancellor is monitoring universities whose cash, revenue, expenditure, and enrollment trends may be an indication of future cash flow weaknesses. Mansfield University received a \$6.0 million line of credit from the State System pooled account in May 2020 on which it had \$4.0 million outstanding at June 30, 2020. .

Over the course of the past several years, the State System had provided lines of credit, System notes and other support to Cheyney University. On November 13, 2019, Governor Wolf pledged support to the System through a letter to Cheyney's President assuring that "Cheyney's obligation to other PASSHE institutions and the Office of the Chancellor, totaling \$40,264,814, is eliminated."

### **OTHER ECONOMIC FACTORS**

The **Commonwealth** ended fiscal year 2019/20 with \$32.3 billion in General Fund collections, \$2.6 billion below the previous year and 9.1% below estimate, due to reduced economic activity during the COVID-19 pandemic. The Commonwealth extended tax filing deadlines to July 15, 2020; \$1.6 billion of the revenue collected July 2020 is attributed to extending due dates for various taxes due to the COVID-19 pandemic.

On May 29, 2020, Governor Tom Wolf signed a fiscal year 2020/21 Commonwealth General Fund budget of \$25.75 billion that provided for 12 months of sustained public education funding at 2019/20 levels, while supporting most other state agencies through five months of the fiscal year. It is anticipated a supplemental budget bill will be passed in November 2020 for the remainder of the fiscal year. The spending plan appropriated to the State System was \$477.5 million in General Funds and \$30 million in CARES Act Title V federal appropriations.

### **Cheyney Accreditation and Title IV Status**

On November 22, 2019, Middle States informed Cheyney University of its "...reaffirm[ed] accreditation because the institution is now in compliance with Standard VI (Planning, Resources, and Institutional Improvement) and Requirement of Affiliation 11. The Commonwealth of Pennsylvania, Office of the Governor, has provided written assurance of the elimination of Cheyney University's debt to the Pennsylvania State System of Higher Education (PASSHE) and the Office of the Chancellor. Prior to this notification, Cheyney had been on probation since November 2015.

Cheyney has been on the Department of Education's (ED) Heightened Cash Monitoring 2 (HCM2) status since September 2015, which means that the university does not receive federal student financial aid funds in advance, but must use its own cash to grant federal financial aid to its students and then request reimbursement from the ED. Given Cheyney's success in meeting ED requirements, it is anticipated Cheyney will be removed from HCM2 status in fiscal year 2020/21.

In August 2019, ED notified Cheyney that it was assessing a repayment liability of \$14.3 million to Cheyney for the federal student financial aid improperly administered during fiscal years 2011/12, 2012/13, and 2013/14. Recording this assessment resulted in an overall unrestricted loss of \$12.3 million for fiscal year 2018/19. In February 2020, a settlement agreement was executed between ED and Cheyney and a payment schedule was established for the settlement amount.

*For **further information** about these financial statements, contact Pennsylvania's State System of Higher Education, Administration and Finance Division, 2986 North Second Street, Harrisburg, PA 17110.*

# Pennsylvania's State System of Higher Education

## Balance Sheet (dollars in thousands)

### Assets and Deferred Outflows of Resources

	June 30, 2020	June 30, 2019
<b>Current Assets</b>		
Cash and cash equivalents	\$ 103,963	\$ 33,626
Short-term investments	404,376	686,442
Accounts receivable, students, net	41,553	45,996
Accounts receivable, other	17,682	26,435
Governmental grants and contracts receivable	52,141	30,511
Prepaid expenses	14,496	14,443
Current portion of loans receivable	4,660	7,158
Due from component units	27,584	11,445
Other current assets	5,772	7,274
Total Current Assets	672,227	863,330
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	25	25
Long-term investments, including endowments	749,252	588,807
Beneficial interests	23,598	23,917
Loans receivable	20,517	25,250
Due from component units	1,177	1,072
Capital assets, net of accumulated depreciation	2,084,626	2,016,155
Other noncurrent assets	2,636	704
Total Noncurrent Assets	2,881,831	2,655,930
<b>Total Assets</b>	3,554,058	3,519,260
<b>Deferred Outflows of Resources</b>	224,637	330,493
<b>Total Assets and Deferred Outflows of Resources</b>	\$ 3,778,695	\$ 3,849,753

See accompanying notes to financial statements.

## Pennsylvania's State System of Higher Education

### Balance Sheet *(continued)*

*(dollars in thousands)*

#### Liabilities, Deferred Inflows of Resources, and Net Position

	June 30, 2020	June 30, 2019
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 283,614	\$ 243,007
Unearned revenue	70,994	48,076
Deposits	5,922	6,381
Current portion of workers' compensation liability	4,098	4,779
Current portion of compensated absences liability	18,728	12,894
Current portion of OPEB liability	55,817	62,924
Current portion of capitalized lease obligations	6,800	3,899
Current portion of bonds payable	66,595	86,590
Due to component units	10,596	12,569
Other current liabilities	52,681	54,160
Total Current Liabilities	575,845	535,279
<b>Noncurrent Liabilities</b>		
Unearned revenue	616	899
Workers' compensation liability, net of current portion	17,676	17,948
Compensated absences liability, net of current portion	124,673	114,738
Net pension liability	955,901	1,108,260
OPEB liability, net of current portion	1,682,524	1,913,725
Capitalized lease obligations, net of current portion	113,705	26,958
Bonds payable, net of current portion	998,195	1,068,070
Other noncurrent liabilities	100,011	105,628
Total Noncurrent Liabilities	3,993,301	4,356,226
<b>Total Liabilities</b>	4,569,146	4,891,505
<b>Deferred Inflows of Resources</b>	773,717	568,447
<b>Net Position</b>		
Net investment in capital assets	895,905	839,644
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	57,477	57,339
Student loans	3,421	4,749
Other	3,121	3,228
Expendable:		
Scholarships and fellowships	31,076	30,602
Capital projects	35,342	38,265
Other	20,637	18,164
Unrestricted	(2,611,147)	(2,602,190)
<b>Total Net Position</b>	(1,564,168)	(1,610,199)
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	\$ 3,778,695	\$ 3,849,753

*See accompanying notes to financial statements.*

**Pennsylvania's State System of Higher Education**

**Statement of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30, 2020 and 2019**

*(dollars in thousands)*

	<u>2020</u>	<u>2019</u>
<b>Operating Revenues</b>		
Tuition and fees, net	\$ 818,906	\$ 841,415
Grants and contracts	163,653	164,883
Sales and services	36,417	42,077
Auxiliary enterprises, net	245,680	320,884
Other revenues, net	8,129	16,615
Total Operating Revenues	<u>1,272,785</u>	<u>1,385,874</u>
<b>Operating Expenses</b>		
Instruction	717,858	750,456
Research and Public Service	61,150	59,301
Academic support	174,595	183,312
Student services	184,816	190,256
Institutional support	266,267	255,983
Operations and maintenance of plant	122,618	145,333
Depreciation	148,635	143,899
Student aid	120,874	71,911
Auxiliary enterprises	184,140	254,518
Total Operating Expenses	<u>1,980,953</u>	<u>2,054,969</u>
Operating Loss	<u>(708,168)</u>	<u>(669,095)</u>
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations, general and restricted	477,470	468,108
Federal and State appropriations and grants-COVID	74,590	-
Pell grants	129,398	136,010
Investment income, net	50,255	50,198
Unrealized gain (loss) on investments	(9,089)	402
Gifts for other than capital purposes	21,502	22,852
Interest expense on capital asset-related debt	(41,006)	(42,025)
Loss on disposal/acquisition of assets	(1,747)	(28,322)
Other nonoperating revenue	11,838	11,410
Net Nonoperating Revenues	<u>713,211</u>	<u>618,633</u>
Income (Loss) before other revenues and special item	<u>5,043</u>	<u>(50,462)</u>
State appropriations, capital	34,735	18,244
Capital gifts and grants	6,253	10,930
Income (Loss) before special item	<u>46,031</u>	<u>(21,288)</u>
Special item - regulatory matter	-	(14,308)
<b>Increase (Decrease) in Net Position</b>	<u>46,031</u>	<u>(35,596)</u>
Net position—beginning of year	(1,610,199)	(1,574,603)
Net position—end of year	<u>\$ (1,564,168)</u>	<u>\$ (1,610,199)</u>

*See accompanying notes to financial statements.*

**Pennsylvania's State System of Higher Education**

**Statement of Cash Flows**  
**For the Years Ended June 30, 2020 and 2019**  
*(dollars in thousands)*

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 818,703	\$ 841,039
Grants and contracts	151,787	152,805
Payments to suppliers for goods and services	(456,429)	(486,118)
Payments to employees	(1,359,584)	(1,367,042)
Loans issued to students	(135)	(169)
Loans collected from students	7,303	6,684
Student aid	(121,679)	(72,519)
Auxiliary enterprise charges	244,523	320,334
Sales and services	37,228	41,036
Other receipts	<u>65,376</u>	<u>58,048</u>
Net cash used in operating activities	(612,907)	(505,902)
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	507,470	468,108
Gifts and nonoperating grants for other than capital purposes	216,143	158,868
PLUS, Stafford, and other loans receipts (non-Perkins)	849,366	884,992
PLUS, Stafford, and other loans disbursements (non-Perkins)	(849,358)	(884,992)
Agency transactions, net	(677)	202
Other	<u>1,014</u>	<u>1,527</u>
Net cash provided by noncapital financing activities	723,958	628,705
<b>Cash Flows from Capital Financing Activities</b>		
Proceeds from capital debt and leases	100,436	111,333
Capital appropriations	34,735	18,244
Capital grants and gifts received	5,643	5,635
Proceeds from sales of capital assets	201	151
Purchases of capital assets	(114,002)	(120,204)
Principal paid on capital debt and leases	(180,195)	(138,287)
Interest paid on capital debt and leases	<u>(51,621)</u>	<u>(46,585)</u>
Net cash used in capital financing activities	(204,803)	(169,713)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	26,161,377	41,026,530
Interest on investments	51,239	50,013
Purchase of investments	<u>(26,048,527)</u>	<u>(41,040,024)</u>
Net cash provided by investing activities	<u>164,089</u>	<u>36,519</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	70,337	(10,391)
Cash and cash equivalents—beginning of year	33,651	44,042
Cash and cash equivalents—end of year	<u>\$ 103,988</u>	<u>\$ 33,651</u>

