MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2019 AND 2018

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

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INDEPENDENT AUDITORS' REPORT

Council of Trustees
Millersville University of Pennsylvania
of the State System of Higher Education
Millersville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Millersville University of Pennsylvania of the State System of Higher Education (the University), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100%, 100%, and 100%, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

Council of Trustees
Millersville University of Pennsylvania
of the State System of Higher Education

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in 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 requires that the Management's Discussion and Analysis as well as various schedules of Proportionate Share of Net Pension Liability, Changes in the System Plan Total OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 77-80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 11, 2019

Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of financial results of Millersville University of Pennsylvania of the State System of Higher Education (the University) for the years ended June 30, 2019, 2018, and 2017. The University's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow and should be read in conjunction with the financial statements and accompanying notes.

Millersville University is a public university of the Commonwealth of Pennsylvania (Commonwealth). The University is one of fourteen member institutions comprising the Pennsylvania State System of Higher Education (State System, or PASSHE) the purpose of which is to provide high quality education at the lowest possible cost to its students. With 7,781 students enrolled in fall 2018, the University ranked 6th in size within the State System in fiscal year 2018-19. The University had 7,748 students enrolled in the fall of 2017 and ranked 7th in size within the State System.

Like all State System institutions, the University functions independently, but being part of the State System enables the University to benefit from economies of scale for shared services and key central systems and administrative support.

Following is an overview of the University's financial activities for the years ended June 30, 2019, 2018, and 2017.

Financial Highlights

- As a public institution of higher education the University receives state appropriations to support its operations. These appropriations are allocated by the State System out of the total Commonwealth appropriation for all State System member institutions. In fiscal year 2011-12 the Commonwealth appropriation to the State System was reduced by $90.6 million or 18.0% and held constant at $412.8 million per year for four fiscal years. In fiscal year 2015-16 the total Commonwealth base allocation to the State System was increased by 5% to $433.4 million. Increases of 2.5% to $444.2 million were received in fiscal year 2016-17, 2.0% to $453.1 million in fiscal year 2017-18 and 3.3% to $468.1 million in fiscal year 2018-19.

- Total State appropriations by the Commonwealth to the University increased by 1.93% in fiscal year 2018-19. Appropriation levels are determined by two primary means:

    - The majority of Commonwealth funding to the University is based on an allocation formula established by the State System's Board of Governors. In fiscal year 2018-19, the University received approximately $30.8 million in funding through a modified allocation formula, which was a 0.77% increase from the $30.6 million received in fiscal year 2017-18.

- o The University also receives an allocation of Commonwealth funding based on achieving performance targets. This practice will discontinue beginning in fiscal year 2019-20. A new methodology is being developed as part of the PASSHE redesign efforts. This performance funding was part of the State System's continuing commitment to ensure the high quality of university programs, and financially rewards universities based on performance in such areas as student achievement, diversity, and operational efficiency. In fiscal 2018-19, the University received $3.65 million in performance funding, which was a 12.9% increase from fiscal year 2017-18 when the University received $3.23 million in performance funding.

- The State System Board approved a tuition rate increase of 2.99% for 2018-19. Increases of 3.5% and 2.5% were approved for fiscal year 2017-18 and 2016-17, respectively. Millersville University entered into a pilot tuition program beginning with fiscal year 2014-15. Undergraduate in-state tuition rates per credit were $319 in fiscal year 2018-19, $309 in fiscal year 2017-18 and $299 in fiscal year 2016-17. Millersville's per credit rate remains 1% below the calculated per credit rate for other PASSHE institutions which charge a flat tuition rate for full time undergraduate resident students.

- Total operating revenues were $113.7 million in fiscal year 2018-19 representing a 3.3% increase compared to $110.0 million in fiscal year 2017-18. Of this total, tuition and fee revenue (net of discounts) was $71.8 million for fiscal year 2018-19 and $67.8 million for fiscal year 2017-18. Revenue from auxiliary operations was $26.4 million for fiscal year 2018-19 and $25.8 million for fiscal year 2017-18, an increase of 2.5%. Auxiliary enterprise revenues are generated primarily food service charges and operation of the student center.

- The University purchased $9.2 million in capital assets in fiscal year 2018-19, which included $4.5 million to build or improve academic and auxiliary facilities on campus.

- Bond Principal of $4.9 million and bond interest of $2.4 million were paid, bringing the total outstanding bond debt to $46.1 million.

- The University retired its share of the obligation for Series AG and a significant portion of AI bonds and issued series AV-1 in their place.

- All bonds held by the University are issued through the Pennsylvania State System of Higher Education. Moody's Investor Service, Inc., continues to assign an Aa3 credit rating to the State System's outstanding bonds. Fitch Rating, Inc., continues to assign the State System's bonds with an A+ rating. In August 2019, both Moody's and Fitch maintained their outlooks for the ratings as stable.

The Financial Statements

Balance Sheet (Statement of Net Position)

This statement reports the balances of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the net position of the University as of fiscal year end. Assets include cash; investments reported at fair 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, which is defined as a consumption of net position that applies to future periods, includes deferred losses on refunding of debt and certain items associated with the net pension and OPEB liabilities and annual pension and OPEB expense. Liabilities include payments due to vendors and students; the balance of bonds payable; and liabilities such as worker's compensation (the University is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to current and future retirees). Deferred inflows of resources, which is defined as an acquisition of net position that applies to future periods, includes deferred gains on refunding of debt and certain items associated with the net pension and OPEB liabilities and annual pension and OPEB expense. The difference between the assets, deferred outflows of resources, liabilities, and deferred inflows of resources is reported as net position.

In FY 2014-15 the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* which requires the University to report its share of the pension liability that the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) must record. The liability recorded in FY 2017-18 amounted to $71.3 million for SERS and $7.2 million for PSERS. In FY 2018-19 these liabilities were $84.0 million for SERS and $6.7 million for PSERS.

In FY 2017-18 the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which requires the University to report its share of the postemployment benefits other than pensions (OPEB) liability that the Commonwealth of Pennsylvania must record for the following plans: State System Plan (System Plan), Commonwealth Retired Employees Health Program (REHP Plan), and PSERS Healthcare Premium Assistance Program (Premium Assistance Plan). In FY 2018-19 these liabilities were $95.1 million for the System Plan, $59.7 million for the REHP Plan, and $294.6K for the Premium Assistance Plan.

The net position of the University increased by $4.8 million in fiscal year 2018-19. Unrestricted net position, including both the current and plant funds – assets that can be used to finance day to day operations without constraints and restrictions – increased from ($228.7 million) at the end of fiscal year 2017-18 to ($224.4 million) at the end of fiscal year 2018-19.

The net position of the University decreased by $111.3 million in fiscal year 2017-18, much of it due to the implementation of GASB 75. Unrestricted net position, including both the current and plant funds – assets that can be used to finance day to day operations without constraints and restrictions – decreased from ($109.7 million) at the end of fiscal year 2016-17 to ($228.7 million) at the end of fiscal year 2017-18.

Millersville University of Pennsylvania of the State System of Higher Education
Balance Sheet
As of June 30, 2019, 2018, 2017

	2019	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets	$ 77,189,540	$ 75,633,597	$ 78,782,480
Noncurrent Assets			
Capital Assets, Net	134,217,641	135,728,072	134,801,513
Other Noncurrent Assets	12,123,426	12,196,064	11,847,373
Total Assets	223,530,607	223,557,733	225,431,366
Deferred Outflows of Resources	27,118,132	17,174,527	19,591,986
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 250,648,739	$ 240,732,260	$ 245,023,352
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current Liabilities	$ 28,301,399	$ 26,634,518	$ 22,618,131
Noncurrent Liabilities			
OPEB and Compensated Absences	158,505,739	189,147,943	93,746,971
Pension Liability	90,674,273	78,508,270	83,603,096
Long-Term Debt	46,674,444	49,452,196	54,207,215
Other Noncurrent Liabilities	5,391,699	5,522,699	6,076,904
Total Liabilities	329,547,554	349,265,626	260,252,317
Deferred Inflows of Resources	46,739,826	21,923,789	3,904,763
NET POSITION			
Net Investment in Capital Assets	78,308,853	77,593,855	71,876,223
Total Restricted	20,443,639	20,643,950	18,681,163
Unrestricted	(224,391,133)	(228,694,960)	(109,691,114)
Total Net Position	(125,638,641)	(130,457,155)	(19,133,728)
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 250,648,739	$ 240,732,260	$ 245,023,352

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

- Restricted net position represents the 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 corpuses of endowments and similar arrangements in which only the associated investment income can be spent. Expendable restricted net position is available for expenditure as long as any external purpose and time restrictions are met.

- Deferred Inflows of Resources, which is defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance and certain items associated with the net pension and OPEB liabilities and annual pension and OPEB expense.

- Unrestricted net position includes all other funds not appropriately classified as restricted or invested in capital assets. Unrestricted net position has been reduced primarily by three unfunded liabilities:

    - The liability for postretirement benefits is realized gradually over time, and because of its size, the University funds it only as it becomes due.

    - The liability for compensated absences is similar to the postretirement benefits liability as cash payouts to employees upon termination or retirement for annual and sick leave balances are realized gradually over time, and because of its size, the University funds it only as it become due.

    - The net pension liability is similar to the liabilities for postretirement benefits and compensated absences in that the University funds this liability on a “pay-as-you-go” basis with annual contractually required contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).

Millersville University of Pennsylvania of the State System of Higher Education
Statement of Revenues, Expenses, and Change in Net Position - Primary institution
Years Ended June 30, 2019, 2018, 2017

	2019	2018	2017
OPERATING REVENUES			
Tuition and Fees, Net	$ 71,823,650	$ 67,754,685	$ 67,660,686
Governmental Grants and Contracts	11,281,865	12,240,512	10,396,644
Sales and Services	3,079,332	2,956,465	2,950,152
Auxiliary Enterprises, Net	26,390,744	25,759,453	25,163,719
Other Revenues, Net	1,158,644	1,376,733	1,235,424
Total Operating Revenues	113,734,235	110,087,848	107,406,625
NONOPERATING REVENUES			
State Appropriations, General and Restricted	34,805,234	33,793,847	32,457,613
Pell Grants	9,372,256	9,445,150	8,649,565
Gifts for Other Than Capital Purposes	3,291,407	4,077,763	5,694,551
Investment Income, Net	2,473,997	2,321,889	2,398,078
Loss on Disposal of Assets	(27,106)	(111,834)	(1,103,081)
Other Nonoperating Revenue	876,282	970,150	971,470
Total Nonoperating Revenues	50,792,070	50,496,965	49,068,196
OTHER REVENUES			
State Appropriations, Capital	1,237,908	1,346,961	1,184,099
Capital Gifts and Grants	60,612	982,406	1,751,106
Total Other Revenues	1,298,520	2,329,367	2,935,205
Total Revenues	165,824,825	162,914,180	159,410,026
OPERATING EXPENSES			
Instruction	55,522,627	60,862,649	57,202,584
Research	835,689	1,014,670	718,956
Public Service	4,394,716	4,523,476	3,854,573
Academic Support	10,403,745	11,825,689	13,276,774
Student Services	16,483,750	18,897,361	18,184,910
Institutional Support	18,510,799	24,212,738	18,829,839
Operations and Maintenance of Plant	9,069,796	13,379,840	11,483,784
Depreciation	10,685,934	9,858,056	9,820,136
Student Aid	5,385,988	5,483,254	5,401,878
Auxiliary Enterprises	27,671,824	18,225,819	23,454,495
Total Operating Expenses	158,964,868	168,283,552	162,227,929
NONOPERATING EXPENSES			
Interest Expense on Capital Asset-Related Debt	2,041,443	1,925,804	2,081,125
Total Expenses	161,006,311	170,209,356	164,309,054
CHANGE IN NET POSITION	4,818,514	(7,295,176)	(4,899,028)
Net Position-Beginning of Year	(130,457,155)	(19,133,728)	(14,234,700)
Restatement for July 1, 2017, OPEB Liability	-	(104,028,251)	-
Net Position-Beginning of Year, Restated	(130,457,155)	(123,161,979)	(14,234,700)
NET POSITION - END OF YEAR	$ (125,638,641)	$ (130,457,155)	$ (19,133,728)

Statement of Revenues, Expenses, and Changes in Net Position

This statement reports the revenues earned and the expenses incurred in the fiscal year. The result is reported as an increase or decrease in net position. In accordance with Governmental Accounting Standards Board (GASB) requirements, the University has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public colleges' and universities' state appropriations are nonoperating revenues. In addition, GASB requires classification of Pell grants, gifts, investments income and expenses, and losses on disposals of assets as nonoperating. The University classifies all of its remaining activities as operating.

