

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

**FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

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



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**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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


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

***Opinions***

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the aggregate discretely presented component units of the University as of June 30, 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 require that the various schedules of Proportionate Share of Net Pension Liability, OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 76-79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 12, 2019

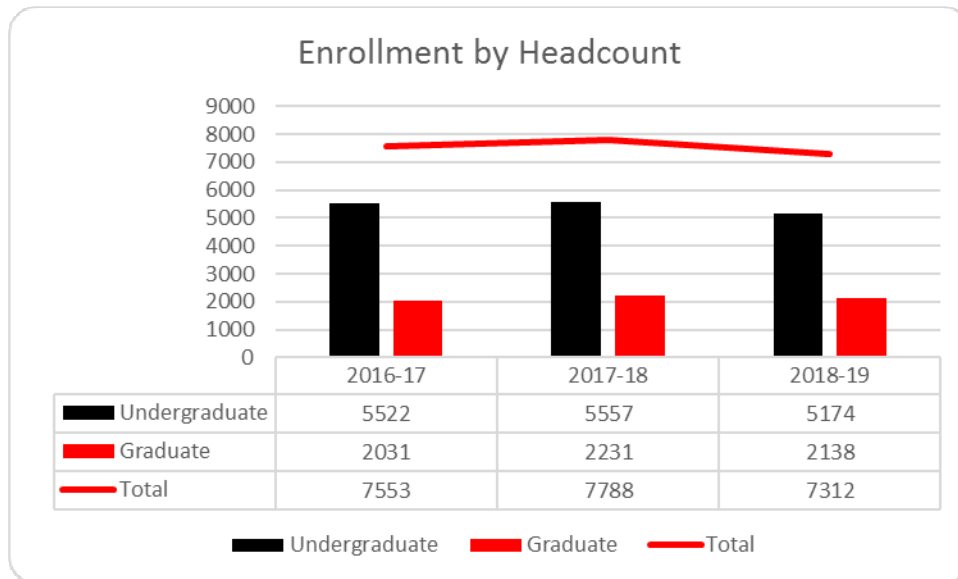
**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019 AND 2018  
(UNAUDITED)**

California University of Pennsylvania, a member of the State System of Higher Education (the University), located in California, Pennsylvania, was founded in 1852. The University is one of fourteen universities of the Pennsylvania State System of Higher Education (the State System). The University is a comprehensive public university that serves the state, national, and international communities by providing its students with high quality academic instruction and at the lowest possible cost, and the region with public service. 7,312 students were enrolled for the 2018-2019 year to which the University offers over 100 undergraduate majors, degrees, and certificates; over 95 graduate and professional degree and certificate programs, and over 75 programs delivered 100% online.

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

**Financial Highlights:**

Enrollment for Fall 2018 included 5,174 undergraduate and 2,138 graduate students, for a total of 7,312 students (headcount). Fall 2018 total enrollment was comprised of 6,053 resident students, and 1,259 nonresident students. The chart below summarizes a three-year trend of undergraduate and graduate enrollment by headcount.



The State System of Higher Education's board of governor's approved an annual tuition increase of 2.99% for undergraduate resident students in fiscal year 2018/19.

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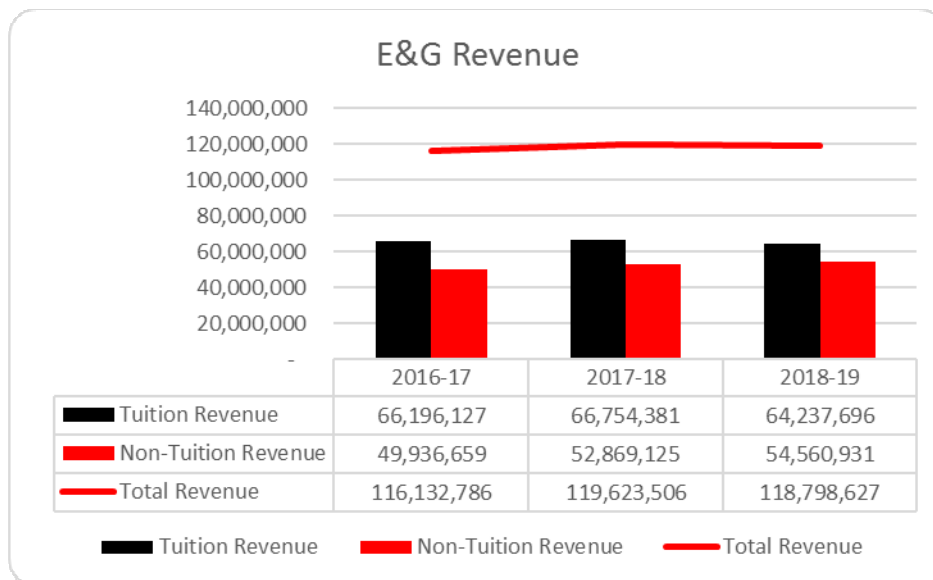
In fiscal year 2018/19, the Commonwealth appropriation to the State System was \$468.1 million, a 3.3% increase over the \$453.1 million received in the prior fiscal year. Over the last three years, state appropriations have increased about \$34.7 million, or 8.0%, but still are about \$36 million less than received in fiscal year 2007/2008. The University's share of the base appropriation, through the appropriation formula, increased by about \$1.2 million or 4.3% from \$28.5 to \$29.7 million.