*See accompanying notes to financial statements.*

**Pennsylvania's State System of Higher Education**

**Statement of Cash Flows** *(continued)*  
**For the Years Ended June 30, 2019 and 2018**  
*(dollars in thousands)*

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (708,168)	\$ (669,095)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	148,635	143,899
Expenses paid by Commonwealth or donor	3,135	6,344
Effect of changes in operating assets, liabilities, deferred outflows of resources, and deferred inflows of resources:		
Receivables, net	(15,805)	(12,471)
Other assets	(10,072)	6,706
Accounts payable	(649)	(426)
Unearned revenue	2,988	(2,930)
Student deposits	(459)	664
Compensated absences	15,769	1,431
Loans to students and employees	7,168	6,514
Defined benefit pensions	(152,359)	(347,964)
Other postemployment benefits liability (OPEB)	(238,308)	170,503
Other liabilities	26,590	9,337
Deferred outflows of resources related to pensions	104,728	(78,473)
Deferred outflows of resources related to OPEB	(190)	(39,141)
Deferred inflows of resources related to pensions	69,364	(43,006)
Deferred inflows of resources related to OPEB	134,728	342,206
Net cash used in operating activities	<u>\$ (612,905)</u>	<u>\$ (505,902)</u>
<b>Noncash Activities</b>		
Capital assets included in payables	\$ 9,524	\$ 6,467
Capital assets acquired by new capital leases	94,993	4,116
Capital assets acquired by gift or appropriation	534	5,220
Student housing capital assets acquired	-	104,984
Like-kind exchanges	20	52
Debt acquired for student housing acquisition	-	132,074
Commonwealth on-behalf contributions to PSERS	10,823	9,883

See accompanying notes to financial statements.

**Pennsylvania's State System of Higher Education**

**Component Units Statement of Financial Position**

*(dollars in thousands)*

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 157,647	\$ 145,435
Accounts and interest receivable	5,489	20,340
Contributions/pledges receivable	27,108	16,452
Due from universities	10,670	12,466
Inventories and prepaid expenses	8,010	7,243
Restricted cash and cash equivalents	53,454	59,526
Short-term investments	22,593	71,698
Long-term investments	553,200	495,448
Land, buildings, and equipment, net	835,907	942,063
Other assets	140,640	76,867
<b>Total Assets</b>	<u>\$ 1,814,718</u>	<u>\$ 1,847,538</u>
<b>Liabilities</b>		
Accounts and interest payable	\$ 30,267	\$ 31,137
Deferred revenue	7,012	22,159
Annuity liabilities	6,566	6,310
Due to universities	26,391	12,413
Deposits payable	37,497	37,516
Interest rate swap agreements	84,267	58,115
Capitalized leases	26,479	27,123
Bonds and notes payable	1,054,670	1,076,920
Other liabilities	17,701	16,687
<b>Total Liabilities</b>	<u>1,290,850</u>	<u>1,288,380</u>
<b>Net Assets</b>		
Without donor restrictions	51,729	110,665
With donor restrictions	472,139	448,493
<b>Total Net Assets</b>	<u>523,868</u>	<u>559,158</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,814,718</u>	<u>\$ 1,847,538</u>

See accompanying notes to financial statements.

**Pennsylvania's State System of Higher Education**

**Component Units Statement of Activities  
For the Years Ended June 30, 2020 and 2019**

*(dollars in thousands)*

	<u>2020</u>	<u>2019</u>
<b>Changes in net assets without donor restrictions</b>		
Contributions	\$ 8,332	\$ 17,523
Sales and services	27,967	36,464
Student fees	27,229	31,991
Grants and contracts	8,899	9,419
Rental income	104,164	134,331
Investment return, net	8,051	17,338
Other revenues and gains	13,452	19,622
Net assets released from restrictions	<u>39,378</u>	<u>31,524</u>
Total Revenues and Gains	237,472	298,212
<b>Expenses and Losses</b>		
Program services:		
Scholarships and grants	25,832	21,810
Student activities and programs	26,153	31,026
University stores	19,975	22,542
Housing	110,163	120,324
Other programs	38,189	44,268
Management and general	27,596	28,059
Fundraising	<u>11,753</u>	<u>11,639</u>
Total Expenses	259,661	279,668
Other expenses and losses	<u>37,022</u>	<u>12,219</u>
Total Expenses and Losses	296,683	291,887
<b>Change in net assets without donor restrictions</b>	(59,211)	6,325
<b>Changes in net assets with donor restrictions</b>		
Contributions	\$ 50,828	\$ 28,542
Investment return, net	10,449	18,331
Other revenue and gains	2,928	2,595
Other expenses and losses	(906)	(601)
Net assets released from restrictions	<u>(39,378)</u>	<u>(31,524)</u>
<b>Change in net assets with donor restrictions</b>	23,921	17,343
<b>Change in total net assets</b>	<u>(35,290)</u>	23,668
Net assets—beginning of year	559,158	535,490
Net assets—end of year	<u>\$ 523,868</u>	<u>\$ 559,158</u>

See accompanying notes to financial statements.

**Pennsylvania's State System of Higher Education**

**Component Units Expenses by Nature and Function  
For the Years Ended June 30, 2020 and 2019  
(dollars in thousands)**

Natural Expense	2020						Supporting Activities			Total Expenses
	Program Activities					Total Programs	Supporting Activities		Total Supporting	
	Scholarships and grants	Student activities and programs	University stores	Housing	Other programs		Management and general	Fundraising		
Salaries and benefits	\$459	\$4,020	\$5,161	\$11,865	\$6,589	\$28,094	\$14,857	\$5,764	\$20,621	\$48,715
Gifts and grants	18,973	4,843	9	531	7,913	32,269	1,441	179	1,620	33,889
Supplies and travel	27	6,432	4,370	965	2,744	14,538	540	707	1,247	15,785
Services and professional fees	22	2,158	230	4,641	3,324	10,375	2,910	2,825	5,735	16,110
Office and occupancy	13	947	1,459	17,496	1,697	21,612	1,887	444	2,331	23,943
Depreciation	0	462	377	28,409	2,852	32,100	1,221	49	1,270	33,370
Interest	0	0	0	34,783	5,267	40,050	1,156	31	1,187	41,237
Other	6,338	7,291	8,369	11,473	7,803	41,274	3,584	1,754	5,338	46,612
<b>Total Expenses</b>	<b>\$25,832</b>	<b>\$26,153</b>	<b>\$19,975</b>	<b>\$110,163</b>	<b>\$38,189</b>	<b>\$220,312</b>	<b>\$27,596</b>	<b>\$11,753</b>	<b>\$39,349</b>	<b>\$259,661</b>

Natural Expense	2019						Supporting Activities			Total Expenses
	Program Activities					Total Programs	Supporting Activities		Total Supporting	
	Scholarships and grants	Student activities and programs	University stores	Housing	Other programs		Management and general	Fundraising		
Salaries and benefits	\$415	\$4,687	\$5,522	\$13,031	\$6,286	\$29,941	\$14,417	\$5,096	\$19,513	\$49,454
Gifts and grants	14,283	5,758	254	1,680	13,352	35,327	1,015	142	1,157	36,484
Supplies and travel	23	7,586	5,284	1,120	4,014	18,027	730	1,070	1,800	19,827
Services and professional fees	25	2,578	284	6,349	3,450	12,686	3,072	2,871	5,943	18,629
Office and occupancy	11	1,228	1,557	19,763	987	23,546	1,942	309	2,251	25,797
Depreciation	0	484	389	29,282	2,540	32,695	1,582	45	1,627	34,322
Interest	0	0	0	36,833	4,926	41,759	1,518	32	1,550	43,309
Other	7,053	8,705	9,252	12,266	8,713	45,989	3,783	2,074	5,857	51,846
<b>Total Expenses</b>	<b>\$21,810</b>	<b>\$31,026</b>	<b>\$22,542</b>	<b>\$120,324</b>	<b>\$44,268</b>	<b>\$239,970</b>	<b>\$28,059</b>	<b>\$11,639</b>	<b>\$39,698</b>	<b>\$279,668</b>

See accompanying notes to financial statements.

---

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

---

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

---

#### **Organization**

Pennsylvania's State System of Higher Education (State System) is a body corporate and politic, 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 (Commonwealth) and is governed by a Board of Governors (Board), as provided for in Act 188. The State System comprises the 14 universities and the Office of the Chancellor.

#### **Reporting Entity**

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

Certain affiliated organizations are included in the State System's financial statements as discretely presented component units. Some of the organizations, such as university student associations, are included because the Board has oversight responsibility for the organizations. The criteria used in determining the organizations for which the State System has oversight responsibility include financial interdependency, the ability to select members of the governing body, the ability to designate management, the ability to influence operations significantly, and accountability for fiscal matters. Other affiliated organizations for which the Board does not have oversight responsibility, such as university foundations and alumni associations, are included when the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the State System, the activity of the organization is significant to the State System universities, and the State System historically has received a majority of these economic resources. Neither the State System nor its universities control the timing or amount of receipts from these organizations.

The State System does not consider any of its component units to be major and has aggregated all component unit information into a separate set of financial statements. Information on individual component units can be obtained by contacting the respective universities.

Transactions between the universities and the Office of the Chancellor have been eliminated in the accompanying financial statements.

#### **Measurement Focus, Basis of Accounting, and Basis of Presentation**

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

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 Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, an amendment of FASB Codification Topic 958, *Not-for-Profit-Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the component units' financial information presented herein.

### **Operating Revenues and Expenses**

The State System 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 and extraordinary expenses, are recorded as operating expenses. Appropriations, gifts, investment income, parking and library fines, capital grants, gains and losses on investments, gains and losses on the acquisition and disposal of assets, 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.

### **Deferred Outflows and Deferred Inflows of Resources**

The balance sheet reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

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

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

The State System is required to report the following as Deferred Outflows of Resources or Deferred Inflows of Resources.