Utilizing these definitions, the University realized operating losses of $45.2 million in fiscal year 2018-19, $58.2 million in fiscal year 2017-18, and $54.8 million in fiscal year 2016-17. In fiscal year 2018-19 compared to the prior year, operating revenues increased by $3.6 million and program expenses decreased by $9.3 million.

Nonoperating revenues increased in fiscal year 2018-19 by $295,000 largely due to increases in state appropriations ($1.01 million) and decreased gifts ($786,000).

The combination of operating and nonoperating activity resulted in Income (Loss) Before Other Revenues of $3.5 million in fiscal year 2018-19 and ($9.6 million) in fiscal year 2017-18. Capital revenues of $1.3 million in fiscal year 2018-19 and $2.3 million in fiscal year 2017-18 yielded Changes in Net Position gain of $4.8 million and (loss) of ($7.3 million), respectively. The University's net position across all fund categories at the end of fiscal year 2018-19 was ($125.6 million).

Millersville University of Pennsylvania of the State System of Higher Education
Statement of Cash Flows - Primary institution
Years Ended June 30, 2019, 2018, 2017

	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES	$ (37,640,754)	$ (37,728,558)	$ (36,687,734)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	47,401,499	46,894,746	46,531,560
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	(11,994,452)	(15,113,665)	(16,477,939)
CASH FLOWS FROM INVESTING ACTIVITIES	2,317,513	1,740,606	677,133
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	83,806	(4,206,871)	(5,956,980)
Cash and Cash Equivalents--Beginning	67,585,837	71,792,708	77,749,688
CASH AND CASH EQUIVALENTS -ENDING	$ 67,669,643	$ 67,585,837	$ 71,792,708

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Statement of Cash Flows

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

GASB defines four major sources of cash flows:

- Cash flows from operating activities (student related revenues, payments to suppliers, employees, etc.)
- Cash flows from noncapital financing activities (state appropriations, gifts, nonoperating grants, student loan processing, etc.)
- Cash flows from capital financing activities (capital appropriations, leases, debt, purchases and sales of assets, etc.)
- Cash flows from investing activities (proceeds from sales of investments, interest on investments, purchase of investments, etc.)

Cash remained static in fiscal year 2018-19 and decreased by $4.2 million in fiscal year 2017-18. Cash used by operating activities ($37.6 million), and cash used by capital financing activities ($12.0 million), were offset by inflows from noncapital financing activities of $47.4 million. Investing activities provided $2.3 million in cash.

Future Economic Factors

Several conditions could limit the University's financial flexibility in fiscal year 2018-2019 and beyond:

1. <u>State Appropriations</u> – Following several years of declining or flat state appropriations, recent trends are for slight annual increases in state appropriation levels. Nevertheless, the Commonwealth of Pennsylvania remains near the bottom of all states for its state funding levels per student and financial pressures on state government could result in future reductions in state support.

2. <u>Increasing competition for traditional student enrollments</u> – Millersville remains a standout institution within PASSHE, due to a long-standing reputation for solid academics, a safe campus, and a welcoming environment. Millersville has strong geographic advantages due to its central regional location and its close proximity to the vibrant city of Lancaster. The Commonwealth of Pennsylvania is projected to experience a 5% decline in traditional high school graduates from 2018-30. [i] During that same period of time, the University is projected to experience a decrease within the ten primary counties we serve (York, Lancaster, Berks, Chester, Montgomery, Cumberland, Dauphin, Delaware, Philadelphia and Bucks). Only Lancaster County (+4.7%) and Philadelphia County (+23.5%) are projected to experience an increase in traditional high school graduates. [ii] Within our primary out-of-state markets (NJ, DE, MD, and VA) the number of traditional high school graduates are projected to increase in Maryland and Virginia and are forecasted to have a slight decrease in New Jersey and Delaware. Competition among both public and private colleges and universities to maintain or increase enrollments will grow under these market conditions, requiring the university to be strategic in the areas of scholarship, marketing, financial aid, recruitment, and program development.

i Western Interstate Commission for Higher Education
ii Source: Pennsylvania State Data Center, 2012

3. New business models – Like an increasing number of public colleges and universities, Millersville University relies largely on tuition and fee revenues to support its operations and must compete successfully for enrollments in multiple student markets including traditional residential undergraduate, graduate, online, and nontraditional student markets. Millersville has implemented a per credit tuition rate structure for its graduate and in-state undergraduate students, providing significant additional revenues compared to traditional pricing structures. Maintaining access for those students least able to afford costs of attendance will require Millersville to expand institutional financial aid and need-based scholarships.

4. Facilities maintenance and upgrades – While the condition of the University's physical plant is very good, a significant portion of the University's available unrestricted current fund balance will be needed to support planned facility major maintenance in the future. In the coming year MU will complete a campus master plan, its first new comprehensive facilities master plan in a decade, including a facility condition assessment. MU's reliance on a relatively large number of structures originally built as residences, and the historic preservation protection of many of these structures, results in higher maintenance and operating costs for the campus.

5. Increased costs for salaries and benefits mandated by collective bargaining agreements – Fiscal year 2018-19 was the final year of current collective bargaining agreements for University faculty. These multi-year contracts are negotiated by the State System or the Commonwealth; the historical financial impact has been a continuing increase in compensation levels (salaries and benefits) not tied to growth or contraction in the revenues and appropriations realized by the University. Because compensation constitutes such a significant portion of operating costs, if Millersville University fails to increase revenues as compensation costs increase, it may be necessary to reduce staffing levels.

6. Increases in employer retirement contributions – While employer retirement contribution rates had held steady for many years, the era of low and relatively stable employer contribution rates for the State Employee Retirement System (SERS) ended starting in fiscal year 2010-11. Due to the current economic environment, retirement enhancements previously enacted by the state legislature, decisions by the SERS Board to defer funding obligations, and previous investment losses, rates are projected to rise significantly over the next several years.

7. Increased health care costs – As has occurred at the national level, health care costs for the University have increased significantly in recent years and are projected to increase further, albeit at a slower rate. Beginning with fiscal year 2005-06, State System employees (including those of the University) began to contribute to the cost of health care. The State System also implemented a Health Care Cost Containment Committee to study ways to contain costs while providing quality services to employees. During fiscal year 2015-16, nonrepresented (management) employee contributions to health care coverage increased and plans were modified to decrease costs. These plan modifications are projected to yield net cost decreases to the State System and University going forward.

The factors mentioned above could reduce the University's flexibility beginning in the current fiscal year and might necessitate alternative and less costly methods of providing some support services. The University is currently exploring various options for streamlining administrative support functions and leveraging partnerships with other State System institutions to develop more cost-effective shared service delivery models.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

(Mr.) Guilbert Brown
Interim Vice President for Administration & Finance
Dilworth Building
Millersville University
Millersville PA 17551

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS — PRIMARY INSTITUTION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 67,669,643	$ 67,585,837
Accounts Receivable:		
Governmental Grants and Contracts	324,455	662,346
Students, Net of Allowance for Doubtful Accounts of $1,669,729 in 2019 and $1,484,185 in 2018	3,285,544	2,701,086
Other, Net of Allowance for Doubtful Accounts of $42,962 in 2019 and $31,826 in 2018	249,116	381,546
Interest Income Receivable	108,491	106,939
Inventory	98,422	98,544
Prepaid Expenses	814,771	378,908
Loans Receivable, Net of Allowance for Doubtful Accounts of $353 in 2019 and 2018	215,523	213,706
Due from Component Units	4,366,049	3,424,596
Other Assets	57,526	80,089
Total Current Assets	77,189,540	75,633,597
NONCURRENT ASSETS		
Investments	3,300,570	3,204,568
Beneficial Interests	8,167,857	8,108,926
Loans Receivable, Net	654,999	882,570
Capital Assets, Net	134,217,641	135,728,072
Total Noncurrent Assets	146,341,067	147,924,136
Total Assets	223,530,607	223,557,733
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	217,084	256,316
Deferred Outflows from SERS Contributions	17,592,621	11,027,077
Deferred Outflows from PSERS Contributions	1,031,000	1,205,024
Deferred Outflows from OPEB Contributions	8,277,427	4,686,110
Total Deferred Outflows of Resources	27,118,132	17,174,527
Total Assets and Deferred Outflows of Resources	$ 250,648,739	$ 240,732,260

See accompanying Notes to Financial Statements.

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

LIABILITIES, NET POSITION, AND DEFERRED INFLOWS OF RESOURCES	2019	2018
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 13,232,735	$ 12,793,431
Unearned Revenue	1,766,774	1,777,878
Students' Deposits	467,173	377,026
Workers' Compensation, Current	528,800	500,166
Compensated Absences, Current	914,667	847,858
Other Postemployment Benefits Liability, Current	5,057,194	4,670,092
Capital Lease Obligations, Current	716,102	137,134
Current Portion of Bonds Payable, Net	4,608,303	4,459,658
Due to System, Academic Facilities Renovation Bond Program (AFRP)	309,719	342,606
Due to Component Units	699,932	675,117
Other Deposit Liabilities	-	53,552
Total Current Liabilities	28,301,399	26,634,518
NONCURRENT LIABILITIES		
Workers' Compensation, Net of Current Portion	659,675	446,451
Compensated Absences, Net of Current Portion	8,430,659	8,406,759
Other Postemployment Benefits Liability, Net of Current Portion	150,075,080	180,741,184
Net Pension Liability	90,674,273	78,508,270
Capital Lease Obligations, Net of Current Portion	2,484,592	349,373
Bonds Payable, Net of Current Portion	43,722,860	48,326,112
Due to System, AFRP	466,992	776,711
Other Noncurrent Liabilities	4,732,024	5,076,248
Total Noncurrent Liabilities	301,246,155	322,631,108
Total Liabilities	329,547,554	349,265,626
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	84,528	98,821
Deferred Inflows from SERS Contributions	2,023,466	5,717,457
Deferred Inflows from PSERS Contributions	173,609	148,277
Deferred Inflows from OPEB Contributions	44,458,223	15,959,234
Total Deferred Inflows of Resources	46,739,826	21,923,789
Total Liabilities and Deferred Inflows of Resources	376,287,380	371,189,415
NET POSITION		
Net Investment in Capital Assets	78,308,853	77,593,855
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	2,361,421	2,352,555
Other	371,753	398,645
Expendable:		
Scholarships and Fellowships	8,181,880	8,202,826
Research	46,322	31,620
Capital Projects	582,886	1,409,170
Other	8,899,377	8,249,135
Unrestricted (Deficit)	(224,391,133)	(228,694,961)
Total Net Position	(125,638,641)	(130,457,155)
Total Liabilities, Net Position, and Deferred Inflows of Resources	$ 250,648,739	$ 240,732,260