In fiscal year 2018/19, the University received \$3.4 million in performance funding, which was \$0.2 million lower than the prior fiscal year 2017/18, in which the University received \$3.6 million.

Commonwealth capital funding, which include appropriations for furnishings and equipment, was \$1.2 million, about the same amount as fiscal year 2017/18 where the University received \$1.2 million.

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

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



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Educational and General Fund personnel expenditures, including salary, incremental benefits and employer paid fixed rate benefits, were \$86.2 million and \$2.0 million or 2.4% higher in fiscal year 2019 compared to fiscal year 2018. During this time, all employee groups besides non-represented employees experienced collective bargaining or merit increases.

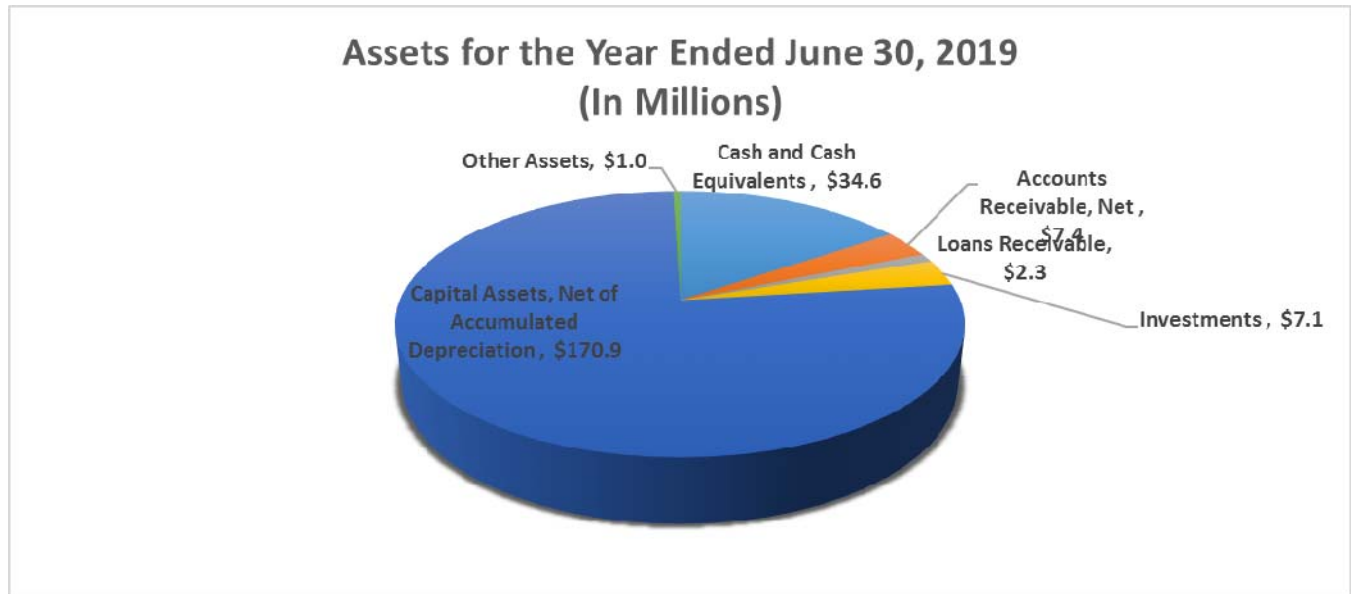
Educational and General fund expenditures, including services, supplies, utilities, capital and other non-personnel expenditures, were \$21.4 million in fiscal year 2019 or \$1.4 million or 6.1% lower than in fiscal year 2018.