- Deferred gain or loss on bond refundings, which results when the carrying value of a refunded bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.
- For defined benefit pension plans 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 State System's proportion of expenses and liabilities of the pension and OPEB plans as a whole, differences between the State System's pension and OPEB contributions and its proportionate share of contributions, and State System pension and OPEB contributions subsequent to the respective pension or OPEB plan valuation measurement date.

### **Net Position**

Net position is the residual of Assets, plus Deferred Outflows of Resources, less Liabilities, less Deferred Inflows of Resources. The State System maintains the following classifications of net position.

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

*Restricted—nonexpendable*: The portion of net position subject to externally imposed conditions requiring that it be maintained by the State System in perpetuity.

*Restricted—expendable*: The portion of net position use of which is subject to externally imposed conditions that can be fulfilled by the actions of the State System or by the passage of time.

*Unrestricted*: All other categories of net position. Unrestricted net position may be designated for specific purposes by the Board.

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 universities.

### **Cash Equivalents and Investments**

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

### **Accounts and Loans Receivable**

Accounts and loans receivable consist of tuition and fees charged to current and former students and amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants, 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 universities' historical losses and periodic review of individual accounts.

### **Capital Assets**

Land and buildings at the 14 university campuses acquired or constructed prior to its creation on July 1, 1983, are owned by the Commonwealth and made available to the universities of the State System. Since the State System 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 using capital funds appropriated by the Commonwealth after June 30, 1983 and made available to the universities. The only exception to this policy is the recording of assets funded by \$45 million of Commonwealth Public Improvement Project Capital Funding that was awarded to the State System by Governor Tom Wolf on January 15, 2020. The amount distributed and recorded as capital assets during fiscal year 2019/20 totaled \$17 million. The remaining amount is to be distributed during fiscal years 2020/21 and 2021/22, and the associated assets will be recorded as the funds are expended.

All assets with a purchase cost, or fair value if acquired by gift, in excess of \$5,000, with an estimated useful life of two years or greater, are capitalized. Buildings, portions of buildings, and capital improvements acquired or constructed by the universities after June 30, 1983, through the expenditure of university funds or the incurring of debt are stated at cost less accumulated depreciation.

Equipment and furnishings are stated at cost less accumulated depreciation. Library books are capitalized on a composite basis in the year of purchase. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The State System provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 10 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years. Library books are depreciated over 10 years. Amortization of assets under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

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

### **Impairment of Capital Assets**

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

### **Unearned Revenue**

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

### **Compensated Absences**

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

### **Pension Plans and OPEB Plans**

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) and additions to/deductions from SERS and PSERS fiduciary net position have been determined on the same basis as they are reported by SERS and PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net Other Postemployment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the System Plan, Retired Employees Health Program (REHP) and Premium Assistance Program (Premium Assistance) and additions to/deductions from the System Plan, REHP and Premium Assistance plans' fiduciary net position have been determined on the same basis as they are reported by the System Plan, REHP and Premium Assistance plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Scholarships and Waivers**

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

### **Income Taxes**

The State System and its member universities are tax-exempt; accordingly, no provision for income taxes has been made in the accompanying financial statements.

### **Use of Estimates**

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

### **Reclassifications**

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

### **New Accounting Standards**

GASB has issued several accounting standards that are required to be adopted by the State System in future years. The State System 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 State System 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 State System 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 State System 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.

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 State System 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 State System 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 State System 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 State System 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.

---

## (2) DEPOSITS AND INVESTMENTS

---

On June 30, 2020 and 2019, the carrying amount of the State System's demand and time deposits and certificates of deposit for all funds was \$118,871,000 and \$33,831,000, respectively, compared to bank balances of \$114,988,000 and \$33,064,000, respectively. The difference is caused primarily by items in transit. Of the bank balances, \$4,316,000 and \$3,418,000, respectively, were covered by federal government depository insurance or collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve banks in the name of the banking institutions; \$1,630,000 and \$1,279,000, respectively, were uninsured and uncollateralized; and \$109,042,000 and \$28,367,000, respectively, were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirements 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.

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

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

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

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

Investment Categories	Qualifications/Moody's Ratings Requirements
United States Government Securities	Together with repurchase agreements, must comprise at least 20% of the market value of the fund.
Repurchase Agreements	Underlying collateral must be direct obligations of the U.S. 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 the U.S. government. Total may not exceed 20% of the market value of the fund.
Asset-Backed Securities	Must be Aaa rated. Total may not exceed 20% of the market value of the fund, with no more than 5% invested in any single issuer.
System Investment Fund Loans (university loans and bridge notes)	Total may not exceed 20% of the market value of the fund, and loan terms may not exceed 5 years.

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

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

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

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

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

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

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

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

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

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

Commonfund investments, held locally by some of the universities, are valued based upon the unit values (NAV) of the funds held by the universities at year end. Unit values are based upon the underlying assets of the funds derived from inputs principally from or corroborated by observable market data, by correlation, or other means. Redemption restrictions for the Commonfund vary, depending upon the type of fund in which the universities have invested, and are restricted to withdrawals only on a weekly basis or the last business day of the month. All withdrawals require five days' notice.

#### ***State System Pooled Deposits and Investments***

The carrying values (fair values) of deposits and investments for the State System's pooled funds in M&T Bank on June 30, 2020 and 2019, follow.

**State System Pooled Deposits and Investments**  
**June 30, 2020**  
*(in thousands)*

	<b>Fair Value Hierarchy Level</b>	<b>Moody's Rating (if applicable)</b>	<b>Modified Duration (if applicable)</b>	<b>Fair Value</b>
<b>Deposits</b>				
Demand and time deposits				\$59,505
Money market funds				14,552
<b>Total deposits</b>				<b>74,057</b>
<b>Investments</b>				
Commercial paper	2	P1	0.15	148,958
Government money market mutual fund	2	Aaa	0.00	64,694
U.S. government and agency obligations	2	Aaa	1.19	210,559
	2	Aa1	0.81	10,006
Asset-backed securities	2	Aaa	0.49	193,491
Collateralized mortgage obligations (CMOs)	2	Aaa	1.79	172,332
	2	Aa1	1.35	1,822
	2	Aa2	0.26	8,037
Corporate bonds and notes	2	Aa3	2.16	5,202
	2	A1	1.86	21,430
	2	A2	2.25	68,054
	2	A3	1.62	68,515
	2	Baa1	2.93	18,404
	2	Baa2	3.46	27,359
	2	Baa3	0.00	726
Treasury bills	2	NA	0.28	52,986
<b>Total investments</b>				<b>1,072,575</b>
<b>Total deposits and investments</b>				<b>\$1,146,632</b>

**State System Pooled Deposits and Investments**  
**June 30, 2019**  
*(in thousands)*

	<b>Fair Value Hierarchy Level</b>	<b>Moody's Rating (if applicable)</b>	<b>Modified Duration (if applicable)</b>	<b>Fair Value</b>
<b>Deposits</b>				
Demand and time deposits				\$1,944
Money market funds				11,026
<b>Total deposits</b>				<b>12,970</b>
<b>Investments</b>				
Commercial paper	2	P1	0.13	243,505
Government money market mutual fund	2	Aaa	0.00	22,970
U.S. government and agency obligations	2	Aaa	0.99	377,747
Asset-backed securities	2	Aaa	0.57	177,260
	2	A2	0.54	4,833
Collateralized mortgage obligations (CMOs)	2	Aaa	2.99	134,811
Corporate bonds and notes	2	Aaa	2.69	9,153
	2	Aa1	0.32	3,550
	2	Aa2	1.25	7,988
	2	Aa3	1.25	18,099
	2	A1	1.63	48,876
	2	A2	1.88	61,842
	2	A3	1.62	54,183
	2	Baa1	0.82	32,551
	2	Baa2	0.74	10,534
	2	Baa3	0.00	727
<b>Total investments</b>				<b>1,208,629</b>
<b>Total deposits and investments</b>				<b>\$1,221,599</b>

Of the investments noted above at June 30, 2020 and 2019, \$59,505,000 and \$69,720,000, respectively, were held by a trustee to be used for projects funded under the Pennsylvania Higher Educational Facilities Authority/State System of Higher Education bond issues (note 11). Such investments are made subject to the restrictions of the bond indenture and may be liquidated only for the payment of costs associated with the projects described in the bond indenture.

**University Local Deposits and Investments**

The carrying values (fair values) of local university deposits and investments on June 30, 2020 and 2019, follow.

**University Local Deposits and Investments**  
**June 30, 2020**  
*(in thousands)*

	<b>Fair Value Hierarchy Level</b>	<b>Moody's Rating (if applicable)</b>	<b>Modified Duration (if applicable)</b>	<b>Fair Value</b>
<b>Deposits</b>				
Demand and time deposits				\$44,483
Certificates of deposit				332
<b>Total deposits</b>				<b>44,815</b>
<b>Investments</b>				
U.S. government and agency obligations	1		1.96	358
	2		1.50	15
Bond mutual funds	1		5.91	3,891
	NAV		3.74	14,082
Debt securities	1	A1	2.28	40
	1	A2	1.82	133
	1	A3	0.88	135
	1	Ba1	1.23	34
	1	Ba2	0.44	37
	1	Baa1	2.13	108
	2	Aa1	4.02	43
	2	Aa2	5.45	17
	2	Aa3	4.46	16
	2	Aaa	7.27	431
Equity/balanced mutual funds	1			16,971
	2			2,960
	3			1,652
	NAV			22,599
Common stock	1			2,647
<b>Total investments</b>				<b>66,169</b>
<b>Total deposits and investments</b>				<b>\$110,984</b>

**University Local Deposits and Investments**  
**June 30, 2019**  
*(in thousands)*

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
<b>Deposits</b>				
Demand and time deposits				\$20,681
Certificates of deposit				180
<b>Total deposits</b>				<b>20,861</b>
<b>Investments</b>				
U.S. government and agency obligations	1		0.53	354
	2		0.06	42
Bond mutual funds	1		5.40	3,161
	2		4.60	7,225
	NAV		4.84	6,975
Debt securities	1	A1	1.81	94
	1	A2	2.34	89
	1	A3	2.36	95
	1	Baa1	1.60	203
	1	Baa2	1.58	127
	2	Aaa	5.45	340
	2	Aa1	5.66	57
	2	Aa2	6.30	16
	2	Aa3	5.40	16
Equity/balanced mutual funds	1			21,034
	2			1,768
	3			1,647
	NAV			18,701
Common stock	1			4,496
<b>Total investments</b>				<b>66,440</b>
<b>Total deposits and investments</b>				<b>\$87,301</b>

Investment revenue is reported net of related investment expenses. Gross investment revenue totaled \$51,016,000 and \$50,796,000 at June 30, 2020, and June 30, 2019, respectively. Of this amount, \$761,000 and \$598,000 at June 30, 2020, and June 30, 2019, respectively, represent the amount of related investment expenses.