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION — PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Tuition and Fees	$ 86,608,713	$ 84,133,648
Less: Scholarship Discounts and Allowances	(14,785,063)	(16,378,963)
Net Tuition and Fees	71,823,650	67,754,685
Governmental Grants and Contracts:		
Federal	5,178,365	5,432,102
State	6,094,581	6,770,908
Local	8,919	37,502
Nongovernmental Grants and Contracts	290,652	230,726
Sales and Services of Educational Departments	3,079,332	2,956,465
Auxiliary Enterprises, Net	26,390,744	25,759,453
Other Revenues	867,992	1,146,007
Total Operating Revenues	113,734,235	110,087,848
OPERATING EXPENSES		
Instruction	55,522,627	60,862,649
Research	835,689	1,014,670
Public Service	4,394,716	4,523,476
Academic Support	10,403,745	11,825,689
Student Services	16,483,750	18,897,361
Institutional Support	18,510,799	24,212,738
Operations and Maintenance of Plant	9,069,796	13,379,840
Depreciation	10,685,934	9,858,056
Student Aid	5,385,988	5,483,254
Auxiliary Enterprises	27,671,824	18,225,819
Total Operating Expenses	158,964,868	168,283,552
NET OPERATING LOSS	(45,230,633)	(58,195,704)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	34,805,234	33,793,847
Commonwealth on Behalf Contributions to PSERS	747,849	806,703
Pell Grant	9,372,256	9,445,150
Investment Income, Net of Related Investment Expense of $15,528 in 2019 and $16,064 in 2018	2,330,530	1,790,562
Unrealized Gain on Investments	143,467	531,327
Gifts for Other than Capital Purposes	3,291,407	4,077,763
Interest Expense	(2,041,443)	(1,925,804)
Loss on Disposal of Assets	(27,106)	(111,834)
Other Nonoperating Revenue	128,433	163,447
Nonoperating Revenues, Net	48,750,627	48,571,161
INCOME (LOSS) BEFORE OTHER REVENUES	3,519,994	(9,624,543)
OTHER REVENUES		
State Appropriations, Capital	1,237,908	1,346,961
Capital Gifts and Grants	60,612	982,406
Total Other Revenues	1,298,520	2,329,367
INCREASE (DECREASE) IN NET POSITION	4,818,514	(7,295,176)
Net Position - Beginning of Year, As Restated	(130,457,155)	(123,161,979)
NET POSITION - END OF YEAR	$ (125,638,641)	$ (130,457,155)

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS — PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 71,510,948	$ 67,024,678
Grants and Contracts	12,045,764	12,111,088
Payments to Suppliers for Goods and Services	(39,614,513)	(37,312,955)
Payments to Employees	(105,838,916)	(103,259,238)
Loans Issued to Students	-	(49,026)
Loans Collected from Students	220,162	228,637
Student Aid	(5,385,988)	(5,483,254)
Auxiliary Enterprise Charges	26,217,454	25,789,900
Sales and Services of Educational Departments	2,963,900	2,965,997
Other Receipts (Payments)	240,435	255,615
Net Cash Used by Operating Activities	(37,640,754)	(37,728,558)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations, Including Federal ARRA	34,805,234	33,793,847
Gifts for Other than Capital Purposes	3,308,142	4,077,828
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	66,277,454	64,646,387
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(66,277,454)	(64,646,387)
Pell Grant	9,372,256	9,445,150
Agency Transactions	(212,568)	(585,526)
Other	128,435	163,447
Net Cash Provided by Noncapital Financing Activities	47,401,499	46,894,746
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	924,769	-
Capital Appropriations	1,237,908	1,346,961
Capital Gifts and Grants Received	31,953	837,026
Proceeds from Sale of Capital Assets	-	6,973
Purchases of Capital Assets	(6,304,236)	(10,533,838)
Principal Paid on Debt and Leases	(5,357,355)	(4,333,063)
Interest Paid on Debt and Leases	(2,527,491)	(2,437,724)
Net Cash Used by Capital Financing Activities	(11,994,452)	(15,113,665)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	2,328,978	1,740,606
Purchase of Investments	(11,465)	-
Net Cash Provided by Investing Activities	2,317,513	1,740,606
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	83,806	(4,206,871)
Cash and Cash Equivalents - Beginning of Year	67,585,837	71,792,708
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 67,669,643	$ 67,585,837

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS — PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (45,230,633)	$ (58,195,704)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	10,685,934	9,858,056
Expenses Paid by Commonwealth or Donor	747,849	806,703
Effect of Changes in Operating Assets, Deferred Outflows, Liabilities and Deferred Inflows:		
Receivables, Net	(356,407)	(305,703)
Inventory	122	4,852
Prepaid Expenses	(435,863)	(87,474)
Other Assets	(687,766)	(296,940)
Accounts Payable and Accrued Expenses	247,274	(164,271)
Unearned Revenue	(21,796)	85,986
Students' Deposits	249,163	(831,695)
Workers' Compensation	241,858	25,023
Compensated Absences	90,709	447,163
Loans Receivable	220,162	179,611
Postretirement Benefit Obligations	(30,279,002)	(4,353,570)
Net Pension Liability	12,166,003	(5,094,826)
Deferred Outflows of Resources Related to Pensions	(6,391,520)	7,064,370
Deferred outflows of resources related to OPEB	(3,591,315)	(4,686,110)
Deferred Inflows of Resources Related to Pensions	(3,668,659)	2,074,084
Deferred inflows of resources related to OPEB	28,498,988	15,959,234
Other Current and Noncurrent Liabilities	(125,855)	(217,347)
Net Cash Used by Operating Activities	$ (37,640,754)	$ (37,728,558)
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES		
Capital Assets Acquired through Capital Leases	$ 2,853,192	$ 206,407
Accounts Payable Incurred for Capital Assets	$ 16,522	$ 17,797
Donated Capital Assets	$ 28,659	$ 145,380
Like-Kind Exchanges	$ 5,818	$ -
Commonwealth on Behalf Contributions to PSERS	$ 747,849	$ 806,703

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF NET ASSETS — COMPONENT UNITS
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	$ 31,500,465	$ 32,345,374
Investments	37,481,178	34,517,115
Accounts Receivable	645,229	1,044,984
Pledges Receivable	1,665,774	1,785,359
Due from University	699,932	675,117
Net Capital Assets	149,991,983	154,234,385
Other Assets	955,555	1,005,879
Total Assets	$ 222,940,116	$ 225,608,213
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 3,404,257	$ 3,936,455
Annuity Liabilities	165,816	166,962
Due to University	4,366,049	3,207,361
Funds Held for Other Independent Organizations	418,717	193,519
Interest Rate Swap Agreements	961,648	-
Bonds Payable	140,703,195	143,042,318
Notes Payable	27,995,336	28,785,245
Other Liabilities	8,598,242	8,818,814
Total Liabilities	186,613,260	188,150,674
NET ASSETS		
Without Donor Restrictions	21,255	2,599,945
With Donor Restrictions	36,305,601	34,857,594
Total Net Assets	36,326,856	37,457,539
Total Liabilities and Net Assets	$ 222,940,116	$ 225,608,213

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF ACTIVITIES – COMPONENT UNITS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Changes in Net Assets Without Donor Restrictions		
Revenues and Other Additions:		
Contributions	$ 696,474	$ 325,777
Sales and Services	2,645,058	2,736,495
Investment Income	(73,727)	(74,929)
Change in Value of Charitable Gift Annuities	(21,631)	(2,134)
Change in Value of Fair Value of Interest Rate Swaps	(1,608,016)	440,949
Rental Income	23,067,118	22,402,057
Other Revenues and Gains	79,549	2,009,447
Net Assets Released from Restrictions	1,549,983	1,624,200
Total Revenues and Other Additions	26,334,808	29,461,862
Expenses and Other Deductions:		
Program Services:		
Scholarships and Grants	1,241,818	1,336,909
University Stores	1,240,052	1,312,609
Housing	22,115,424	21,585,130
Other Programs	1,356,426	1,361,890
Management and General	2,510,490	2,260,999
Fundraising	358,215	304,436
Total Expenses and Other Deductions	28,822,425	28,161,973
Other Expenses and Losses	91,073	607,044
Change in Net Assets Without Donor Restrictions	(2,578,690)	692,845
Changes in Net Assets With Donor Restrictions		
Contributions	1,282,986	3,087,054
Investment Income	688,446	599,980
Net Realized and Unrealized Gains	1,024,951	1,622,912
Other Revenues and Gains	1,607	(638)
Net Assets Released from Restrictions	(1,549,983)	(1,624,200)
Change Net Assets in With Donor Restrictions	1,448,007	3,685,108
CHANGE IN TOTAL NET ASSETS	(1,130,683)	4,377,953
Net Assets - Beginning of Year	37,457,539	33,079,586
NET ASSETS - END OF YEAR	$ 36,326,856	$ 37,457,539

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMPONENT UNITS EXPENSES BY NATURE AND FUNCTION
YEARS ENDED JUNE 30, 2019 AND 2018

2019	**Program Activities**					**Supporting Activities**			
Natural Expense	Scholarships and grants	University stores	Housing	Other programs	Total Programs	Management and general	Fundraising	Total Supporting	Total Expenses
Salaries and benefits	$ -	$ 882,084	$ 2,164,328	$ -	$ 3,046,412	$ 1,462,929	$ -	$ 1,462,929	$ 4,509,341
Gifts and grants	1,241,818	4,250	276,400	1,355,304	2,877,772	-	-	-	2,877,772
Supplies and travel	-	25,140	47,686	-	72,826	27,628	64,086	91,714	164,540
Services and professional fees	-	8,225	914,561	1,122	923,908	793,932	155,508	949,440	1,873,348
Office and occupancy	-	189,713	5,275,682	-	5,465,395	79,662	-	79,662	5,545,057
Depreciation	-	43,028	5,574,552	-	5,617,580	16,692	-	16,692	5,634,272
Interest	-	-	7,667,051	-	7,667,051	-	-	-	7,667,051
Other	-	87,612	195,164	-	282,776	129,647	138,621	268,268	551,044
Total Expenses	$ 1,241,818	$ 1,240,052	$ 22,115,424	$ 1,356,426	$ 25,953,720	$ 2,510,490	$ 358,215	$ 2,868,705	$ 28,822,425

2018	**Program Activities**					**Supporting Activities**			
Natural Expense	Scholarships and grants	University stores	Housing	Other programs	Total Programs	Management and general	Fundraising	Total Supporting	Total Expenses
Salaries and benefits	$ -	$ 931,517	$ 2,164,040	$ -	$ 3,095,557	$ 1,270,072	$ -	$ 1,270,072	$ 4,365,629
Gifts and grants	1,336,909	-	249,803	1,360,010	2,946,722	-	-	-	2,946,722
Supplies and travel	-	26,470	33,449	-	59,919	28,197	66,651	94,848	154,767
Services and professional fees	-	41,269	762,009	1,880	805,158	743,248	140,008	883,256	1,688,414
Office and occupancy	-	191,626	5,160,998	-	5,352,624	91,872	-	91,872	5,444,496
Depreciation	-	43,155	5,482,845	-	5,526,000	16,167	-	16,167	5,542,167
Interest	-	-	7,530,818	-	7,530,818	-	-	-	7,530,818
Other	-	78,572	201,168	-	279,740	111,443	97,777	209,220	488,960
Total Expenses	$ 1,336,909	$ 1,312,609	$ 21,585,130	$ 1,361,890	$ 25,596,538	$ 2,260,999	$ 304,436	$ 2,565,435	$ 28,161,973

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Millersville University of Pennsylvania of the State System of Higher Education (the University), a public four-year institution located in Millersville, Pennsylvania, was founded in 1855. The University is one of fourteen universities of Pennsylvania's State System of Higher Education (the State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

Reporting Entity

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

The University has determined the Millersville University Foundation (the Foundation); Student Services, Inc.; and Student Lodging, Inc. should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related. The financial activity of these component units are presented as of June 30, 2019 and 2018.