**Financial Statements:**

**Balance Sheet**

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

*Assets* include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation. Total assets decreased by \$10.1 million, or 4.3% for the year ended June 30, 2019, compared to a 2.9% decrease in the prior fiscal year 2017/18. The below chart shows a breakout of asset balance by type for fiscal year 2019.



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

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

Total liabilities decreased by \$15.9 million, or 3.9% for the year ended June 30, 2019 compared to an increase of 15.2% in the prior fiscal year 2017/18 which was primarily due to the implementation of GASB NO. 75.

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

*Net Position*, informally referred to as Net Assets, is the sum of Assets plus Deferred Outflows of Resources less Liabilities less Deferred Inflows of Resources. In accordance with GASB requirements, the University reports three components of net position:

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

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



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

- The liability for compensated absences represents the dollar value of annual and sick leave that employees have earned and could potentially receive in the form of cash payouts upon retirement or other termination. As employees earn and accumulate leave, the compensated absences liability is increased; as employees use leave, and as terminated employees receive payouts, the liability is decreased. The compensated absences liability increased by \$0.2 million to \$8.2 million for the year ended June 30, 2019, compared to a \$0.4 million increase from the prior year for the year ended June 30, 2018. The University only funds this liability as cash payouts are made to employees for annual and vested sick leave balances upon termination or retirement.
- The net pension liability is the University's allocated share of the difference between the Commonwealth's defined benefit pension obligations and the funding set aside by the Commonwealth in a qualified trust to pay the future benefits that are promised to current employees, retirees, and their beneficiaries. The annual increase in the liability is the amount that current employees earn each fiscal year as a pension benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability decreases when funding of the qualified trust increases and when employees or retirees leave the pension plans. The liability increased by \$12.5 million to \$81.2 million for the year ended June 30, 2019, compared to a decrease of \$8.2 million for the year ended June 30, 2018. The University funds this liability on a “pay-as-you-go” basis; that is, the University funds only the annual contractually required contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).
- The liability for other postemployment benefits, or OPEB, represents the estimated future healthcare costs for current and future retirees. The annual increase in the liability is the amount that current employees earn each fiscal year as a retiree healthcare benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability also increases as healthcare costs increase. The liability decreases when required contributions by retirees are increased, when the number of eligible employees decreases, and when retirees leave the plan. The liability decreased by \$21.1 million to \$123.6 million for the year ended June 30, 2019, compared to an increase of \$71.2 million for the year ended June 30, 2018. The majority of this significant increase in fiscal year ending June 30, 2018 was due to the implementation of GASB Statement No. 75. Like the pension liability, The University funds these liabilities on a “pay-as-you-go” basis: For the State System plan, universities make biweekly contributions to fund the actual claims incurred by retirees during the year; for the REHP and PSERS OPEB plans, the universities make contractually required contributions as determined by the Commonwealth.

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Overall, net position decreased by \$3.8 million in fiscal year 2018/19. This compares to a decrease of \$80.7 million in fiscal year 2017/18 from fiscal year 2016/17, and a decrease of \$4.2 million in fiscal year 2016/17 from fiscal year 2015/16. The exceptionally large decrease in fiscal year 2017/18 is primarily the result of the implementation of GASB Statement No. 75, which alone caused net position to decrease by \$80.45 million over the prior year.