**(3) STUDENT REVENUE AND ACCOUNTS RECEIVABLE**

Accounts receivable for tuition and fees charged to current and former students totaled \$88,433,000 and \$88,398,000 at June 30, 2020, and June 30, 2019, respectively. Of this amount, \$46,880,000 and \$42,402,000 at June 30, 2020, and June 30, 2019, respectively, are estimated to be uncollectible based upon the universities' historical losses and periodic review of individual accounts. Other receivables are reported at net realizable value. Accounts will be written off when they are determined to be uncollectible based upon management's assessment of individual accounts.

Tuition and fee revenue is reported net of scholarship discounts and allowances. Gross tuition and fee revenue totaled \$1,032,047,000 and \$1,081,192,000 at June 30, 2020, and June 30, 2019, respectively. Of this amount, \$213,141,000 and \$239,777,000 at June 30, 2020, and June 30, 2019, respectively, represent the amount of student grants, waivers, and scholarships calculated to be a discount against tuition and fees.

Revenue from auxiliary enterprises, which primarily comprises fees from student room and board, student recreation centers, and parking, is reported net of discounts. Gross auxiliary revenue totaled \$247,864,000 and \$324,292,000 at June 30, 2020, and June 30, 2019, respectively. Of this amount, \$2,184,000 and \$3,408,000 at

June 30, 2020, and June 30, 2019, respectively, represent the amount of student grants, waivers, and scholarships calculated to be a discount.

**(4) BENEFICIAL INTERESTS**

At June 30, 2020, the fair value of beneficial interests totaled \$23,598,000, compared to \$23,917,000 at June 30, 2019. Of this amount, \$23,594,000 at June 30, 2020, and \$23,912,000 at June 30, 2019, represent gifts that donors placed in trust in perpetuity with third parties, with the respective universities receiving a restricted revenue stream in accordance with the donors' wishes; and \$3,556 at June 30, 2020, and \$5,255 at June 30, 2019, represent a split-interest agreement that a donor placed in trust with a third party, and to which the university will take title upon the death of the donor.

**(5) CAPITAL ASSETS**

The classifications of capital assets and related depreciation at June 30, 2020, 2019 and 2018, follow.

(in thousands)

	Balance June 30, 2018	2018/19 Additions	2018/19 Retirements/ Adjustments	Balance June 30, 2019	2019/20 Additions	2019/20 Retirements/ Adjustments	Balance June 30, 2020
Land	\$32,513	\$1,354	\$143	\$34,010	\$417	\$353	\$34,780
Construction in progress	106,182	60,936	(85,266)	81,852	80,158	(52,440)	109,570
<b>Total capital assets not being depreciated</b>	138,695	62,290	(85,123)	115,862	80,575	(52,087)	144,350
Buildings, including improvements	2,618,055	142,968	64,681	2,825,704	114,103	32,988	2,972,795
Improvements other than buildings	307,987	7,115	6,740	321,842	6,624	7,205	335,671
Equipment and furnishings	503,230	28,022	(8,774)	522,478	17,335	2,043	541,856
Library books	79,502	648	(4,709)	75,441	434	(2,708)	73,167
<b>Total capital assets being depreciated</b>	3,508,774	178,753	57,938	3,745,465	138,496	39,528	3,923,489
Less accumulated depreciation:							
Buildings and improvements	(1,078,975)	(102,784)	10,356	(1,171,403)	(106,667)	1,849	(1,276,221)
Land improvements	(158,569)	(11,208)	194	(169,583)	(11,581)	61	(181,103)
Equipment and furnishings	(415,386)	(28,598)	10,489	(433,495)	(29,273)	6,006	(456,762)
Library books	(74,091)	(1,309)	4,709	(70,691)	(1,114)	2,678	(69,127)
<b>Total accumulated depreciation</b>	(1,727,021)	(143,899)	25,748	(1,845,172)	(148,635)	10,594	(1,983,213)
<b>Total capital assets being depreciated, net</b>	1,781,753	34,854	83,686	1,900,293	(10,139)	50,122	1,940,276
<b>Capital assets, net</b>	\$1,920,448	\$97,144	(\$1,437)	\$2,016,155	\$70,436	(\$1,965)	\$2,084,626

---

**(6) WORKERS' COMPENSATION**

---

The State System is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, State System universities must pay up to \$100,000; for claims occurring on or after July 1, 1995, State System universities 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 all State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the universities contributed \$817,000, \$690,000, and \$1,633,000 to the

Reserve Fund during the years ended June 30, 2020, 2019, and 2018, respectively.

For the years ended June 30, 2020, 2019, and 2018, the aggregate liability for claims under the self-insurance limit was \$7,910,000, \$9,338,000, and \$9,327,000, respectively. The Reserve Fund assets of \$13,865,000, \$13,389,000, and \$13,121,000 were equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2020, 2019, and 2018, respectively. Changes in the workers' compensation claims liability in fiscal years 2018, 2019, and 2020 follow.

*(in thousands)*

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2018	\$20,367	\$6,049	\$3,968	\$22,448
2019	\$22,448	\$4,336	\$4,057	\$22,727
2020	\$22,727	\$3,260	\$4,213	\$21,774

---

**(7) COMPENSATED ABSENCES**

---

Compensated absences are absences for vacation, holiday, and sick leave for which employees will be paid in cash at termination or retirement. Changes in the compensated absences liability in fiscal years 2020 and 2019 are as follows.

*(in thousands)*

Year	Beginning Balance	Current Changes in Estimates	Less Payouts	Ending Balance
2019	\$126,201	\$13,741	\$12,310	\$127,632
2020	\$127,632	\$28,440	\$12,671	\$143,401

---

**(8) PENSION BENEFITS**

---

Employees of the State System 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 State System's pension liabilities, deferred outflows and 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
<i>(in thousands)</i>								
<b>Net pension liabilities</b>	<b>\$867,669</b>	<b>\$1,020,123</b>	<b>\$88,232</b>	<b>\$88,137</b>	<b>\$0</b>	<b>\$0</b>	<b>\$955,901</b>	<b>\$1,108,260</b>
Deferred outflows of resources:								
Difference between expected and actual experience	\$10,819	\$15,309	\$486	\$709	—	—	\$11,305	\$16,018
Net difference between projected and actual investment earnings on pension plan investments	-	99,252	—	432	—	—	—	99,684
Changes in assumptions	33,435	27,179	843	1,643	—	—	34,278	28,822
Difference between employer contributions and proportionate share of contributions	—	—	256	348	—	—	256	348
Changes in proportion	8,982	14,631	2,355	1,504	—	—	11,337	16,135
Contributions after the measurement date	54,073	55,177	8,771	8,565	—	—	62,844	63,742
<b>Total deferred outflows of resources</b>	<b>\$107,309</b>	<b>\$211,548</b>	<b>\$12,711</b>	<b>\$13,201</b>	<b>\$0</b>	<b>\$0</b>	<b>\$120,020</b>	<b>\$224,749</b>
Deferred inflows of resources:								
Difference between expected and actual experience	\$5,877	\$11,054	\$2,924	\$1,364	—	—	\$8,801	\$12,418
Net difference between projected and actual investment earnings on pension plan investments	61,881	—	253	—	—	—	62,135	—
Difference between employer contributions and proportionate share of contributions	4,537	5,449	—	—	—	—	4,537	5,449
Changes in proportion	20,194	8,068	565	931	—	—	20,758	8,999
<b>Total deferred inflows of resources</b>	<b>92,489</b>	<b>\$24,571</b>	<b>\$3,742</b>	<b>\$2,295</b>	<b>\$0</b>	<b>\$0</b>	<b>\$96,231</b>	<b>\$26,866</b>
<b>Pension expense</b>	<b>\$116,776</b>	<b>\$145,114</b>	<b>\$21,412</b>	<b>\$19,646</b>	<b>\$46,274</b>	<b>\$46,085</b>	<b>\$184,462</b>	<b>\$210,845</b>
<b>Contributions recognized by pension plans</b>	<b>\$97,074</b>	<b>\$97,467</b>	<b>\$8,771</b>	<b>\$8,565</b>	<b>N/A</b>	<b>N/A</b>	<b>\$105,845</b>	<b>\$106,032</b>

The State System will recognize the \$54,073,000 reported as 2020 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$8,771,000 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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

<i>(in thousands)</i>		
<b>Fiscal Year Ended</b>	<b>Amortization</b>	
	<b>SERS</b>	<b>PSERS</b>
June 30, 2021	(\$2,847)	\$1,052
June 30, 2022	(12,113)	(779)
June 30, 2023	5,106	(255)
June 30, 2024	(29,746)	180
June 30, 2025	347	0
<b>Totals</b>	<b>(\$39,253)</b>	<b>\$198</b>

## **SERS**

### *Plan Description*

SERS is the administrator of the State Employees' Retirement fund, a cost-sharing multiple-employer defined benefit pension plan. SERS also is the administrator of the State Employees' Defined Contribution Plan, which was established as part of Commonwealth Act 2017-5. Both the defined benefit plan and the defined contribution plan were established by the Commonwealth to provide retirement benefits for employees of state government and certain independent agencies. SERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the SERS website at [www.sers.state.pa.us](http://www.sers.state.pa.us).

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

### *Benefits Provided*

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

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, through December 31, 2018. The benefit reduction included a new class of membership that accrues benefits at 2% of members' final average salary instead of the previous 2.5%. The vesting period changed from 5 to 10 years of credited service, and the option to withdraw lump-sum accumulated deductions was eliminated. The new normal retirement age is 65 for most employees and 55 for members of the General Assembly and certain employees classified in hazardous duty positions. Act 2017-5 preserved all benefits in place for members, but fundamentally changed retirement options for new hires beginning January 1, 2019: most employees who first become SERS members on or after January 1, 2019, must choose from one of two new defined benefit/defined contribution hybrid options or a straight 401(a) defined contribution option.