Foundation

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

During the years ended June 30, 2019 and 2018, the Foundation distributed $1,432,768 and $1,457,774, respectfully, to the University for both restricted and unrestricted purposes. As of June 30, 2019 and 2018, the Foundation has accounts payable to the University of $10,583 and $37,732, respectively.

Student Services, Inc.

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

The Corporation was formed to provide services not readily available through the University to students. These services include a retail bookstore, copy shop, conferences, vending, laundry, technical operations, and miscellaneous other services.

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

Reporting Entity (Continued)

Student Services, Inc. (Continued)

Under agreements between the Corporation and the University, the University manages the day-to-day operations of the facilities, including the hiring of employees, marketing, contracting for services, maintenance and repair, and other required matters. In addition, the University bills students and collects the rental revenue. The University deposits these amounts in the Revenue Fund, created pursuant to the trust indentures associated with the bonds, which is included in restricted cash. The University is reimbursed for its expenses in connection with the management and operation of the project. As part of the consideration under the ground lease, the Corporation pays the University an annual base rent and percentage rent equal to 15% of the net available cash flow (as defined in the ground lease agreement) from the student housing project.

During the years ended June 30, 2019 and 2018, respectively, the University received rental income in the amounts of $28,020 and $27,204. In addition, the University received $2,794,098 and $2,738,865 during the years ended June 30, 2019 and 2018, respectively, for management costs associated with student housing facilities owned by the Corporation. The University also received percentage rental income of $299,173 and $278,252 during the years ended June 30, 2019 and 2018, respectively. Percentage income relates to administration related rental operations. Rental expense paid to the Corporation for the years ended June 30, 2019 and 2018 was $16,258,306 and $15,773,898, respectively. The total amounts due to the University at June 30, 2019 and 2018 were $3,096,593 and $2,428,088, respectively. Amounts due from the University at June 30, 2019 and 2018 were $85,989 and $326,419, respectively. Student Services, Inc. made contributions to the University of $1,081,855 and $915,500 during the years ended June 30, 2019 and 2018, respectively.

Student Services, Inc. also performs various administrative services for University student organizations. The total amounts due to the University related to student organizations at June 30, 2019 and 2018 were $1,258,873 and $1,067,960, respectively.

Student Lodging, Inc.

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

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

Reporting Entity (Continued)

Student Lodging, Inc. (Continued)

On May 29, 2012, the University entered into several leases with Student Lodging, Inc. for the use of certain buildings and office space. In addition, on December 11, 2012, the University entered into an agreement with Student Lodging, Inc. for the use of Shenks Hall and Reighard Hall. The University collects rent and reimburses Student Lodging, Inc. for expenses on a quarterly basis. The University also remits a portion of total profits to Student Lodging, Inc. During the fiscal years ended June 30, 2019 and 2018, rental payments amounted to $2,004,202 and $1,951,547, respectively. During the years ended June 30, 2019 and 2018 the University received contributions from Student Lodging, Inc. of $264,800 and $125,000, respectively. Amounts due to Student Lodging, Inc. included rents payable at June 30, 2019 and 2018 in the amounts of $613,943 and $675,117.

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

The Foundation; Student Services, Inc.; and Student Lodging, Inc. are private nonprofit organizations, reported in accordance with Financial Accounting Standards (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 have been made to the component units' financial information in the University's financial reporting entity for these differences.

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

Operating Revenues and Expenses

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

Scholarships and Waivers

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

Net Position

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

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

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

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

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

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

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

Cash Equivalents and Investments

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

Accounts and Loans Receivable

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

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

Inventory

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

Capital Assets

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

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

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

Capital Assets (Continued)

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2019 or 2018.

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

Income Taxes

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

Use of Estimates

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

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

New Accounting Standards

In fiscal year 2017/18, the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension*, and GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which required a restatement of net position at July 1, 2017, as follows.

Net Position - Beginning of Year	$ (19,133,728)
Restatement for July 1, 2017, OPEB Liabilities and Related Expenses	(104,028,251)
Net Position - Beginning of Year, Restated	$ (123,161,979)

The University previously reported beneficial interests with investments; therefore, there was no effect on net position.

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

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

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

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. Statement No. 91 is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in accounting and financial reporting. The University has determined that Statement No. 91 will have no effect on its financial statements.

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

Deferred Outflows and Deferred Inflows of Resources

The balance sheet reports separate sections for d*eferred outflows of resources and deferred inflows of resources*.

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

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

The University is required to report the following as deferred outflows of resources or deferred inflows of resources.

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

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

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION

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

	Foundation	Student Services	Student Lodging	Total
Assets				
Cash and Cash Equivalents	$ 529,687	$ 27,834,014	$ 3,136,764	$ 31,500,465
Capital Assets, Net	-	116,660,101	33,331,882	149,991,983
Investments	37,481,178	-	-	37,481,178
Due from University	-	85,989	613,943	699,932
Other Assets	1,744,357	1,257,333	264,868	3,266,558
Total Assets	$ 39,755,222	$ 145,837,437	$ 37,347,457	$ 222,940,116
Liabilities				
Accounts Payable	$ 720	$ 3,186,735	$ 216,802	$ 3,404,257
Long-Term Debt	-	140,703,195	27,995,336	168,698,531
Due to University	10,583	4,355,466	-	4,366,049
Funds Held for Other Independent Organizations	-	418,717	-	418,717
Other Liabilities	2,909,202	4,623,991	2,192,513	9,725,706
Total Liabilities	2,920,505	153,288,104	30,404,651	186,613,260
Net Assets				
Without Donor Restrictions	529,116	(7,450,667)	6,942,806	21,255
With Donor Restrictions	36,305,601	-	-	36,305,601
Total Net Assets	36,834,717	(7,450,667)	6,942,806	36,326,856
Total	$ 39,755,222	$ 145,837,437	$ 37,347,457	$ 222,940,116

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Student Services	Student Lodging	Total
Assets				
Cash and Cash Equivalents	$ 1,360,513	$ 26,963,281	$ 4,021,580	$ 32,345,374
Capital Assets, Net	-	120,453,480	33,780,905	154,234,385
Investments	34,517,115	-	-	34,517,115
Due from University	-	-	675,117	675,117
Other Assets	1,888,020	1,026,961	921,241	3,836,222
Total Assets	$ 37,765,648	$ 148,443,722	$ 39,398,843	$ 225,608,213
Liabilities				
Accounts Payable	$ 18,822	$ 2,757,111	$ 1,160,522	$ 3,936,455
Long-Term Debt	-	143,042,318	28,785,245	171,827,563
Due to University	37,732	3,169,629	-	3,207,361
Funds Held for Other Independent Organizations	-	193,519	-	193,519
Other Liabilities	2,612,869	5,119,527	1,253,380	8,985,776
Total Liabilities	2,669,423	154,282,104	31,199,147	188,150,674
Net Assets				
Without Donor Restrictions	238,631	(5,838,382)	8,199,696	2,599,945
With Donor Restrictions	34,857,594	-	-	34,857,594
Total Net Assets	35,096,225	(5,838,382)	8,199,696	37,457,539
Total	$ 37,765,648	$ 148,443,722	$ 39,398,843	$ 225,608,213

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Services	Lodging	Total
Changes in Net Assets Without Donor Restrictions				
Revenues and Other Additions:				
Contributions	$ 696,474	$ -	$ -	$ 696,474
Sales and Services	-	2,645,058	-	2,645,058
Investment Income	(89,949)	-	16,222	(73,727)
Change in Value of Charitable Gift Annuities	(21,631)	-	-	(21,631)
Change in Value of Fair Value of Interest Rate Swaps	-	-	(1,608,016)	(1,608,016)
Rental Income	-	16,340,139	6,726,979	23,067,118
Other Revenues and Gains	420	48,627	30,502	79,549
Net Assets Released from Restrictions	1,549,983	-	-	1,549,983
Total Revenues and Other Additions	2,135,297	19,033,824	5,165,687	26,334,808
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	1,241,818	-	-	1,241,818
University Stores	-	1,240,052	-	1,240,052
Housing	-	16,075,537	6,039,887	22,115,424
Other Programs	-	1,356,426	-	1,356,426
Management and General	244,779	1,883,021	382,690	2,510,490
Fundraising	358,215	-	-	358,215
Total Expenses and Other Deductions	1,844,812	20,555,036	6,422,577	28,822,425
Other Expenses and Losses	-	91,073	-	91,073
Change in Net Assets Without Donor Restrictions	290,485	(1,612,285)	(1,256,890)	(2,578,690)
Changes in Net Assets With Donor Restrictions				
Contributions	1,282,986	-	-	1,282,986
Investment Income	688,446	-	-	688,446
Net Realized and Unrealized Gains	1,024,951	-	-	1,024,951
Other Revenues and Gains	1,607	-	-	1,607
Donor Requested Transfer	(1,549,983)	-	-	(1,549,983)
Change in Net Assets With Donor Restrictions	1,448,007	-	-	1,448,007
CHANGE IN TOTAL NET ASSETS	1,738,492	(1,612,285)	(1,256,890)	(1,130,683)
Net Assets - Beginning of Year	35,096,225	(5,838,382)	8,199,696	37,457,539
NET ASSETS - END OF YEAR	$ 36,834,717	$ (7,450,667)	$ 6,942,806	$ 36,326,856

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Student Services	Student Lodging	Total
Changes in Net Assets Without Donor Restrictions				
Revenues and Other Additions:				
Contributions	$ 325,777	$ -	$ -	$ 325,777
Sales and Services	-	2,736,495	-	2,736,495
Investment Income	(85,785)	-	10,856	(74,929)
Change in Value of Charitable Gift Annuities	(2,134)	-	-	(2,134)
Change in Value of Fair Value of Interest Rate Swaps	-	-	440,949	440,949
Rental Income	-	15,773,898	6,628,159	22,402,057
Other Revenues and Gains	-	2,023,589	(14,142)	2,009,447
Net Assets Released from Restrictions	1,624,200	-	-	1,624,200
Total Revenues and Other Additions	1,862,058	20,533,982	7,065,822	29,461,862
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	1,336,909	-	-	1,336,909
University Stores	-	1,312,609	-	1,312,609
Housing	-	15,967,208	5,617,922	21,585,130
Other Programs	-	1,361,890	-	1,361,890
Management and General	237,063	1,646,612	377,324	2,260,999
Fundraising	304,436	-	-	304,436
Total Expenses and Other Deductions	1,878,408	20,288,319	5,995,246	28,161,973
Other Expenses and Losses	-	607,044	-	607,044
Change in Net Assets Without Donor Restrictions	(16,350)	(361,381)	1,070,576	692,845
Changes in Net Assets With Donor Restrictions				
Contributions	3,087,054	-	-	3,087,054
Investment Income	599,980	-	-	599,980
Net Realized and Unrealized Gains	1,622,912	-	-	1,622,912
Other Revenues and Gains	(638)	-	-	(638)
Donor Requested Transfer	(1,624,200)	-	-	(1,624,200)
Change in Net Assets With Donor Restrictions	3,685,108	-	-	3,685,108
CHANGE IN TOTAL NET ASSETS	3,668,758	(361,381)	1,070,576	4,377,953
Net Assets - Beginning of Year	31,427,467	(5,477,001)	7,129,120	33,079,586
NET ASSETS - END OF YEAR	$ 35,096,225	$ (5,838,382)	$ 8,199,696	$ 37,457,539

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	2019	2018
Component Units Due to University, Net	$ 4,366,049	$ 3,207,361
Activity Fees Due to Student Services, Inc. not Remitted by the University	-	326,419
Revenues Recorded Based on FASB Standards	-	(109,184)
University Due from Component Units	$ 4,366,049	$ 3,424,596

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of $1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals $67,653,728 and $67,570,422 at June 30, 2019 and 2018, respectively.