<b>California University</b> <b>Balance Sheet Summary, Year Ended June 30</b>	<u><b>2019</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 34,581,940	\$ 35,154,960	\$ 27,131,973
Accounts Receivable, Net	7,211,305	8,014,585	14,175,872
Inventory	103,434	96,720	111,097
Prepaid Expenses	877,118	971,002	708,707
Other Current Assets	60,298	129,031	134,512
Total Current Assets	<u>42,834,095</u>	<u>44,366,298</u>	<u>42,262,161</u>
<b>NONCURRENT ASSETS</b>			
Accounts Receivable	188,263	189,247	4,247
Loans Receivable	2,316,271	2,712,516	2,708,370
Investments	7,141,358	7,034,353	7,078,045
Capital Assets, Net	170,902,359	179,187,491	188,453,059
Total Noncurrent Assets	<u>180,548,251</u>	<u>189,123,607</u>	<u>198,243,721</u>
Total Assets	<u>223,382,346</u>	<u>233,489,905</u>	<u>240,505,882</u>
Total Deferred Outflows of Resources	<u>22,669,444</u>	<u>14,534,041</u>	<u>17,357,829</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 246,051,790</u>	<u>\$ 248,023,946</u>	<u>\$ 257,863,711</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable and Accrued Expenses	\$ 12,202,251	\$ 11,259,863	\$ 10,829,922
Unearned Revenue	8,830,474	9,235,303	9,130,539
Deposit Liabilities	274,794	245,954	164,843
Personnel Obligations	7,434,770	7,049,055	3,356,204
Debt Obligations	9,092,358	8,575,372	8,367,434
Other Current Liabilities	465,933	472,929	116,054
Total Current Liabilities	<u>38,300,580</u>	<u>36,838,476</u>	<u>31,964,996</u>
<b>NONCURRENT LIABILITIES</b>			
Workers' Compensation	280,811	440,468	210,494
Unearned Revenue	58,521	120,926	183,330
Personnel Obligations	205,943,228	214,974,613	154,924,757
Debt Obligations	145,661,553	153,937,028	161,699,734
Other Noncurrent Liabilities	2,196,706	2,227,214	2,481,243
Total Noncurrent Liabilities	<u>353,801,487</u>	<u>371,138,855</u>	<u>319,105,734</u>
Total Liabilities	<u>392,102,067</u>	<u>407,977,331</u>	<u>351,070,730</u>
Total Deferred Inflows of Resources	<u>35,209,175</u>	<u>17,551,398</u>	<u>3,572,813</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	16,219,424	16,702,874	18,193,288
Restricted	2,713,227	2,672,807	2,759,236
Nonexpendable:			
Student Loans	389,815	381,863	455,879
Expendable:			
Scholarships and Fellowships	273,058	323,729	250,310
Capital Projects	2,050,354	1,967,215	2,053,047
Unrestricted	(200,192,103)	(196,880,464)	(117,732,356)
Total Net Position	<u>(181,259,452)</u>	<u>(177,504,783)</u>	<u>(96,779,832)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 246,051,790</u>	<u>\$ 248,023,946</u>	<u>\$ 257,863,711</u>

**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**The Statement of Revenues, Expenses, and Changes in Net Position**

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

**Operating Revenues** for fiscal year 2018/19 decreased overall by 3.5%, or \$3.3 million from the prior fiscal year.

*Tuition and fees* are shown net of scholarship discounts and allowances and bad debt expense. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the State System allocates the cost of scholarships, waivers, and other student financial aid between scholarship discounts and allowances and student aid expense. Scholarships and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense. Bad debt expense is an estimate of the amount owed by students that will not be collected. Overall net tuition and fee revenue decreased by \$2.4 million, or 3.8%, from fiscal year 2017/18. This decrease is the net effect of the 2.99% increase in tuition rates implemented by the State system, and a 6.5% decrease in students enrolled full-time.

*Governmental and private grants* and contracts in which the grantor receives equal value for the funds given to the University decreased by \$0.1 million, or 1.2% from fiscal year 2017/2018.

*Auxiliary enterprises* revenue, which includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of student union and recreation center, increased by \$0.1 million, or 0.5%, from fiscal year 2017/18. This compares to a decrease of \$0.05 million in fiscal year 2017/18 over fiscal year 2016/17 and also a decrease of \$4.5 in fiscal year 2016/17 over fiscal year 2015/16. Fiscal year 2016/2017 was the first year in which a full year of cost related to on-campus housing were incurred after the repurchase of on-campus housing from a component unit in October of 2015.

**Non-Operating Revenues** for fiscal year 2018/19 increased overall by 5.1%, or \$2 million from the prior fiscal year.

*State appropriations* include cash as well as capital appropriations that are received in the form of noncash furnishings and equipment for the Commonwealth-funded construction projects. The fiscal year 2018/19 general cash appropriation was \$33.4 million, a \$1.0 million increase over fiscal year 2017/18, while capital appropriations were \$1.2 million, a \$0.02 million increase over fiscal year 2017/18.

*Investment income* (net of related investment expenses) for fiscal year 2018/19 was \$1.4 million. This represents an increase of \$0.2 million over fiscal year 2017/18.