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

#### *Contributions*

The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions on behalf of all active members and annuitants to fund the liabilities and provide the annuity reserves required to pay benefits. The SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. 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 State System's actuarially determined contribution rate for most active members was 36.04% of active members' annual covered payroll at June 30, 2020, with less common rates ranging between 24.92% and 28.84%, depending upon the defined benefit plan chosen by the employee. For the SERS defined benefit/defined contribution hybrid plan, the State System's actuarially determined contribution rate was either 16.93% or 17.18% of annual covered payroll, depending upon the hybrid plan chosen by the employee. In addition, the State System 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 State System's contributions to the SERS defined benefit plan for the years ended June 30, 2020, 2019, and 2018, were \$97,074,000, \$97,467,000, and \$94,727,000, respectively, equal to the required contractual contribution.

The contribution rate 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 were either 4.0% or 5.0% of gross salary, depending upon what class of membership was elected.

For the SERS defined contribution plan, the State System contributed at actuarially determined rates of between 2.0% and 3.5% of active members' annual covered payroll at June 30, 2020, depending upon the plan chosen by the employee. The State System recognized \$189,000 in SERS defined contribution pension expense for the year ended June 30, 2020 and \$21,000 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 401(a) defined contribution plan and those who participate in one of the defined benefit/defined contribution hybrid plans, is three years. Once money is contributed to the plan, it cannot be removed from the plan, except for making distribution payments to participants. Forfeitures of unvested employer contributions and earnings are invested in the PA Treasury short-term investment fund. The funds are forfeited to the employee's most recent employer and used to offset future contributions to the plan and correct funding discrepancies. Forfeitures seized under the Pension Forfeiture Act are used for administrative expenses of the plan.

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

#### *Actuarial Methods and Assumptions*

Actuarial valuations are performed annually using a December 31 measurement date. Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual

actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18<sup>th</sup> *Investigation of Actuarial Experience* study for the period 2011–2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the 18<sup>th</sup> *Investigation of Actuarial Experience* at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its June 2019 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.25% to 7.125%. The next SERS actuarial experience 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 who are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.125%, net of manager fees and including inflation.
- Salary increases based on an average of 5.60%, with a range of 3.70% to 8.90%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- No cost of living adjustments.

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

Asset Class	Target Allocation	Long-Term Real Rate of Return
Private equity	16.0%	7.25%
Global public equity	48.0%	5.15%
Real estate	12.0%	5.26%
Multi-strategy	10.0%	4.44%
Fixed income	11.0%	1.26%
Cash	3.0%	-
	<u>100.0%</u>	

The discount rate used to measure the total SERS pension liability was 7.125%. 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 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 State System'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 current rate.

Sensitivity of the State System's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate <i>(in thousands)</i>		
1% Decrease 6.125%	Current Rate 7.125%	1% Increase 8.125%
\$1,102,515	\$867,669	\$666,612

The following presents what the State System's proportionate share of the SERS net pension liability was at June 30, 2019, calculated using the discount rate of 7.25%, as well as what the SERS net pension liability would have been if it had been calculated using a discount rate that was one percentage point lower (6.25%) or one percentage point higher (8.25%) than the rate used.

Sensitivity of the State System's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate <i>(in thousands)</i>		
1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
\$1,252,627	\$1,020,123	\$820,879

**Proportionate Share**

At June 30, 2020, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2019, was \$867,669. At June 30, 2019, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2018, was \$1,020,123.

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 the December 31, 2019, measurement date, the State System's proportion was 4.773%, a decrease of 0.124% from its proportion calculated as of the 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. The Commonwealth's General Assembly has the authority to amend the benefit terms by passing bills in the Senate and House of Representatives and sending them to the Governor for approval. The Code requires contributions by active members, the employer (State System), and the Commonwealth. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund.

On June 12, 2017, Commonwealth of Pennsylvania Act 5 of 2017 was signed into law. This legislation establishes a new hybrid defined benefit/defined contribution (DC) retirement benefit plan applicable to all school employees who become new members of PSERS on July 1, 2019 and thereafter. The three new plan

design options under Act 5 include two hybrid plans consisting of defined benefit and defined contribution components and a stand-alone defined contribution plan. A stand-alone defined benefit plan is no longer available to new members after June 30, 2019.

PSERS issues a comprehensive annual financial report that may be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

#### *Benefits Provided*

Members who joined prior to July 1, 2011, are eligible for monthly retirement benefits upon reaching age 62 with at least one year of credited service, age 60 with 30 or more years of credited service, or any age with 35 or more years of service. Act 120 of 2010 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, through June 30, 2019, by creating two new membership classes: Class T-E and Class T-F. To qualify for normal retirement, Class T-E and Class T-F members must complete a minimum of 35 years of service with a combination of age and service that totals 92 or greater, or they must work until age 65 with a minimum of three years of service.

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

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

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

#### *Member Contributions*

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

#### *Employer Contributions*

The State System'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 State System, meaning that the amount that the State System actually contributed was 16.68% of covered payroll. The State System's contribution to PSERS for the year ending June 30, 2020, June 30, 2019, and June 30, 2018, was \$8,771,000, \$8,565,000, and \$7,880,000, respectively, equal to the required contractual contribution.

For the PSERS defined contribution plan, the State System is required to contribute at actuarially determined average rate 0.09% of active members' annual covered payroll for the year ending June 30, 2020, depending upon the plan chosen by the employee. Members were first eligible to choose the defined contribution plan on July 1, 2019. Therefore, the State System contributions for the year ended June 30, 2020 were immaterial.

**Actuarial Assumptions**

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

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

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

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.6%
Fixed income	36.0%	1.9%
Commodities	8.0%	2.7%
Absolute return	10.0%	3.4%
Risk parity	10.0%	4.1%
Infrastructure/MLPs	8.0%	5.5%
Real estate	10.0%	4.1%
Alternative investments	15.0%	7.4%
Cash	3.0%	0.3%
Financing (LIBOR)	(20.0%)	0.7%
	<u>100.0%</u>	

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

The following presents the State System'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 State System's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate <i>(in thousands)</i>		
1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
\$109,903	\$88,232	\$69,882

The following presents what the State System's proportionate share of the PSERS net pension liability was at June 30, 2019, calculated using the discount rate of 7.25%, as well as what the PSERS net pension liability would have been if it had been calculated using a discount rate that was one percentage point lower (6.25%) or one percentage point higher (8.25%) than the rate used.

Sensitivity of the State System's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate <i>(in thousands)</i>		
1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
\$109,252	\$88,137	\$70,283

#### *Proportionate Share*

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

<i>(in thousands)</i>	2020	2019
Total PSERS net pension liability associated with the State System	\$176,464	\$176,274
Commonwealth's proportionate share of the PSERS net pension liability associated with the State System	(88,232)	(88,137)
State System's proportionate share of the PSERS net pension liability	\$88,232	\$88,137

PSERS measured the 2020 and 2019 net pension liabilities as of June 30, 2019, and June 30, 2018, respectively. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2019, the State System's proportion was 0.1886%, an increase of 0.0050% from its proportion calculated as of June 30, 2018.

#### **ARP**

The ARP is a defined contribution pension plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The 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

\$46,274,000 and \$46,085,000, respectively, from the State System; and \$24,905,000 and \$24,803,000, respectively, from active members. No liability is recognized for the ARP.

---

**(9) OTHER POSTEMPLOYMENT 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. (See note 7)

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

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

(in thousands)

	System Plan		REHP		Premium Assistance		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Net OPEB liabilities</b>	<b>\$1,279,239</b>	<b>\$1,314,607</b>	<b>\$455,091</b>	<b>\$658,214</b>	<b>\$4,011</b>	<b>\$3,828</b>	<b>\$1,738,341</b>	<b>\$1,976,649</b>
Deferred outflows of resources:								
Differences between actual and expected experience	–	–	–	–	\$23	\$24	\$23	\$24
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	–	–	7	6	7	6
Changes in assumptions	–	–	14,560	–	132	60	14,692	60
Changes in proportion	–	–	27,750	35,170	129	46	27,879	35,216
Contributions after the measurement date	36,250	37,137	19,567	25,787	220	217	56,037	63,141
<b>Total deferred outflows of resources</b>	<b>\$36,250</b>	<b>\$37,137</b>	<b>\$61,877</b>	<b>\$60,957</b>	<b>\$511</b>	<b>\$353</b>	<b>\$98,638</b>	<b>\$98,447</b>
Deferred inflows of resources:								
Differences between actual and expected experience	\$117,213	\$146,516	\$338,470	\$201,596	–	–	\$455,683	\$348,112
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	806	1,006	–	–	806	1,006
Changes in assumptions	136,525	105,085	63,035	86,528	119	145	199,679	191,758
Changes in proportion	N/A	N/A	19,443	–	27	34	19,470	34
<b>Total deferred inflows of resources</b>	<b>\$253,738</b>	<b>\$251,601</b>	<b>\$421,754</b>	<b>\$289,130</b>	<b>\$146</b>	<b>\$179</b>	<b>\$675,638</b>	<b>\$540,910</b>
<b>OPEB expense</b>	<b>\$3,905</b>	<b>\$24,488</b>	<b>(\$51,852)</b>	<b>(\$6,423)</b>	<b>\$425</b>	<b>\$354</b>	<b>(\$47,522)</b>	<b>\$18,419</b>
<b>Contributions recognized by OPEB plans</b>	N/A	N/A	<b>\$19,567</b>	<b>\$25,787</b>	<b>\$220</b>	<b>\$217</b>	<b>\$19,787</b>	<b>\$26,004</b>

The State System will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling \$36,250,000 for the System Plan, \$19,567,000 for the REHP plan, and \$220,000 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

(in thousands)

Fiscal Year Ended	Amortization		
	System Plan	REHP	Premium Assistance
June 30, 2021	\$66,540	\$95,396	\$17
June 30, 2022	66,540	95,396	17
June 30, 2023	66,540	90,380	16
June 30, 2024	42,672	68,463	15
June 30, 2025	11,446	29,644	51
Thereafter	0	165	29
<b>Totals</b>	<b>\$253,738</b>	<b>\$379,444</b>	<b>\$145</b>

## **System Plan**

### *Plan Description*

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

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

A total of 12,122 individuals are covered by the benefit terms (down from 12,511 in the prior actuarial valuation), including 7,235 active employees that may be entitled to receive benefit payments upon retirement, 47 retired participants entitled to but not yet receiving benefits, and 4,840 retired participants receiving benefits.