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

In keeping with its legal status as a system of public universities, the State System recognizes a fiduciary responsibility to invest all funds prudently 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 United States Treasury and be in the State System's or its agent's custody.
Commercial Paper	P-1 and P-2 notes only, with no more than 5% and 3%, respectively, of the market value of the fund invested in any single issuer. Total may not exceed 20% of the market value of the fund.
Municipal Bonds	Bonds must carry long-term debt rating of A or better. Total may not exceed 20% of the market value of the fund.
Corporate Bonds	15% must carry long-term debt rating of A or better; 5% may be rated Baa2 or better. Total may not exceed 20% of the market value of the fund.
Collateralized Mortgage Obligations (CMOs)	Must be rated Aaa and guaranteed by U.S. government. Total may not exceed 20% of the market value of the fund.
Asset-Backed Securities	Must be Aaa rated. Total may not exceed 20% of the market value of the fund, with no more than 5% invested in any single issuer.
System Investment Fund Loans (University Loans and Bridge Notes)	Total may not exceed 20% of the market value of the fund, and loan terms may not exceed 5 years.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued):

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

Multi-Strategy Equity Fund: The investment objective of the fund is to offer an investment program that will provide, in a single fund, all of the strategy and manager diversification that an endowment would normally require for its equity allocation. The fund seeks to add value over long periods of time, above the return of the U.S. equity market as measured by the S&P 500 index and, due to its strategy and manager diversification, to reduce volatility in comparison to that of investing in the index.

Multi-Strategy Bond Fund: The investment objective of the fund is to offer an actively managed, multi-manager investment program that will provide, in a single fund, broad exposure to global debt markets. The fund seeks to add value above the return of the broad U.S. bond market over a full market cycle, as measured by the Barclays Capital U.S. Aggregate Bond Index and, due to its strategy and manager diversification, to reduce volatility in comparison to that of investing in the index.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

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

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

The fair value of cash, cash equivalents and investments at June 30, 2019 and 2018 is as follows:

	Fair Value Hierarchy	2019	2018
Primary Institution			
Cash and Cash Equivalents:			
Noncategorized Cash:			
Cash on Hand	N/A	$ 15,915	$ 15,415
Deposits in PASSHE Pooled Fund	N/A	67,653,728	67,570,422
Total Cash and Cash Equivalents		$ 67,669,643	$ 67,585,837
Long-Term Investments-Primary Institution			
Noncategorized Long-Term Investments:			
Common Fund			
Multi-Strategy Equity Fund	NAV	$ 1,372,389	$ 1,270,021
Multi-Strategy Bond Fund	NAV	327,156	317,778
Cash Equivalent	3	100,465	100,465
Excess VPAC Project Gifts Invested with Foundation	3	498,856	513,400
Scholarship Funds Invested with Foundation	3	1,001,704	1,002,904
Beneficial Interest in Perpetual Trusts:	3	8,167,857	8,108,926
Total Long-Term Investments		$ 11,468,427	$ 11,313,494
Foundation			
Certificates of Deposit	1	$ 2,073,092	$ 803,365
Common Stocks	1	86,845	-
Preferred Stocks	1	26,920	27,450
Corporate Bonds	1	153,240	75,576
Collective Trust Fund	NAV	1,521,547	1,483,733
Mutual Funds	1	32,792,457	31,511,479
Private Equity Funds	NAV	827,007	615,512
Total Investments		$ 37,481,108	$ 34,517,115

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table.

Primary Institution 2019	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Multi-Strategy Equity Fund	$ 1,372,389	$ -	Monthly	5 days
Commonfund Multi-Strategy Bond Fund	327,156	-	Monthly	5 days
	$ 1,699,545	$ -		
2018				
Commonfund Multi-Strategy Equity Fund	$ 1,270,021	$ -	Monthly	5 days
Commonfund Multi-Strategy Bond Fund	317,778	-	Monthly	5 days
	$ 1,587,799	$ -		
Foundation				
2019				
Hedge Fund	$ 1,521,547	$ -	Quarterly	100 days
Private Equity Fund	$ 827,077	$ 302,500	None	None
2018				
Hedge Fund	$ 1,483,733	$ -	Quarterly	100 days
Private Equity Fund	$ 615,512	$ -	None	None

Credit Risk

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure, the University would not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Management believes they are not exposed to this credit risk.

Concentration of Credit Risk

The University does not have a formal investment policy for concentration of credit risk. At June 30, 2019, the University had the following investments which exceeded 5% of the University's total investments:

Issuer	Type of Investment	Amount	Percentage of Total Long-Term Investments
Common Fund	Multi-Strategy Equity Fund	$ 1,372,389	11.97%
Common Fund	Multi-Strategy Bond Fund	327,156	2.85%

NOTE 4 CAPITAL ASSETS

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following as of June 30, 2019:

	Life	Beginning Balance July 1, 2018	Additions	Retirements	Reclassifications	Ending Balance June 30, 2019
Capital Assets Not Being Depreciated						
Land		$ 594,260	$ -	$ -	$ -	$ 594,260
Construction in Progress		8,656,987	1,243,398	-	(3,603,625)	6,296,760
Total Capital Assets Not Being Depreciated		9,251,247	1,243,398	-	(3,603,625)	6,891,020
Capital Assets Being Depreciated						
Buildings, Including Improvements	10-40	175,976,192	2,407,933	(215,429)	476,675	178,645,371
Improvements, Other than Buildings	20	23,137,868	865,479	(120,936)	2,779,017	26,661,428
Furnishings and Equipment, Including Capital Leases	3-10	37,184,974	4,683,529	(457,914)	347,933	41,758,522
Library Books	10	3,926,299	8,088	(365,217)	-	3,569,170
Total Capital Assets Being Depreciated		240,225,333	7,965,029	(1,159,496)	3,603,625	250,634,491
Less: Accumulated Depreciation:						
Buildings, Including Improvements		(67,906,962)	(7,201,559)	198,434	-	(74,910,087)
Land Improvements		(12,388,796)	(1,156,544)	120,936	-	(13,424,404)
Furnishings and Equipment Including Capital Leases		(29,680,247)	(2,269,865)	441,985	-	(31,508,127)
Library Books		(3,772,503)	(57,966)	365,217	-	(3,465,252)
Total Accumulated Depreciation		(113,748,508)	(10,685,934)	1,126,572	-	(123,307,870)
Total Capital Assets Being Depreciated, Net		126,476,825	(2,720,905)	(32,924)	3,603,625	127,326,621
Capital Assets, Net		$ 135,728,072	$ (1,477,507)	$ (32,924)	$ -	$ 134,217,641

NOTE 4 CAPITAL ASSETS (CONTINUED)

At June 30, 2019, the University capitalized interest in the amount of $87,367.

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following as of June 30, 2018:

	Life	Beginning Balance July 1, 2017	Additions	Retirements	Reclassifications	Ending Balance June 30, 2018
Capital Assets Not Being Depreciated						
Land		$ 594,260	$ -	$ -	$ -	$ 594,260
Construction in Progress		24,513,123	163,604	-	(16,019,740)	8,656,987
Total Capital Assets Not Being Depreciated		25,107,383	163,604	-	(16,019,740)	9,251,247
Capital Assets Being Depreciated						
Buildings, Including Improvements	10-40	151,285,091	9,571,480	(209,717)	15,329,338	175,976,192
Improvements, Other than Buildings	20	23,037,657	133,838	(46,389)	12,762	23,137,868
Furnishings and Equipment, including Capital Leases	3-10	37,292,647	1,029,215	(1,814,528)	677,640	37,184,974
Library Books	10	3,921,424	5,285	(410)	-	3,926,299
Total Capital Assets Being Depreciated		215,536,819	10,739,818	(2,071,044)	16,019,740	240,225,333
Less: Accumulated Depreciation:						
Buildings, Including Improvements		(61,538,448)	(6,511,065)	142,551	-	(67,906,962)
Land Improvements		(11,419,929)	(1,012,255)	43,388	-	(12,388,796)
Furnishings and Equipment Including Capital Leases		(29,187,408)	(2,258,726)	1,765,887	-	(29,680,247)
Library Books		(3,696,904)	(76,010)	411	-	(3,772,503)
Total Accumulated Depreciation		(105,842,689)	(9,858,056)	1,952,237	-	(113,748,508)
Total Capital Assets Being Depreciated, Net		109,694,130	881,762	(118,807)	16,019,740	126,476,825
Capital Assets, Net		$ 134,801,513	$ 1,045,366	$ (118,807)	$ -	$ 135,728,072

At June 30, 2018, the University capitalized interest in the amount of $350,340.

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2019	2018
Employees	$ 9,757,776	$ 9,345,742
Supplies and Services	3,385,707	3,351,083
Interest	89,252	96,606
Total	$ 13,232,735	$ 12,793,431

NOTE 6 LEASES

The University has entered into long-term operating leases for the use of facilities. Future annual minimum payments in the aggregate, under noncancelable operating leases are as follows:

Year Ending June 30,	Amount
2020	$ 71,891
2021	71,891
2022	71,891
Total	$ 215,673

Total rent expense was $2,526,002 and $2,415,471 for the years ended June 30, 2019 and 2018, respectively.

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

	2019	2018
Balance - July 1	$ 486,507	$ 384,491
Increases	2,853,192	206,407
Repayments	(139,005)	(104,391)
Balance - June 30	$ 3,200,694	$ 486,507

At June 30, 2019 and 2018, capital assets include equipment under capital lease of $3,535,661 and $682,469, respectively, which is reported net of accumulated depreciation of $574,879 and $201,363, respectively.