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*Gifts, Nonoperating Grants, and other nonoperating revenue* includes contributions from the Commonwealth for PSERS, gifts (cash or capital), gains on the disposal of assets, parking and library fines, capital grants and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the University. Overall these balances increased by \$0.8 million, or 6.7%, from fiscal year 2017/18, compared to an increase of \$1.8 million in fiscal year 2017/18 over fiscal year 2016/17.

**Operating Expenses** for fiscal year 2018/19 increased to \$139.6 million, or 1.65% from the \$137.4 million spent in fiscal year 2017/18.

*Instruction expenses* totaled \$51.4 million, or 36.8% of total operating expenses, in fiscal year 2018/19. This represents an increase of \$2.4 million, or 4.8%, over fiscal year 2017/18. \$35.5 million of the amount spent on instruction related to salaries and wages, which compares to \$35.9 million in fiscal year 2017/2018. The University has put forth a concerted effort to reduce cost, to combat decreased enrollment.

*Salaries and wages* as a whole, increased \$2.2 million, or 4.0% for fiscal year 2018/19 and is the result of the salary increases granted in collective bargaining agreements, or directly authorized by the University leadership in the case of nonrepresented employees, partially offset by overall reductions in complement.

*Benefit expenses* decreased by \$0.2 million compared to the prior fiscal year, primarily as a result of the decrease in the actuarially calculated pension and OPEB expense, which dropped due to improving interest rates, rather than to the contributions actually paid by the universities, which increased. Benefits will fluctuate annually based upon the number of employees receiving them and based on the change in rates each year.

*Financial aid* to students in the form of grants, waivers, and scholarships was \$6.9 million in fiscal year 2018/19, compared to \$6.2 million in fiscal year 2017/18. The University experienced an increase in Federal Pell grants, offset partially by a decrease in Pennsylvania Higher Education Assistance Agency (PHEAA) grants.

**Non-Operating Expenses** are primarily related to Interest expense on capital asset-related debt, which was \$6.1 million, a decrease of \$0.2 million over fiscal year 2017/18. The decrease is due primarily to the State System's annual practice of refunding existing debt with debt that carries lower interest rates. Also offsetting debt increases is the faster amortization of the State System's older, more expensive, debt, as a higher ratio of debt service is applied to principal rather than interest in the later years of the payment schedules.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>			
Tuition and Fees, Net of Discounts	\$ 61,175,871	\$ 63,608,075	\$ 64,169,124
Governmental Grants and Contracts	8,595,207	8,702,712	9,756,137
Nongovernmental Grants and Contracts	520,824	378,114	359,623
Sales and Services of Educational Departments	1,412,902	1,602,269	1,682,049
Auxiliary Enterprises, Net of Discounts	19,042,779	18,946,602	19,035,803
Other Revenues	1,040,572	1,893,126	1,389,182
Total Operating Revenues	<u>91,788,155</u>	<u>95,130,898</u>	<u>96,391,918</u>
<b>OPERATING EXPENSES</b>			
Instruction	51,436,644	49,071,720	51,650,477
Research	90,179	100,276	69,051
Public Service	2,776,173	2,419,649	3,421,608
Academic Support	8,943,790	9,599,015	10,087,608
Student Services	14,766,323	13,462,167	13,936,639
Institutional Support	15,229,508	18,315,748	15,466,594
Operations and Maintenance of Plant	12,660,331	10,707,813	12,109,279
Depreciation	11,060,680	11,041,230	11,049,768
Student Aid	5,887,758	6,406,024	5,613,038
Auxiliary Enterprises	16,771,306	16,237,879	15,585,250
Total Operating Expenses	<u>139,622,692</u>	<u>137,361,521</u>	<u>138,989,312</u>
<b>OPERATING LOSS</b>	<u>(47,834,537)</u>	<u>(42,230,623)</u>	<u>(42,597,394)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State Appropriations, General and Restricted	33,442,584	32,486,231	31,454,063
Commonwealth On-Behalf Contributions to PSERS	629,271	655,866	642,257
Pell Grants	10,362,689	10,934,482	9,893,496
Investment Income, Net of Related Investment Expense	1,386,535	1,188,985	823,581
Unrealized Gain on Investments	226,295	264,264	507,086
Gifts for Other than Capital Purposes	2,889,523	1,482,638	735,036
Interest Expense on Capital Asset-Related Debt	(6,128,593)	(6,291,920)	(6,898,208)
Gain on Disposal of Capital Assets	-	9,589	-
Other Nonoperating Revenue	43,390	40,796	34,277
Net Nonoperating Revenues	<u>42,851,694</u>	<u>40,770,931</u>	<u>37,191,588</u>
<b>LOSS BEFORE OTHER REVENUES</b>	<u>(4,982,843)</u>	<u>(1,459,692)</u>	<u>(5,405,806)</u>
<b>OTHER REVENUES</b>			
State Appropriations, Capital	1,176,309	1,156,549	1,044,648
Capital Gifts and Grants	51,865	51,865	107,185
Total Other Revenues	<u>1,228,174</u>	<u>1,208,414</u>	<u>1,151,833</u>
<b>Change in Net Position</b>	<u>(3,754,669)</u>	<u>(251,278)</u>	<u>(4,253,973)</u>
Net Position – Beginning of Year	(177,504,783)	(96,779,832)	(92,525,859)
Restatement for July 1, 2017 - GASB 75 OPEB Liability	-	(80,473,673)	-
Net Position-Beginning of Year, Restated	<u>(177,504,783)</u>	<u>(177,253,505)</u>	<u>(92,525,859)</u>
<b>NET POSITION – END OF YEAR</b>	<u>\$ (181,259,452)</u>	<u>\$ (177,504,783)</u>	<u>\$ (96,779,832)</u>