Effective January 16, 2016, the State System OPEB plan became closed to newly hired SCUPA, SPFPA, OPEIU, and nonrepresented employees, while newly hired APSCUF employees (faculty and coaches) continue to be eligible to participate in the plan.

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

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

### *Actuarial Assumptions and Other Inputs*

The System performs actuarial valuations every two years for the System Plan and utilizes a measurement date that is the first day of its current fiscal year end. The actuarial valuation on which the total OPEB liability as of June 30, 2020 is based is dated July 1, 2018, which 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%.
- 90% of employees eligible for a subsidy and 15% of employees not eligible for a subsidy are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- The cost due to the excise tax under the Patient Protection and Affordable Care Act beginning in 2022 is 40% of the projected premiums in excess of the annual limits, calculated using an inflation rate of 2%.
- The annual cost of living increase beginning in 2018 is assumed to be 2.2% per year.
- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates based on the PubG-2010 Mortality Table, including rates for contingent survivors, and which incorporates rates based on a generational projection using Scale MP-2018 to reflect mortality improvement.
- The discount rate increased from 2.98% to 3.36%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2019.
- Participant data is based on census information as of July 1, 2018.
- 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 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%).

<b>Sensitivity of the System Plan's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate</b>		
<i>(in thousands)</i>		
<b>1% Decrease (4.5% decreasing to 2.8%)</b>	<b>Healthcare Cost Trend Rates (5.5% decreasing to 3.8%)</b>	<b>1% Increase (6.5% decreasing to 4.8%)</b>
\$1,066,956	\$1,279,239	\$1,554,143

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%).

<b>Sensitivity of the System Plan's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate</b>		
<i>(in thousands)</i>		
<b>1% Decrease (4.5% decreasing to 2.8%)</b>	<b>Healthcare Cost Trend Rates (5.5% decreasing to 3.8%)</b>	<b>1% Increase (6.5% decreasing to 4.8%)</b>
\$1,100,605	\$1,314,607	\$1,591,538

The following presents the State System'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%).

<b>Sensitivity of the System Plan's Net OPEB Liability to Changes in the Discount Rate</b>		
<i>(in thousands)</i>		
<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
<b>2.36%</b>	<b>3.36%</b>	<b>4.36%</b>
\$1,493,298	\$1,279,239	\$1,108,636

The following presents what the State System's net OPEB liability was at June 30, 2019, as well as what the liability would have been if it had been calculated using a discount rate that was one percentage point lower (1.98%) or one percentage point higher (3.98%) than the discount rate used (2.98%).

<b>Sensitivity of the System Plan's Net OPEB Liability to Changes in the Discount Rate</b>		
<i>(in thousands)</i>		
<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
<b>1.98%</b>	<b>2.98%</b>	<b>3.98%</b>
\$1,542,936	\$1,314,607	\$1,133,474

#### **System Plan OPEB Liability**

The System Plan's total OPEB liability of \$1,279,239,000 was measured as of July 1, 2019 and was determined by an actuarial valuation as of July 1, 2018 that was rolled forward to July 1, 2019.

The System Plan's total OPEB liability of \$1,314,607,000 was measured as of July 1, 2018 and was determined by an actuarial valuation as of July 1, 2018.

<b>Changes in the System Plan Total OPEB Liability</b>		
<i>(in thousands)</i>		
	<b>Fiscal Year Ending June 30, 2020</b>	<b>Fiscal Year Ending June 30, 2019</b>
Balance beginning of year	\$1,314,607	\$1,460,042
Service cost	35,611	42,364
Interest	39,561	46,251
Changes of benefit terms	-	(1,018)
Differences between expected and actual experience	-	(175,819)
Changes of assumptions	(68,676)	(11,542)
Benefit payments	(41,864)	(45,671)
Net Changes	(35,368)	(145,435)
Balance end of year	\$1,279,239	\$1,314,607

#### **REHP**

##### **Plan Description**

The Retired Employees Health Program (REHP) is a single-employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an agreement with the Commonwealth. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and the

Secretary of Administration. The REHP does not have a governing board. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity, but is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The REHP is reported using the economic resources measurement focus and the accrual basis of accounting. The CAFR is an audited financial statement and is available at [www.budget.pa.us](http://www.budget.pa.us).

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

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, and their salary at retirement. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 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, also was \$300.

#### *Actuarial Assumptions and Other Inputs*

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

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

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

- Participant data based on census information as of December 31, 2018, for the June 30, 2019, measurement date; and as of December 31, 2017, for the June 30, 2018, measurement date.

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	47.0%	5.6%
International equity	20.0%	5.8%
Fixed income	25.0%	1.7%
Real estate	8.0%	4.6%
Cash and cash equivalents	0.0%	0.9%
Total	100.0%	

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

The following presents the State System'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 (in thousands)		
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%)
\$395,330	\$455,091	\$528,601

The following presents what the State System's share of the REHP 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 (5.2% decreasing to 3.1%) or one percentage point higher (7.2% decreasing to 5.1%) than the healthcare cost trend rates used (6.2% decreasing to 4.1%).

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (in thousands)		
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%)
\$565,023	\$658,214	\$774,049

The following presents the State System'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 Liability to Changes in the Discount Rate (in thousands)		
1% Decrease 2.50%	Current Rate 3.50%	1% Increase 4.50%
\$516,326	\$455,091	\$403,835

The following presents what the State System's share of the REHP net OPEB liability was at June 30, 2019, as well as what the liability would have been if it had been calculated using a discount rate that was one percentage point lower (2.87%) or one percentage point higher (4.87%) than the discount rate used (3.87%).

Sensitivity of the REHP Net OPEB Liability to Changes in the Discount Rate (in thousands)		
1% Decrease 2.87%	Current Rate 3.87%	1% Increase 4.87%
\$754,090	\$658,214	\$579,224

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. Additional plan information can be found in the PSERS Comprehensive Annual Financial Report at [www.psers.pa.gov](http://www.psers.pa.gov)

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS Health Options Program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees. Plan members receiving benefits are not required to make contributions.

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The

contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.83% of covered payroll for the fiscal years ended June 30, 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 State System, meaning that the amount that the State System actually contributed was 0.415% of covered payroll.

#### *Actuarial Assumptions and Other Inputs*

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

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

The following assumptions were used to determine the contribution rate:

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

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

- The discount rate used to measure the total OPEB liability was 2.79% at June 30, 2019, and 2.98% at June 30, 2018.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 2.79%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.
- 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%
US Core Fixed Income	83.1%	1.0%
Non-US Developed Fixed	3.7%	0.0%
	<u>100.0%</u>	

The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the total OPEB liability as of June 30, 2018, 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% and 0.1836% for the measurement dates of June 30, 2019 and 2018, respectively.

The following presents the State System'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%).

<b>Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate</b>		
<i>(in thousands)</i>		
1% Decrease (between 4% and 6.50%)	Healthcare Cost Trend Rates (between 5% and 7.50%)	1% Increase (between 6% and 8.50%)
\$4,011	\$4,011	\$4,012

The following presents what the State System's share of the Premium Assistance 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 (between 4% and 6.75%) or one percentage point higher (between 6% and 8.75%) than the healthcare cost trend rates used (between 5% and 7.75%).

<b>Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate</b>		
<i>(in thousands)</i>		
1% Decrease (between 4% and 6.75%)	Healthcare Cost Trend Rates (between 5% and 7.75%)	1% Increase (between 6% and 8.75%)
\$3,827	\$3,828	\$3,829

The following presents the State System'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 healthcare cost trend rates (2.79%).

<b>Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate</b>		
<i>(in thousands)</i>		
1% Decrease 1.79%	Current Rate 2.79%	1% Increase 3.79%
\$4,570	\$4,011	\$3,548

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

<b>Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate</b>		
<i>(in thousands)</i>		
<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
<b>1.98%</b>	<b>2.98%</b>	<b>3.98%</b>
\$4,353	\$3,828	\$3,392

### (10) LEASES

Total rent expense for the State System operating leases amounted to \$12,504,000 and \$13,488,000 for the years ended June 30, 2020 and 2019, respectively.

During fiscal year 2020, the State System, on behalf of Clarion University, entered into a master lease agreement with the Clarion University Foundation, Inc. (a component unit of Clarion), to lease certain student housing facilities. The lease agreement will allow Clarion the flexibility to direct students to what it believes is the appropriate facility at the appropriate fee. In connection with the master lease, the Foundation entered into an assignment of rents, pursuant to which it assigned its rights to receive the lease payments to a collateral agent as security for certain outstanding debt of the Foundation, that was used to construct the housing facilities. The terms of the lease coincide with either the ground leases related to the facilities constructed on System-owned land or the final payment of debt for facilities that were constructed on Foundation-owned land. Ownership of the leased facilities reverts to the State System at the end of the master lease term. The State System recorded this master lease as a capital lease with capital assets and a lease obligation of \$93.8 million at the inception of the lease. The amounts are included in the capital lease activity shown below.

Capital assets acquired through leases that have been capitalized are as follows.

<i>(in thousands)</i>		
	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Cost:		
Buildings	\$148,137	\$54,336
Equipment	8,432	7,726
Total	<u>\$156,569</u>	<u>\$62,062</u>
Accumulated Depreciation:		
Buildings	\$46,002	\$42,490
Equipment	2,511	1,210
Total	<u>\$48,513</u>	<u>\$43,700</u>

Future minimum payments, by year and in the aggregate, under capital and noncancelable operating leases, with initial or remaining terms of one year or more, are as follows

<i>(in thousands)</i>		
	<b>Operating Leases</b>	<b>Capital Leases</b>
2021	\$6,369	\$11,654
2022	5,142	11,402
2023	4,416	11,095
2024	2,185	11,023
2025	1,621	10,154
Thereafter	32,156	122,123
Total minimum lease payments	<u>\$51,889</u>	<u>\$177,451</u>
Amount representing interest on capital leases		<u>56,946</u>
Present value of net minimum capital lease payments		<u><u>\$120,505</u></u>

Changes in the liability for capital leases in fiscal years 2019 and 2020 follow.