NOTE 6 LEASES (CONTINUED)

Future minimum payments are as follows:

Year Ending June 30,	Amount
2020	$ 765,919
2021	765,296
2022	675,670
2023	646,978
2024	619,131
Total	3,472,994
Less: Amounts Representing Interest on Capital Leases	(272,300)
Present Value of Net Minimum Lease Payments	3,200,694
Less: Current Portion	716,102
Long-Term Capital Lease Obligations	$ 2,484,592

NOTE 7 BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA on behalf of the University under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System's Board of Governors has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University and their balances as of June 30, 2019 are as follows:

NOTE 7 BONDS PAYABLE (CONTINUED)

	Weighted Average Interest Rate	Balance July 1, 2018	Bonds Issued	Bonds Redeemed	Balance June 30, 2019
Series AI Used for Installation of Sprinklers Final Maturity June 2025	4.36 %	$ 906,018	$ -	$ (906,018)	$ -
Series AJ Used for SMC Recreation Center, Guaranteed Energy Savings Agreement ("GESA") Project, Education Building Renovations and Infrastructure Final Maturity June 2029	4.85 %	7,673,666	-	(609,736)	7,063,930
Series AK Used for Refunding of Series S Final Maturity June 2020	4.00 %	299,125	-	(146,873)	152,252
Series AL Used for Sprinklers and Union/Recreation Center Final Maturity June 2030	5.00 %	7,802,521	-	(535,028)	7,267,493
Series AM Used for Visual and Performing Arts Center Final Maturity June 2031	4.64 %	13,387,218	-	(825,540)	12,561,678
Series AP Used for Residence Hall Refunded AA Final Maturity June 2024	4.62 %	1,999,342	-	(300,084)	1,699,258
Series AQ Used for Refunding of Residence, Buildings, Infrastructure Final Maturity June 2026	4.61 %	7,905,554	-	(880,783)	7,024,771
Series AR Used for Dining Hall Renovations Final Maturity June 2035	3.92 %	8,772,359	-	(403,345)	8,369,014
Series AS Used for Infrastructure Refunded AF Final Maturity June 2027	3.97 %	1,340,884	-	(130,504)	1,210,380
Series AV issued in September 2018 Refund AG and AI Final maturity in June 2025	4.22 %	-	847,908	(137,834)	710,074
Total Bonds Payable		$ 50,086,687	$ 847,908	$ (4,875,745)	46,058,850
Plus: Unamortized Bond Premium					2,272,313
Outstanding at June 30, 2019					48,331,163
Less: Current Portion					(4,608,303)
Bonds Payable, Net of Current Portion					$ 43,722,860

NOTE 7 BONDS PAYABLE (CONTINUED)

Bonds outstanding as of June 30, 2018 were as follows:

	Weighted Average Interest Rate	Balance July 1, 2017	Bonds Issued	Bonds Redeemed	Balance June 30, 2018
Series AG Used for Refunding of Series Q Final Maturity June 2018	4.52 %	$ 144,629	$ -	$ (144,629)	$ -
Series AI Used for Installation of Sprinklers Final Maturity June 2025	4.27 %	1,043,758	-	(137,740)	906,018
Series AJ Used for SMC Recreation Center, Guaranteed Energy Savings Agreement ("GESA") Project, Education Building Renovations and Infrastructure Final Maturity June 2029	4.86 %	8,254,067	-	(580,401)	7,673,666
Series AK Used for Refunding of Series S Final Maturity June 2020	4.00 %	439,683	-	(140,558)	299,125
Series AL Used for Sprinklers and Union/Recreation Center Final Maturity June 2030	5.00 %	8,311,547	-	(509,026)	7,802,521
Series AM Used for Visual and Performing Arts Center Final Maturity June 2031	4.66 %	14,167,898	-	(780,680)	13,387,218
Series AP Used for Residence Hall Refunded AA Final Maturity June 2024	4.60 %	2,290,988	-	(291,646)	1,999,342
Series AQ Used for Refunding of Residence, Buildings, Infrastructure Final Maturity June 2026	4.65 %	8,744,514	-	(838,960)	7,905,554
Series AR Used for Dining Hall Renovations Final Maturity June 2035	3.95 %	9,161,620	-	(389,261)	8,772,359
Series AS Used for Infrastructure Refunded AF Final Maturity June 2027	3.83 %	1,399,691	-	(58,807)	1,340,884
Total Bonds Payable		$ 53,958,395	$ -	$ (3,871,708)	50,086,687
Plus: Unamortized Bond Premium					2,699,083
Outstanding at June 30, 2018					52,785,770
Less: Current Portion					(4,459,658)
Bonds Payable, Net of Current Portion					$ 48,326,112

NOTE 7 BONDS PAYABLE (CONTINUED)

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

Series		2020	2021	2022	2023	2024	2025-2029	2030-2034	2035-2039	Total
AJ	Principal	640,070	672,402	704,733	740,123	777,572	3,529,030	-	-	7,063,930
	Interest	337,590	305,587	271,967	236,730	199,724	502,989	-	-	1,854,587
	Total	977,660	977,989	976,700	976,853	977,296	4,032,019	-	-	8,918,517
AK	Principal	152,252	-	-	-	-	-	-	-	152,252
	Interest	6,090	-	-	-	-	-	-	-	6,090
	Total	158,342	-	-	-	-	-	-	-	158,342
AL	Principal	560,939	589,147	554,824	582,400	612,182	3,548,449	819,552	-	7,267,493
	Interest	363,375	335,328	305,870	278,129	249,009	754,528	40,978	-	2,327,217
	Total	924,314	924,475	860,694	860,529	861,191	4,302,977	860,530	-	9,594,710
AM	Principal	881,884	940,391	999,978	1,066,727	1,137,799	5,378,603	2,156,296	-	12,561,678
	Interest	585,508	541,414	494,394	444,395	388,392	1,182,454	152,000	-	3,788,557
	Total	1,467,392	1,481,805	1,494,372	1,511,122	1,526,191	6,561,057	2,308,296	-	16,350,235
AP	Principal	312,134	324,185	337,442	354,314	371,183	-	-	-	1,699,258
	Interest	78,600	66,114	53,147	36,275	18,559	-	-	-	252,695
	Total	390,734	390,299	390,589	390,589	389,742	-	-	-	1,951,953
AQ	Principal	925,022	972,474	1,019,939	1,071,414	1,125,305	1,910,617	-	-	7,024,771
	Interest	351,239	304,987	256,364	205,367	151,796	131,981	-	-	1,401,734
	Total	1,276,261	1,277,461	1,276,303	1,276,781	1,277,101	2,042,598	-	-	8,426,505
AR	Principal	413,908	427,993	442,077	459,683	473,768	2,590,669	2,925,176	635,740	8,369,014
	Interest	367,372	353,640	339,203	324,063	308,041	1,318,341	983,222	147,174	4,141,056
	Total	781,280	781,633	781,280	783,746	781,809	3,909,010	3,908,398	782,914	12,510,070
AS	Principal	132,920	135,337	138,559	145,407	152,657	505,500	-	-	1,210,380
	Interest	52,471	49,813	47,106	40,178	32,908	51,376	-	-	273,852
	Total	185,391	185,150	185,665	185,585	185,565	556,876	-	-	1,484,232
AV	Principal	133,062	139,775	146,069	158,216	95,155	37,797	-	-	710,074
	Interest	35,504	28,851	21,862	14,558	6,648	1,890			109,313
	Total	168,566	168,626	167,931	172,774	101,803	39,687	-	-	819,387
Total	Principal	4,152,191	4,201,704	4,343,621	4,578,284	4,745,621	17,500,665	5,901,024	635,740	46,058,850
	Interest	2,177,749	1,985,734	1,789,913	1,579,695	1,355,077	3,943,559	1,176,200	147,174	14,155,101
	Total	$ 6,329,940	$ 6,187,438	$ 6,133,534	$ 6,157,979	$ 6,100,698	$ 21,444,224	$ 7,077,224	$ 782,914	$ 60,213,951

NOTE 7 BONDS PAYABLE (CONTINUED)

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. In the past, the State System issued bonds to provide a pool for funding for AFRP ($9,228,259 and $13,298,828) was outstanding as of June 30, 2019 and 2018, respectively). Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance owed by the University to the AFRP pool of funding were as follows:

	2019	2018
Balance - July 1	$ 1,119,317	$ 1,476,279
Repayments	(342,606)	(356,962)
Balance - June 30	$ 776,711	$ 1,119,317

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	2019		2018	
	Current	Noncurrent	Current	Noncurrent
Student Tuition and Fees	$ 1,366,323	$ 53,463	$ 1,511,920	$ 64,155
Grants	400,451	-	265,958	-
Total	$ 1,766,774	$ 53,463	$ 1,777,878	$ 64,155

NOTE 9 COMPENSATED ABSENCES

Compensated absences consisted of the following at June 30:

	2019		2018	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	$ 914,667	$ 8,430,659	$ 847,858	$ 8,406,759

Compensated absences activity consisted of the following during 2019 and 2018:

	2019	2018
Balance - July 1	$ 9,254,617	$ 8,807,454
Current Changes in Estimate	1,034,805	1,299,276
Payouts	(944,096)	(852,113)
Balance - June 30	9,345,326	9,254,617
Less: Current Portion	(914,667)	(847,858)
Noncurrent Portion	$ 8,430,659	$ 8,406,759

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS

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

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

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Following is the total of the University's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense for the fiscal years ended June 30, 2019 and 2018.

	System Plan		REHP		Premium Assistance		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Net OPEB liabilities	$95,089,062	$105,619,527	$59,748,624	$79,495,490	$294,588	$296,259	$155,132,274	$185,411,276
Deferred outflows of resources:								
Net Differences Between Actual and Expected Experience	-	-	-	-	1,847	-	1,847	-
Net Differences Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	-	-	-	462	321	462	321
Changes in Assumptions	-	-	-	-	4,617	-	4,617	-
Changes in Proportion	-	-	3,192,517	-	3,540	-	3,196,057	-
Contributions After the Measurement Date	2,708,543	2,723,805	2,348,652	1,946,287	17,249	15,697	5,074,444	4,685,789
Total Deferred Outflows of Resources	$ 2,708,543	$ 2,723,805	$ 5,541,169	$ 1,946,287	$ 27,715	$ 16,018	$ 8,277,427	$ 4,686,110
Deferred inflows of resources:								
Net Differences Between Actual and Expected Experience	10,597,881	-	18,299,647	-	-	-	28,897,528	-
Net Differences Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	-	91,319	66,394	-	-	91,319	66,394
Changes in Assumptions	7,601,120	8,632,616	7,854,480	7,243,123	11,159	13,809	15,466,759	15,889,548
Changes in Proportion	-	-	-	-	2,617	3,292	2,617	3,292
Total Deferred Inflows of Resources	$ 18,199,001	$ 8,632,616	$ 26,245,446	$ 7,309,517	$ 13,776	$ 17,101	$ 44,458,223	$ 15,959,234
OPEB Expense	$ 1,759,727	$ 4,246,980	$ (2,057,168)	$ 3,690,400	$ 14,253	$ 24,390	$ (283,188)	$ 7,961,770
Contributions Recognized by OPEB Plans	N/A	N/A	$ 2,348,652	$ 1,946,287	$ 17,249	$ 15,697	$ 2,365,901	$ 1,961,984

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $2,708,543 for the System Plan, $2,348,652 for the REHP plan, and $17,249 for the Premium Assistance plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

	Amortization		
Fiscal Year Ended	System Plan	REHP	Premium Assistance
June 30, 2020	$ (3,985,070)	$ (5,872,252)	$ (923)
June 30, 2021	(3,985,070)	(5,872,252)	(1,000)
June 30, 2022	(3,985,070)	(5,872,252)	(1,000)
June 30, 2023	(3,985,070)	(5,405,220)	(1,000)
June 30, 2024	(2,258,721)	(3,184,710)	(1,077)
Thereafter	-	3,153,757	1,690
	$ (18,199,001)	$ (23,052,929)	$ (3,310)

System Plan

Plan Description

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

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

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Plan Description (Continued)

A total of 12,122 employees are covered by the benefit terms, (down from 12,511 in the prior year), 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, 2019.