**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019 AND 2018  
(UNAUDITED)**

**Statement of Cash Flows**

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

Net cash used in operating activities decreased by \$10.5 million from the prior fiscal year. The decrease relates to a federal draw of FY 2018/2019 awards available being made prior to year-end, whereas in past years the University held off on this until after June 30.

Net cash provided by non-capital financing activities increased by \$1.8 million from the prior fiscal year, which is a function of the in the increase in appropriations and an increase in gifts.

Net cash provided used in capital financing activities increased by \$0.2 million from the prior fiscal year.

Net Cash provided by investing activities increased from \$1.2 million in fiscal year 2017/2018 to \$1.5 million in fiscal year 2018/2019. This is a result of improved interest rates.

**Future Considerations**

California University of Pennsylvania has demonstrated that it is fiscally strong, posting a surplus for all but one of the last several years while in a declining higher education enrollment environment. In the upcoming fiscal years of 2020 and beyond, there are several considerations to note with respect to the University's financial outlook.

**Appropriation and Performance Funding** – It is estimated that the Commonwealth will provide an appropriation for operations of \$477.4 million to PASSHE for fiscal year 2020. This is an increase of \$9.3 million, or 2.0% from last year's appropriation to PASSHE of \$468.1 million. It is estimated that the University's share of the appropriation, including performance funding, will increase to \$34.1 million in fiscal year 2020. This compares to \$33.4 million in fiscal year 2019 and represents a 2.0% increase to the University. Future year's appropriation levels will be determined on total State appropriation increases or decreases, as well as the method that the State System allocates these funds.

**Tuition and Fees** – For fiscal year 2020, the State System's Board approved tuition rate and student technology fee to remain flat or no increase. In conjunction with the tuition and technology fee, the mandatory academic enhancement student fee, set by the University, will not increase in fiscal year 2020. Tuition and fee rates are currently unknown for years beyond 2020.

**Tuition and Fees** – For fiscal year 2020, the State System's Board approved tuition rate and student technology fee to remain flat or no increase. In conjunction with the tuition and technology fee, the mandatory academic enhancement student fee, set by the University, will not increase in fiscal year 2020. Tuition and fee rates are currently unknown for years beyond 2020.

**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019 AND 2018  
(UNAUDITED)**

Enrollment – High school graduate demographic trends in Pennsylvania have been declining, and as a result, the University has begun to experience a decline in enrollment in this past year. Demand for fiscal year 2020 is showing about the same decline. The University experienced about a 6.5% decrease in overall FTE. To this end, in March 2019, the University hired its first Vice President for Enrollment Management. Several University student service departments were reorganized and placed under his direction to allow for a comprehensive enrollment services division. The University also contracted with Ruffalo Noel Levitz in 2016 to fully optimize our scholarship program for incoming students. Not only did we experience enrollment growth in both fall 2017 & 2018, we also saw the academic profile of our incoming students rise. Many efforts to increase student retention are also underway.