<i>(in thousands)</i>				
<b>Year</b>	<b>Beginning Balance</b>	<b>Capital Lease Additions</b>	<b>Capital Lease Payments</b>	<b>Ending Balance</b>
2019	\$43,248	\$4,116	\$16,507	\$30,857
2020	\$30,857	\$94,993	\$5,345	\$120,505

**(11) BONDS PAYABLE**

Bonds payable on June 30, 2020, 2019 and 2018, consisted of several outstanding tax-exempt revenue bond series issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuance, 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 bonds were issued to provide funds to undertake various capital projects at the universities or to advance refund certain previously issued bonds.

Activity for the various bond series for the years ended June 30, 2020 and 2019, was as follows.

Description	Original Issuance	Weighted Average Interest Rate	Bonds Payable June 30, 2020, 2019 and 2018 (in thousands)							
			Balance June 30, 2018	2019 Bonds Issued	2019 Bonds Redeemed/Refunded	Balance June 30, 2019	2020 Bonds Issued	2020 Bonds Redeemed/Refunded	Balance June 30, 2020	Current Portion
Series AG issued March 2008, final maturity June 2024	\$101,335	4.52%	\$24,965	-	\$24,965	-	-	-	-	-
Series AH issued July 2008, final maturity June 2038	140,760	4.70%	8,160	-	390	\$7,770	-	\$410	\$7,360	\$430
Series AI issued August 2008, final maturity June 2025	32,115	4.41%	13,910	-	13,720	190	-	30	160	30
Series AJ issued July 2009, final maturity June 2039	123,985	4.85%	83,440	-	6,570	76,870	-	74,510	2,360	120
Series AK issued Sept. 2009, final maturity June 2024	47,310	4.00%	16,235	-	4,405	11,830	-	11,830	-	-
Series AL issued July 2010, final maturity June 2035	135,410	5.00%	60,465	-	6,525	53,940	-	18,645	35,295	5,755
Series AM issued July 2011, final maturity June 2036	119,085	4.61%	89,995	-	4,955	85,040	-	5,215	79,825	5,495
Series AN issued March 2012, final maturity June 2023	76,810	5.00%	43,995	-	14,400	29,595	-	21,530	8,065	2,825
Series AO issued July 2013, final maturity June 2038	30,915	4.50%	25,645	-	1,170	24,475	-	1,210	23,265	1,255
Series AP issued May 2014, final maturity June 2024	46,110	4.77%	38,045	-	1,275	36,770	-	6,775	29,995	7,030
Series AQ issued May 2015, final maturity June 2036	94,975	4.56%	78,930	-	7,855	71,075	-	8,250	62,825	7,965
Series AR issued Sept. 2015, final maturity June 2040	102,365	3.89%	95,475	-	2,725	92,750	-	2,860	89,890	3,000
Series AS issued June 2016, final maturity June 2037	47,280	4.13%	44,295	-	3,060	41,235	-	3,115	38,120	3,175
Series AT issued Sept. 2016, final maturity June 2055	298,110	3.45%	286,110	-	7,425	278,685	-	7,765	270,920	8,140
Series AU issued Sept. 2017, final maturity June 2042	128,260	3.52%	125,905	-	5,200	120,705	-	6,165	114,540	7,525
Series AV issued Sept. 2018, final maturity June 2045	236,945	4.22%	-	\$236,945	13,215	223,730	-	6,170	217,560	10,520
Series AW issued Sept. 2019, final maturity June 2044	84,980	3.11%	-	-	-	-	\$84,980	370	84,610	3,330
<b>Total</b>	<b>\$1,846,750</b>		<b>\$1,035,570</b>	<b>\$236,945</b>	<b>\$117,855</b>	<b>\$1,154,660</b>	<b>\$84,980</b>	<b>\$174,850</b>	<b>\$1,064,790</b>	<b>\$66,595</b>

Principal and interest requirements to maturity are as follows.

<i>(in thousands)</i>			
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$66,595	\$45,255	\$111,850
2022	71,395	42,228	113,623
2023	72,650	38,793	111,443
2024	78,445	35,277	113,722
2025	55,495	31,477	86,972
2026–2030	254,330	120,920	375,250
2031–2035	206,740	70,711	277,451
2036–2040	166,910	34,471	201,381
2041–2045	85,710	9,596	95,306
2046–2050	3,025	1,342	4,367
2051–2055	3,495	506	4,001
<b>Total</b>	<b>\$1,064,790</b>	<b>\$430,576</b>	<b>\$1,495,366</b>

The State System's outstanding bonds contain a provision that in an event of default, PHEFA may declare the outstanding principal plus accrued interest to be immediately due and payable. An event of default occurs if the State System fails to make a required payment when due, if the State System fails to perform any of its other covenants or obligations, or if a State System bankruptcy is instituted or commenced.

---

### (12) DEBT REFUNDING

---

In September 2019, \$85 million 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 resulted in an accounting gain of approximately \$1,500,000 and was performed to reduce the debt service by approximately \$14,000,000 and an economic gain (difference between the present values of the old and new debt service payments) of approximately \$13,700,000. 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.

In September 2018, \$36.2 million of the net proceeds from the Series AV-1 tax-exempt revenue bonds were used to current refund Series AG and a portion of Series AI bonds. The refunding resulted in an accounting gain of approximately \$144,000 and was performed to reduce debt service by approximately \$2,700,000, resulting in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$2,400,000. 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.

---

### (13) RATING ACTIONS

---

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

---

**(14) DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES**

---

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

<i>(in thousands)</i>	<b>June 30, 2020</b>	<b>June 30, 2019</b>
<b>Deferred Outflows of Resources</b>		
Pension related (see note 8)	\$120,020	\$224,749
OPEB related (see note 9)	98,638	98,447
Unamortized loss on refunding of debt	5,979	7,297
Total Deferred Outflows of Resources	<b>\$224,637</b>	<b>\$330,493</b>
<b>Deferred Inflows of Resources</b>		
Pension related (see note 8)	\$96,231	\$26,866
OPEB related (see note 9)	675,638	540,910
Unamortized gain on refunding of debt	1,839	661
Split-interest agreements	9	10
Total Deferred Inflows of Resources	<b>\$773,717</b>	<b>\$568,447</b>

---

**(15) CONTINGENCIES AND COMMITMENTS**

---

**Contingencies**

The nature of the educational industry is such that, from time to time, the State System 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 State System receives support from federal and Commonwealth grant programs, primarily for student financial assistance, including federal CARES funding in 2019/20. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2020, the State System estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements.

**Covid-19 Pandemic**

Covid-19 may impact various parts of the operations and financial results of the Universities and component units, including method of educational delivery, athletics, housing and food service. Management believes that the Universities and 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.

### ***Cheyney University of Pennsylvania***

In August 2015, Cheyney University voluntarily self-reported to the U.S. Department of Education (ED) that \$29.6 million of federal student financial aid was improperly administered and delivered in fiscal years 2011/12, 2012/13, and 2013/14, covering almost 4,400 student records. Subsequently ED initiated a Program Review of Cheyney's financial aid functions and Cheyney responded to the Program Review report, making every effort to comply with ED's requirements.

In January 2016, the U.S. Department of Justice (DOJ) notified the State System that it was investigating the application and use of federal student financial aid by Cheyney University and the oversight of the university by the State System. The DOJ requested that the university and State System preserve and produce certain documents. The State System has fully complied and continues to comply with the DOJ's requests. No determination has yet been conveyed by the DOJ, and the possible resulting outcomes from the investigation are uncertain.

On August 8, 2019, Cheyney University received a letter from ED relating to its proposed resolution of its Program Review of Cheyney (the "Program Review"), asserting that Cheyney's overall response to the Program Review did not fully address ED's findings or accurately document the federal student aid funds disbursed during the periods under review. The ED letter stated further that under normal circumstances ED would assess Cheyney full Federal Pell Grant and Federal Direct Loan liabilities in the amount of \$57.5 million for the award years reviewed. However, ED acknowledged that Cheyney had undertaken significant steps to accurately document its administration of federal student aid funds despite being limited in its ability to do so by the past deficiencies and, accordingly, expressed a willingness to presume that significant amounts of the financial aid funds were provided to, and earned by, the students and to conclude the Program Review in consideration of Cheyney's (1) payment of \$14,308,377, (2) waiver of its rights to any administrative appeal, and (3) entry into an acceptable repayment agreement with ED. In February 2020, a settlement agreement was executed between ED and Cheyney and a payment schedule was established for the \$14.3 million settlement amount. Cheyney made the first required payment of \$500,000 in fiscal year 2019/20.

As a result of the self-reported compliance issues noted above, in September 2015, the ED placed the university on Heightened Cash Monitoring 2 (HCM2) status, meaning that the university does not receive federal student financial aid funds in advance, but must use its own cash to grant federal financial aid to its students and then request reimbursement from the ED. The university is still on HCM2 status as of June 30, 2020, and as such is awaiting receipt of \$13.7 million in federal student financial aid funds. Of the \$13.7 million outstanding federal financial aid receivables, approximately \$6.0 million is associated with 2019/20 federal aid awards; the remainder is associated with federal aid awards made during fiscal years 2016/17 through 2018/19.

The delay in receipt of ED funds contributes to the university's severe cash shortage. Over the course of the past several years, the State System has provided lines of credit, System notes and other support to Cheyney University to meet its cash needs. On November 13, 2019, Governor Wolf pledged support to the System through a letter to Cheyney's President assuring that "Cheyney's obligation to other PASSHE institutions and the Office of the Chancellor, totaling \$40,264,814, is eliminated." On January 15, 2020, an additional \$45 million of Commonwealth Public Improvement Project Capital Funding (PIP) was allocated to the State System, over and above the System's annual PIP funding for fiscal years 2019/20, 2020/21, and 2021/22. These funds will be provided to the System on a reimbursement basis in approximately \$15 million increments in each of fiscal years 2019/20, 2020/21, and 2021/22.