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

Actuarial Assumptions and Other Inputs

The actuarial valuation on which the total OPEB liability is based is dated July 1, 2018, which is the measurement date. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- 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 RP-2014 Total Mortality Tables, which incorporate rates based on a generational projection using Scale MP-2018 to reflect mortality improvement, updated from Scale MP-2017.
- The discount rate decreased from 3.13% to 2.98%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2018.
- Participant data is based on census information as of July 1, 2018.
- Experience assumptions for withdrawal and retirement, expected vs. actual, and election percentages were reviewed in 2019, and it was determined that the results were reasonable and did not warrant a further formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all eligible retirees, regardless of employee bargaining unit when active, and including those not represented when active, who meet years of service and/or age criteria.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's net OPEB liability at June 30, 2019 and 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates.

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

	1% Decrease (4.5% decreasing to 2.8%)	Healthcare Cost Trend Rates (5.5% decreasing to 3.8%)	1% Increase (6.5% decreasing to 4.8%)
2019	$ 79,609,779	$ 95,089,062	$ 115,120,253
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
2018	$ 87,451,300	$ 105,619,527	$ 129,332,143

The following presents the University's net OPEB liability at June 30, 2019 and 2018, as well as what the liability would be it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate.

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

	1% Decrease (1.98%)	Current Rate (2.98%)	1% Increase (3.98%)
2019	$ 111,604,756	$ 95,089,062	$ 81,987,203
	1% Decrease (2.13%)	Current Rate (3.13%)	1% Increase (4.13%)
2018	$ 124,484,833	$ 105,619,527	$ 90,727,322

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

OPEB Liability

The University's total OPEB liability of $95,089,062 was measured as of July 1, 2018, and was determined by an actuarial valuation as of July 1, 2018. The University's total OPEB liability of $105,619,527 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016, that was rolled forward to July 1, 2017.

University's Proportionate Share of the System Plan OPEB Liability
Determined as of the June 30 measurement dates

Changes in the University's Proportionate Share of the System Plan Total OPEB Liability	Fiscal Year Ending June 30, 2019	June 30, 2018
Total OPEB Liability - Beginning Balance	$ 105,619,527	$ 109,689,232
Service Cost	3,064,631	1,997,487
Interest	3,345,796	1,619,822
Changes in Benefit Terms	(73,671)	-
Net Differences Between Actual and Expected Experience	(12,718,748)	-
Changes in Assumptions	(834,958)	(5,881,263)
Benefit Payments	(3,313,515)	(1,805,751)
Net Changes	(10,530,465)	(4,069,705)
Total OPEB Liability - Ending Balance	$ 95,089,062	$ 105,619,527

REHP

Plan Description

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

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Plan Description (Continued)

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

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

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

Employer contribution requirements are established by the Commonwealth as provided by pertinent statutory authority. With the exception of certain employing agencies, employers contributed to the REHP Trust a retiree health assessment rate of $300 for each current REHP eligible active employee during the fiscal year ended June 30, 2019. The rate during the period July 1, 2017 through January 18, 2018 was $300, and the rate from January 19, 2018 through June 30, 2018, was $188.

Actuarial Assumptions and Other Inputs

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

- Actuarial Cost Method is Entry Age Normal, which requires an estimate of the projected benefit payable at retirement to determine costs and liabilities.
- Inflation of 2.60%.
- Healthcare cost trend rate of 6.2%, with rates gradually decreasing to 4.1% in 2075 and later based on the SOA-Getzen trend rate model version 2016_a.
- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates based on the RP-2000 Male and Female Combined Healthy Mortality Tables or the RP-2000 Male and Female Disabled Retiree Mortality Tables, as appropriate, adjusted to ensure sufficient margin improvement in certain age ranges.
- Participant data based on census information as of December 31, 2017.

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

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

- Discount rate of 3.87% as of June 30, 2018, and 3.58% as of June 30, 2017.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the 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:

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	47.0 %	6.6 %
International Equity	20.0	8.6
Fixed Income	25.0	3.0
Real Estate	8.0	6.9
Cash	-	1.0
Total	100.0 %	

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

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

The following presents the University's share of the REHP net OPEB liability at June 30, 2019 and 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates.

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

	1% Decrease (5.2% decreasing to 3.1%)	Healthcare Cost Trend Rates (6.2% decreasing to 4.1%)	1% Increase (7.2% decreasing to 5.1%)
2019	$ 51,289,317	$ 59,748,624	$ 70,263,414

	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
2018	$ 68,989,739	$ 79,495,490	$ 95,222,260

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the REHP net OPEB liability at June 30, 2019 and 2018, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate.

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

	1% Decrease (2.87%)	Current Rate (3.87%)	1% Increase (4.87%)
2019	$ 68,451,658	$ 59,748,624	$ 52,578,397
	1% Decrease (2.58%)	**Current Rate (3.58%)**	**1% Increase (4.58%)**
2018	$ 93,142,902	$ 79,495,490	$ 70,443,756

Fiduciary Net Position

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

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

Premium Assistance

Plan Description

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

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Plan Description (Continued

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

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.83% of covered payroll for the fiscal years ended June 30, 2019 and 2018. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 0.415% of covered payroll.

Actuarial Assumptions and Other Inputs

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

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016, determined the employer contribution rate for fiscal year 2017/18.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.
- Participation rate assumed that 63% of eligible retirees will elect premium assistance.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Mortality rates and retirement ages were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

- The discount rate used to measure the total OPEB liability was 2.98% at June 30, 2018 and 3.13% at June 30, 2017.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 2.98%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.
- 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, 2018.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.9 %	0.3 %
US Core Fixed Income	92.8 %	1.2 %
Non-US Developed Fixed	1.3 %	0.4%
Total	100.0 %	

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2019 and 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates.

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

	1% Decrease (between 4% and 6.75%)	Healthcare Cost Trend Rates (Between 5% and 7.75%)	1% Increase (between 6% and 8.75%)
2019	$ 294,510	$ 294,588	$ 294,664
	1% Decrease (between 4% and 7%)	Healthcare Cost Trend Rates (Between 5% and 8%)	1% Increase (between 6% and 9%)
2018	$ 296,179	$ 296,259	$ 296,339

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2019 and 2018, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate used.

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

	1% Decrease (1.98%)	Current Rate (2.98%)	1% Increase (3.98%)
2019	$ 334,989	$ 294,588	$ 261,031
	1% Decrease (2.13%)	Current Rate (3.13%)	1% Increase (4.13%)
2018	$ 336,724	$ 296,259	$ 262,619

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Fiduciary Net Position

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

NOTE 11 PENSION BENEFITS

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

Following is the total of the University's pension liabilities, deferred outflows and deferred inflows of resources related to pensions, and the pension expense for the fiscal years ended June 30, 2019 and 2018:

NOTE 11 PENSION BENEFITS (CONTINUED)

	SERS		PSERS		ARP		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Net Pension Liabilities	$ 84,007,004	$ 71,288,762	$ 6,667,269	$ 7,219,508	$ -	$ -	$ 90,674,273	$ 78,508,270
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	$ 1,260,656	$ 1,205,346	$ 53,633	$ 75,309	$ -	$ -	$ 1,314,289	$ 1,280,655
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	8,173,386	-	32,679	167,327	-	-	8,206,065	167,327
Changes in Assumptions	2,238,152	3,569,134	124,287	196,143	-	-	2,362,439	3,765,277
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	26,319	40,870	-	-	26,319	40,870
Changes in Proportion	1,204,887	1,704,317	113,773	129,309	-	-	1,318,660	1,833,626
Contributions After the Measurement Date	4,715,540	4,548,280	680,309	596,066	-	-	5,395,849	5,144,346
Total Deferred Outflows of Resources	$ 17,592,621	$ 11,027,077	$ 1,031,000	$ 1,205,024	$ -	$ -	$ 18,623,621	$ 12,232,101
Deferred Inflows of Resources								
Difference Between Expected and Actual Experience	$ 910,300	$ 1,353,599	$ 103,182	$ 43,587	$ -	$ -	$ 1,013,482	$ 1,397,186
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	2,834,403	-	-	-	-	-	2,834,403
Difference Between Employer Contributions and Proportionate Share of Contributions	448,733	411,715	-	-	-	-	448,733	411,715
Changes in Proportion	664,433	1,117,740	70,427	104,690	-	-	734,860	1,222,430
Total Deferred Inflows of Resources	$ 2,023,466	$ 5,717,457	$ 173,609	$ 148,277	$ -	$ -	$ 2,197,075	$ 5,865,734
Pension Expense	$ 10,631,248	$ 11,639,035	$ 1,061,575	$ 1,596,010	$ 3,342,061	$ 3,261,782	$ 15,034,884	$ 16,496,827
Contributions Recognized by Pension Plans	$ 8,172,542	$ 7,800,771	$ 680,309	$ 596,066	N/A	N/A	$ 8,852,851	$ 8,396,837

NOTE 11 PENSION BENEFITS (CONTINUED)

The University will recognize the $4,715,540 reported as 2019 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $680,309 reported as 2019 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows.

	Amortization	
Year Ending June 30,	SERS	PSERS
2020	$ 4,083,542	$ 191,583
2021	2,284,433	72,151
2022	1,504,197	(62,498)
2023	2,963,222	(24,154)
2024	18,221	-
Total	$ 10,853,615	$ 177,082

SERS

Plan Description

SERS is the administrator of the State Employees' Retirement fund, a cost-sharing multiple-employer defined benefit 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 require supplementary information for the plan. A copy of the report may be obtained from the SERS website at www.sers.state.pa.us.

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

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided

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

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

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Contributions (Continued)

For the SERS defined benefit plan, the University's actuarially determined contribution rate for most active members was 34.63% of active members' annual covered payroll at June 30, 2019, with less common rates ranging between 23.94% and 27.71%, depending upon the defined benefit plan chosen by the employee For the SERS defined benefit/defined contribution hybrid plan, the University's actuarially determined contribution rate was either 16.17% or 16.42% of annual covered payroll, depending upon the hybrid plan chosen by the employee. In addition, the University was required to contribute to the defined benefit plan 14.89% of the annual covered payroll of employees who selected the straight 401(a) defined contribution plan. The University contribution to the SERS defined benefits plan for the year ended June 30, 2019, 2018, and 2017 were $8,172,542, $7,800,771, $7,038,441, and $5,649,586, 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 University contributed at actuarially determined rates of between 2.0% and 3.5% of active members' annual covered payroll at June 30, 2019, depending upon the plan chosen by the employee. The University recognized $2,486 in SERS defined contribution pension expense for the year ended June 30, 2019, the first year of the plan's implementation. The vesting period for employer contributions to the defined contribution plan, both for members who participate in the straight 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.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18th Investigation of Actuarial Experience study for the period 2011–2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the 18th Investigation of Actuarial Experience at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its April 2017 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.5% to 7.25%. The next SERS review occurred in summer 2019 and will be used for its 2019 annual valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2018, measurement date.

- Entry age actuarial cost method.
- Investments amortized on a straight-line, closed period basis over five years; assumption changes noninvestment gains/losses amortized over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.25%, net of manager fees and including inflation.
- Salary increases based on an average of 5.60%, with a range of 3.70% to 8.90%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- No cost of living adjustments.

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of manager fees and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2018 and 2017 summarized below:

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

Asset Class	2018 Target Allocation	2018 Long-Term Expected Real Rate of Return	2017 Target Allocation	2017 Long-Term Expected Real Rate of Return
Private Equity	16.00 %	7.25 %	16.00 %	8.00 %
Global Public Equity	48.00	5.15	43.00	5.30
Real Estate	12.00	5.26	12.00	5.44
Multi-Strategy	10.00	4.44	12.00	5.10
Fixed Income	11.00	1.26	14.00	1.63
Cash	3.00	-	3.00	(0.25)
Total	100.00 %		100.00 %	

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

The following presents the University's proportionate share of the SERS net pension liability at June 30, 2019 and 2018, calculated using the current discount rate, 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 or one percentage point higher than the current rate.