Compensation Costs – Fiscal year 2020 will include a full year of collective bargaining unit agreements for the AFSMCE employee group. APSCUF bargaining unit's contract expired June 30, 2019. In September 2019, negotiators reached an agreement in principle for the APSCUF faculty contract. Nonrepresented employees are not expected to receive a merit program in the fiscal year ending June 30, 2020. SCUPA bargaining unit does not have a contract in place, at this time, for the fiscal year ending June 30, 2020. While fiscal year 2019 compensation and benefit costs were relatively stable as compared to the prior fiscal year, fiscal year 2020 could see impacts from collective bargaining results.

Pension Costs and Healthcare – The pension cost of employer retirement contributions have increased year over year and have recently seen a leveling out, or a lower rate of increase. Currently, fiscal year 2020 and beyond assumes that these rates may stay level or decrease in the future. Beginning January 1, 2016, the State System implemented higher levels of employee healthcare cost-sharing for certain categories of employees. Healthcare rates are expected to decrease slightly again, in fiscal year 2020, however the assumption of increased employer rates remains likely in years beyond 2020.

Plans for Facilities – The University is in process of designing a new science hall that is expected to be fully operational by fiscal year 2023. The building is being funded by Capital appropriation dollars through the PA Department of General Services. When complete, this building will house classrooms and laboratories for many of our Science & Technology programs.

New Programs – The University continues to offer new programs. In fall 2019, the new associate and baccalaureate degree program in Veterinary Technology was launched. A new baccalaureate program in Molecular Biology also began. On the graduate side, a new Master of Accountancy program started. We expect to launch a Doctorate of Physical Therapy program in fall 2021.

Higher Education is changing across the country, and California University is excited to be part of the PA State System of Higher Education's efforts underway to redesign the system Universities to address these challenges.

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

	2019	2018
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 34,581,940	\$ 35,154,960
Accounts Receivable, Net	7,211,305	8,014,585
Inventory	103,434	96,720
Prepaid Expenses	877,118	971,002
Other Current Assets	60,298	129,031
Total Current Assets	42,834,095	44,366,298
<b>NONCURRENT ASSETS</b>		
Accounts Receivable	188,263	189,247
Loans Receivable	2,316,271	2,712,516
Investments	7,141,358	7,034,353
Capital Assets, Net of Accumulated Depreciation	170,902,359	179,187,491
Total Noncurrent Assets	180,548,251	189,123,607
Total Assets	223,382,346	233,489,905
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Loss on Refunding of Debt	145,074	167,644
Defined Benefit Retirement Plans Deferred Outflows	16,451,599	10,666,931
Other Post Employment Benefit Plans Deferred Outflows	6,072,771	3,699,466
Total Deferred Outflows of Resources	22,669,444	14,534,041
Total Assets and Deferred Outflows of Resources	\$ 246,051,790	\$ 248,023,946

See accompanying Notes to Financial Statements.



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

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	2019	2018
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 12,202,251	\$ 11,259,863
Unearned Revenue	8,830,474	9,235,303
Students' Deposits and Other Deposit Liabilities	274,794	245,954
Compensated Absences	3,453,026	3,363,108
Postretirement Benefits	3,981,744	3,685,947
Debt Obligations	9,092,358	8,575,372
Other	465,933	472,929
Total Current Liabilities	38,300,580	36,838,476
<b>NONCURRENT LIABILITIES</b>		
Workers' Compensation	280,811	440,468
Unearned Revenue	58,521	120,926
Compensated Absences	4,760,933	4,726,104
Postretirement Benefits	119,633,833	141,069,722
Debt Obligations	145,661,553	153,937,028
Net Pension Liability	81,267,651	68,738,319
Other	2,138,185	2,106,288
Total Noncurrent Liabilities	353,801,487	371,138,855
Total Liabilities	392,102,067	407,977,331
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unamortized Gain on Refunding of Debt	22,233	36,131
Defined Benefit Retirement Plans Deferred Inflows	1,968,435	5,162,741
Other Post Employment Benefit Plans Deferred Inflows	33,218,507	12,352,526
Total Deferred Inflows of Resources	35,209,175	17,551,398
<b>NET POSITION (DEFICIT)</b>		
Net Investment in Capital Assets	16,219,424	16,702,874
Restricted for:		
Nonexpendable:		
Student Loans	389,815	381,863
Expendable:		
Scholarships and Fellowships	273,058	323,729
Capital Projects	2,050,354	1,967,215
Unrestricted	(200,192,103)	(196,880,464)
Total Net Deficit	(181,259,452)	(177,504,783)
Total Liabilities, Deferred Inflows of Resources, and Net Deficit	\$ 246,051,790	\$ 248,023,946

See accompanying Notes to Financial Statements.