The Office of the Chancellor continues to monitor the university's level of debt and payables and its ability to generate revenue and cash. Securing removal from HCM2 status and obtaining reimbursement of past financial aid awards is a priority. The university continues to look for program and operating efficiencies, has launched a new fundraising campaign, and is seeking ways to develop income-producing strategies using campus assets and strategic alliances with third parties.

In November 2015 Cheyney was placed on probation by the Middle States Commission on Higher Education (Middle States) accreditation organization. Over the next four years, Cheyney continued to make improvements to resolve the non-compliance issues noted by Middle States and on November 22, 2019, Middle States

informed Cheyney University of its "...reaffirm[ed] accreditation because the institution is now in compliance with Standard VI (Planning, Resources, and Institutional Improvement) and Requirement of Affiliation 11", noting that the Commonwealth of Pennsylvania, Office of the Governor, has provided written assurance of the elimination of Cheyney University's debt to the Pennsylvania State System of Higher Education (PASSHE) and the Office of the Chancellor.

### **Insurance**

The State System is self-insured for workers' compensation up to stated limits (note 6). For all other risks of loss, the State System pays annual premiums to the Commonwealth to participate in its Risk Management Program. The State System 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 State System has not significantly reduced any of its insurance coverage from the prior year. Settled claims have not significantly exceeded the State System's insurance coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

### **Construction Commitments**

Authorized expenditures for construction projects unexpended as of June 30, 2020 and 2019, were approximately \$107,068,000 and \$151,248,000, respectively.

### **Labor Concentration**

Approximately 86% of PASSHE's employees are covered by nine collective bargaining agreements. Seven of the agreements were renegotiated during the past fiscal year; most of which are effective through fiscal year 2022/23. The only exceptions are two minor unions: the agreement for police supervisors and security officers with the International Union, Security, Police, and Fire Professionals of America (SPFPA), which expired on August 31, 2020, and the Professional Doctors Association (PDA). A tentative agreement was reached with SPFPA in September 2020. The terms of the prior contracts remain in effect until a successor agreement is achieved.

---

## **(16) SUBSEQUENT EVENTS**

---

In July 2020, PHEFA issued Series AX tax-exempt revenue bonds in the amount of \$94,985,000. The net proceeds from the Series AX revenue bonds were used to acquire certain student housing facilities at East Stroudsburg University, as well as to current refund Series AH, Series AJ and Series AL revenue bonds. The refunding was performed to reduce debt service by approximately \$10 million and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$9 million. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of the bonds.

In September 2020, PHEFA accepted bids for Series AY taxable revenue bonds, in the amount of \$78,925,000, which will close on October 1, 2020. 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 \$11.2 million and an economic gain of \$10.2 million. The State System 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.

On July 1, 2020 the State System, on behalf of Indiana University, entered into master lease agreements with Residential Revival Indiana (RRI), a component unit of Indiana. Under the terms of the agreements, the State System agreed to make monthly rent payments to RRI and pay operating expenses and insurance as defined in RRI's previously executed loan agreements, in exchange for the right to use, operate and collect all payments from RRI's Phase I and Phase IV housing facilities. The master leases expire concurrently with RRI's ground leases with the State System.

**REQUIRED SUPPLEMENTARY INFORMATION**

*Years Ended June 30, 2020 and 2019*

*(Unaudited)*

**Schedule of Proportionate Share of SERS Net Pension Liability (NPL)**

*Determined as of SERS' December 31 measurement dates*

*(in thousands)*

<b>Fiscal Year</b>	<b>State System's Proportion</b>	<b>State System's Proportionate Share</b>	<b>State System's Covered-Employee Payroll</b>	<b>State System's Proportionate Share of NPL as a Percentage of Covered-Employee Payroll</b>	<b>SERS Fiduciary Net Position as a Percentage of Total Pension Liability</b>
2014/15	4.901%	\$728,094	\$296,967	245%	64.8%
2015/16	4.721%	\$858,417	\$297,714	288%	58.9%
2016/17	4.837%	\$931,620	\$300,803	310%	57.8%
2017/18	4.906%	\$848,315	\$309,084	275%	63.0%
2018/19	4.897%	\$1,020,123	\$318,501	320%	56.4%
2019/20	4.773%	\$867,669	\$315,000	276%	63.1%

**SERS Schedule of Contributions**

*Determined as of State System's June 30 fiscal year end dates*

*(in thousands)*

<b>Fiscal Year</b>	<b>Contractually Required Contributions</b>	<b>Contributions Recognized by SERS</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered-Employee Payroll</b>	<b>Contributions as a Percentage of Covered-Employee Payroll</b>
2014/15	\$57,234	\$57,234	\$0	\$293,506	19.50%
2015/16	\$69,021	\$69,021	\$0	\$291,594	23.67%
2016/17	\$83,754	\$83,754	\$0	\$301,828	27.75%
2017/18	\$94,727	\$94,727	\$0	\$304,575	31.10%
2018/19	\$97,467	\$97,467	\$0	\$315,369	30.90%
2019/20	\$97,074	\$97,074	\$0	\$305,074	31.82%

**Schedule of Proportionate Share of PSERS Net Pension Liability (NPL)**

*Determined as of PSERS' June 30 measurement dates  
 (in thousands)*

Fiscal Year	PSERS Net Pension Liability			Total	State System's Covered-Employee Payroll	State System's Proportionate Share of NPL as a Percentage of Covered-Employee Payroll	PSERS Fiduciary Net Position as a Percentage of Total Pension Liability
	State System's Proportion	State System's Proportionate Share	Commonwealth's Proportionate Share				
2014/15	.1785%	\$70,650	\$70,650	\$141,350	\$45,552	155%	57.2%
2015/16	.1852%	\$80,220	\$80,220	\$160,440	\$47,670	168%	54.4%
2016/17	.1833%	\$90,838	\$90,838	\$181,676	\$47,485	191%	50.1%
2017/18	.1811%	\$89,442	\$89,442	\$178,884	\$48,236	185%	51.8%
2018/19	.1836%	\$88,137	\$88,137	\$176,274	\$49,437	178%	54.0%
2019/20	.1836%	\$88,232	\$88,232	\$176,464	\$52,020	200%	55.7%

**PSERS Pension Schedule of Contributions**

*Determined as of State System's June 30 fiscal year end dates  
 (in thousands)*

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014/15	\$5,236	\$5,236	\$0	\$51,086	10.25%
2015/16	\$6,012	\$6,012	\$0	\$48,419	12.41%
2016/17	\$7,107	\$7,107	\$0	\$49,518	14.35%
2017/18	\$7,880	\$7,880	\$0	\$50,586	15.58%
2018/19	\$8,565	\$8,565	\$0	\$53,394	16.04%
2019/20	\$8,771	\$8,771	\$0	\$53,324	16.45%

**State System Plan OPEB Liability**  
 Determined as of the July 1 measurement dates  
 (in thousands)

	Fiscal Year June 30, 2020	Fiscal Year June 30, 2019	Fiscal Year June 30, 2018
<b>Changes in the System Plan Total OPEB Liability</b>			
Total OPEB Liability – Beginning Balance	\$1,314,607	\$1,460,042	\$1,559,134
Service cost	35,611	42,364	48,636
Interest	39,561	46,251	39,441
Changes of benefit terms		(1,018)	
Differences between expected and actual experience		(175,819)	
Changes of assumptions	(68,676)	(11,542)	(143,201)
Benefit payments	(41,864)	(45,671)	(43,968)
Net Changes	(35,368)	(145,435)	(99,092)
Total OPEB Liability—Ending Balance	\$1,279,239	\$1,314,607	\$1,460,042
Covered Employee Payroll	\$582,841	\$582,841	\$592,245
OPEB Liability as a Percent of Covered Payroll	219.48%	225.55%	246.53%

**Note to Schedule:** 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.

**Schedule of Proportionate Share of the REHP Net OPEB Liability**  
 Determined as of REHP's June 30 measurement dates  
 (in thousands)

Fiscal Year	State System's Proportion	State System's Proportionate Share	State System's Covered-Employee Payroll	State System's Proportionate Share of Net OPEB Liability as a Percentage of Covered-Employee Payroll	REHP's Fiduciary Net Position as a Percentage of Total OPEB Liability
2017/18	4.374%	\$860,881	\$117,366	733.5%	1.4%
2018/19	4.573%	\$658,214	\$117,400	560.7%	2.2%
2019/20	4.370%	\$455,091	\$116,857	389.4%	3.8%

**REHP Schedule of Contributions**

Determined as of State System's June 30 fiscal year end dates  
 (in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2017/18	\$21,441	\$21,441	\$0	\$141,268	15.18%
2018/19	\$25,787	\$25,787	\$0	\$144,385	17.86%
2019/20	\$19,567	\$19,567	\$0	\$139,418	14.03%

**Schedule of Proportionate Share of PSERS Net OPEB Liability**  
*Determined as of PSERS' June 30 measurement dates*  
 (in thousands)

Fiscal Year	PSERS Net OPEB Liability				State System's Covered-Employee Payroll	State System's Proportionate Share of Net OPEB Liability as a Percentage of Covered-Employee Payroll	PSERS Fiduciary Net Position as a Percentage of Total OPEB Liability
	State System's Proportion	State System's Proportionate Share	Commonwealth's Proportionate Share	Total			
2017/18	.1811%	\$3,690	\$3,690	\$7,380	\$48,236	7.65%	5.73%
2018/19	.1836%	\$3,828	\$3,828	\$7,656	\$49,437	7.74%	5.56%
2019/20	.1886%	\$4,011	\$4,011	\$8,022	\$52,020	7.71%	5.56%

**PSERS OPEB Schedule of Contributions**  
*Determined as of State System's June 30 fiscal year end dates*  
 (in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2017/18	\$204	\$204	\$0	\$50,586	0.40%
2018/19	\$217	\$217	\$0	\$53,394	0.40%
2019/20	\$220	\$220	\$0	\$53,324	0.41%