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

	1% Decrease (6.25%)	Current Rate (7.25%)	1% Increase (8.25%)
2019	$ 103,153,745	$ 84,007,004	$ 67,599,298

	1% Decrease (6.25%)	Current Rate (7.25%)	1% Increase (8.25%)
2018	$ 90,487,672	$ 71,288,762	$ 54,842,672

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Fiduciary Net Position

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

Proportionate Share

At June 30, 2019, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2018, was $84,007,004. At June 30, 2018, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2017, was $71,288,762.

The allocation percentage assigned to each participating employer is based on a projected contribution method. For the allocation of the December 2018 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2019/20, from the December 31, 2018, funding valuation, to the expected funding payroll. For the allocation of the December 2017 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2018/19, from the December 31, 2017, funding valuation, to the expected funding payroll. At the December 31 2018 measurement date, the State System's proportion was 4.897%, a decrease of 0.009% from its proportion calculated as of the December 31, 2017 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 (University), and the Commonwealth. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. PSERS issues a comprehensive annual financial report that may be obtained from the PSERS website at www.psers.state.pa.us.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided

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

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

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

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

Member Contributions

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

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2019 was 32.60% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 16.30% of covered payroll. The University's contribution to PSERS for the years ending June 30, 2019, 2018, and 2017 was $680,309, $596,066, and $573,696, respectively, equal to the required contractual contribution.

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

- Actuarial cost method 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, 2018 and 2017.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

	2018		2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0 %	5.2 %	20.0 %	5.1 %
Fixed Income	36.0	2.2	36.0	2.6
Commodities	8.0	3.2	8.0	3.0
Absolute Return	10.0	3.5	10.0	3.4
Risk Parity	10.0	3.9	10.0	3.8
Infrastructure/MLPs	8.0	5.2	8.0	4.8
Real Estate	10.0	4.2	10.0	3.6
Alternative Investments	15.0	6.7	15.0	6.2
Cash	3.0	0.4	3.0	0.6
Financing (LIBOR)	(20.0)	0.9	(20.0)	1.1
Total	100.0 %		100.0 %	

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

The following presents the University's proportionate share of the PSERS net pension liability at June 30, 2019 and 2018, calculated using the current discount rate as well as what the PSERS net pension liability would be if were calculated using a discount rate one percentage point lower and one percentage point higher than the current rate.

	Sensitivity of the University's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate		
	1% Decrease (6.25%)	Current Rate (7.25%)	1% Increase (8.25%)
2019	$ 8,264,549	$ 6,667,269	$ 5,316,674
	1% Decrease (6.25%)	Current Rate (7.25%)	1% Increase (8.25%)
2018	$ 8,886,641	$ 7,219,508	$ 5,812,042

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Fiduciary Net Position

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

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.

	2019	2018
Total PSERS Net Pension Liability Associated with the University	$ 13,334,538	$ 14,439,016
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	6,667,269	7,219,508
University's Proportionate Share of the PSERS Net Pension Liability	$ 6,667,269	$ 7,219,508

PSERS measured the 2019 and 2018 net pension liabilities as of June 30, 2018, and June 30, 2017, respectively. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2018, the State System's proportion was .1836%, an increase of .0025% from its proportion calculated as of June 30, 2017.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The University's contribution rate on June 30, 2019 and 2018 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2019 and 2018 were $3,342,000 and $3,262,000, respectively, from the University and $1,798,741 and $1,773,780, respectively, from active members. No liability is recognized for the ARP.

NOTE 12 WORKERS' COMPENSATION

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims up to $100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund) to which all State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed $79,762 to the Reserve Fund during the year ended June, 30 2019 and contributed $174,749 to the Reserve Funding during the year ended June 30, 2018, and was refunded $75,025 from the Reserve Fund for the year ended June 30, 2017.

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

	2019	2018	2017
Balance - July 1	$ 946,617	$ 921,594	$ 1,044,022
Current Year Claims and Changes in Estimate	495,767	676,784	83,179
Payments	(253,909)	(651,761)	(205,607)
Balance - June 30	$ 1,188,475	$ 946,617	$ 921,594

NOTE 13 RELATED PARTY TRANSACTIONS

The University has a separately incorporated affiliated organization, the General Alumni Association. Since this affiliated organization operates under an independent governing board and management, the financial activities of this organization are not included in the accompanying financial statements. Based upon audited financial statements at June 30, 2019 and 2018, the organization had net assets of $1,527,176 and $1,466,596, revenues of $296,456 and $297,150, and expenditures of $235,876 and $221,089, respectively.

NOTE 14 CONTINGENCIES

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

The University is self-insured for workers' compensation up to stated limits (see Note 12). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its Risk Management Program. The University does not participate in any public entity risk pools, and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant. The University has not significantly reduced any of its insurance coverage from the prior year. Settled claims have not significantly exceeded the University's insurance coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

The University receives support from federal and Commonwealth grant programs, primarily for student financial assistance. 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, 2019, the University estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements.

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2019 and 2018 were approximately $988,788 and $2,341,322, respectively.

Labor Concentration

Approximately 86% of the State System's employees are covered by collective bargaining agreements, most of which expired June 30, 2019. In August 2019, the Commonwealth and AFSCME signed a four-year contract, the provisions of which apply to the State System's clerical, administrative, technical, and maintenance and trade employees whom AFSCME represents, or approximately 29% of the State System's labor force.

The collective bargaining agreements for the remaining State System labor unions are under negotiation. In October 2019, negotiators reached a tentative agreement for the APSCUF faculty contract, which represents approximately 45% of the labor force. Negotiations are ongoing with SCUPA, which represents approximately 6% of the State System's labor force and includes professional employees working in areas such as admissions, financial aid, and residence life. Negotiations also are ongoing with five smaller labor units representing 6% of the State System's labor force. The terms of the prior contracts remain in effect until a successor agreement is achieved.

NOTE 14 CONTINGENCIES (CONTINUED)

Cheyney University Loan Forgiveness

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

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

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

NOTE 15 RATING ACTIONS

In August 2019, Moody's Investors Service, Inc. maintained the State System's bond rating of Aa3 with an outlook of *stable*. In August 2019, Fitch Ratings affirmed the State System's rating of A+ with an outlook of *stable*.

NOTE 16 SUBSEQUENT EVENTS

In September 2019, PHEFA issued Series AW tax-exempt revenue bonds in the amount of $84,980,000. The net proceeds from the Series AW revenue bonds were used to finance replacement of HVAC equipment at Bloomsburg University and to reimburse the acquisition of parking garages at West Chester University, as well as to current refund portions of Series AJ and Series AK revenue bonds. The refunding was performed to reduce debt service by approximately $14,000,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $1,500,000. 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 bonds.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2019 AND 2018
(UNAUDITED)
(SEE INDEPENDENT AUDITORS' REPORT)

University's Proportionate Share of the System Plan OPEB Liability
Determined as of the June 30 measurement dates

Changes in the University's Proportionate Share of the System Plan Total OPEB Liability	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018
Total OPEB Liability - Beginning Balance	$ 105,619,527	$ 109,689,232
Service Cost	3,064,631	1,997,487
Interest	3,345,796	1,619,822
Changes in Benefit Terms	(73,671)	-
Net Differences Between Actual and Expected Experience	(12,718,748)	-
Changes in Assumptions	(834,958)	(5,881,263)
Benefit Payments	(3,313,515)	(1,805,751)
Net Changes	(10,530,465)	(4,069,705)
Total OPEB Liability - Ending Balance	$ 95,089,062	$ 105,619,527
Covered Employee Payroll	$ 42,158,501	$ 42,843,020
OPEB Liability as a Percent of Covered Payroll	225.55%	246.53%

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

Schedule of Proportionate Share of REHP's Net OPEB Liability
Determined as of REHP's June 30 Measurement Dates
(in Thousands)

Fiscal Year	State System's Proportion	University's Proportion Share	University's Covered Employee Payroll	Share of Net Liability as a % of Covered-Employee Payroll	REHP's Fiduciary Net Position as a % of Total OPEB Liability
2017/18	4.374 %	$ 79,495	$ 10,838	733.5 %	1.4 %
2018/19	4.483 %	$ 59,749	$ 10,657	560.7%	2.2 %

REHP Schedule of Contributions
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Deficiency (Excess)	Covered-Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	$ 1,946	$ 1,946	$ -	$ 12,854	15.1 %
2018/19	$ 2,349	$ 2,349	$ -	$ 13,215	17.77 %

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

	PSERS Net OPEB Liability					University's Proportionate Share of Net Liability as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total OPEB Liability
Fiscal Year	State System's Proportion	University's Proportion Share	Proportion Share	Total	University's Covered Employee Payroll		
2017/18	0.18110%	$ 296	$ 296	$ 592	$ 3,873	7.65 %	5.73 %
2018/19	0.18360%	$ 295	$ 295	$ 590	$ 3,804	7.74%	5.56%

PSERS Schedule of Contributions
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	$ 16	$ 16	$ -	$ 3,946	0.40 %
2018/19	$ 17	$ 17	$ -	$ 4,308	0.40 %

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

Fiscal Year	State System's Proportion	University's Proportionate Share	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	4.901 %	$ 59,723	$ 24,359	245 %	64.8 %
2015/16	4.721 %	$ 70,203	$ 24,348	288 %	58.9 %
2016/17	4.837 %	$ 76,256	$ 24,622	310 %	57.8 %
2017/18	4.906 %	$ 71,289	$ 25,974	275 %	63.0 %
2018/19	4.897 %	$ 84,007	$ 26,229	320 %	56.4 %

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 4,691	$ 4,691	$ -	$ 24,359	19.3 %
2015/16	$ 5,650	$ 5,650	$ -	$ 23,863	23.7 %
2016/17	$ 7,038	$ 7,038	$ -	$ 25,132	28.0 %
2017/18	$ 7,801	$ 7,801	$ -	$ 24,840	31.4 %
2018/19	$ 8,173	$ 8,173	$ -	$ 26,212	31.2 %

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(SEE INDEPENDENT AUDITORS' REPORT)

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

	PSERS Net Pension Liability					University's Proportionate Share of NPL as	PSERS Fiduciary
Fiscal Year	State System's Proportion	University's Proportionate Share	Commonwealth's Proportion Share	Total	University's Covered Employee Payroll	a % of Covered-Employee Payroll	Net Position as a % of Total Pension Liability
2014/15	0.1785 %	$ 6,223	$ 6,223	$ 12,446	$ 2,006	310 %	57.2 %
2015/16	0.1852 %	$ 7,021	$ 7,021	$ 14,042	$ 4,172	200 %	54.4 %
2016/17	0.1833 %	$ 7,347	$ 7,347	$ 14,694	$ 3,841	200 %	50.1 %
2017/18	0.1811 %	$ 7,220	$ 7,220	$ 14,439	$ 3,893	200 %	51.8 %
2018/19	0.1836 %	$ 6,667	$ 6,667	$ 13,335	$ 3,740	200 %	54.0 %

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 458	$ 458	$ -	$ 4,172	11.0 %
2015/16	$ 486	$ 486	$ -	$ 3,929	12.4 %
2016/17	$ 574	$ 574	$ -	$ 4,015	14.3 %
2017/18	$ 596	$ 596	$ -	$ 3,946	15.1 %
2018/19	$ 680	$ 680	$ -	$ 4,308	15.8 %