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

	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES</b>		
Tuition and Fees, Net of Discounts of \$17,536,235 in 2019 and \$17,296,746 in 2018	\$ 61,175,871	\$ 63,608,075
Governmental Grants and Contracts:		
Federal	3,382,821	2,630,041
State	5,212,386	6,072,671
Nongovernmental Grants and Contracts	520,824	378,114
Sales and Services of Educational Departments	1,412,902	1,602,269
Auxiliary Enterprises, Net of Discounts	19,042,779	18,946,602
Other Revenues	1,040,572	1,893,126
Total Operating Revenues	<u>91,788,155</u>	<u>95,130,898</u>
<b>OPERATING EXPENSES</b>		
Instruction	51,436,644	49,071,720
Research	90,179	100,276
Public Service	2,776,173	2,419,649
Academic Support	8,943,790	9,599,015
Student Services	14,766,323	13,462,167
Institutional Support	15,229,508	18,315,748
Operations and Maintenance of Plant	12,660,331	10,707,813
Depreciation	11,060,680	11,041,230
Student Aid	5,887,758	6,406,024
Auxiliary Enterprises	16,771,306	16,237,879
Total Operating Expenses	<u>139,622,692</u>	<u>137,361,521</u>
<b>OPERATING LOSS</b>	(47,834,537)	(42,230,623)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations, General and Restricted	33,442,584	32,486,231
Commonwealth On-Behalf Contributions to PSERS	629,271	655,866
Pell Grants	10,362,689	10,934,482
Investment Income, Net of Related Investment Expense of \$76,703 in 2019 and \$96,319 in 2018	1,386,535	1,188,985
Unrealized Gain on Investments	226,295	264,264
Gifts for Other than Capital Purposes	2,889,523	1,482,638
Interest Expense on Capital Asset-Related Debt	(6,128,593)	(6,291,920)
Gain on Disposal of Capital Assets	-	9,589
Other Nonoperating Revenue	43,390	40,796
Net Nonoperating Revenues	<u>42,851,694</u>	<u>40,770,931</u>
<b>LOSS BEFORE OTHER REVENUES</b>	(4,982,843)	(1,459,692)
<b>OTHER REVENUES</b>		
State Appropriations, Capital	1,176,309	1,156,549
Capital Gifts and Grants	51,865	51,865
Total Other Revenues	<u>1,228,174</u>	<u>1,208,414</u>
<b>DECREASE IN NET POSITION</b>	(3,754,669)	(251,278)
Net Position – Beginning of Year, as Restated	<u>(177,504,783)</u>	<u>(177,253,505)</u>
<b>NET POSITION – END OF YEAR</b>	<u>\$ (181,259,452)</u>	<u>\$ (177,504,783)</u>

See accompanying Notes to Financial Statements.

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

	2019	2018
<b>CASH FLOWS USED BY OPERATING ACTIVITIES</b>		
Net Tuition and Fees	\$ 60,268,943	\$ 63,605,692
Grants and Contracts	9,625,368	15,291,516
Payments to Suppliers for Goods and Services	(27,362,584)	(28,761,296)
Payments to Employees	(91,877,505)	(89,623,832)
Loans Issued to Students	-	(378,545)
Loans Collected from Students	396,245	374,399
Student Aid	(5,887,758)	(6,418,314)
Auxiliary Enterprise Charges	19,006,837	18,980,451
Sales and Services of Educational Departments	407,530	1,680,367
Other Receipts	1,356,257	1,725,118
Net Cash Used by Operating Activities	(34,066,667)	(23,524,444)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations, including Federal ARRA	33,442,584	32,486,231
Gifts and Non-Operating Grants for Other than Capital Purposes	13,252,212	12,417,120
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	62,925,817	68,598,883
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(62,925,817)	(68,598,883)
Agency Transactions, Net	(300)	300
Other	43,390	40,796
Net Cash Provided by Noncapital Financing Activities	46,737,886	44,944,447
<b>CASH FLOWS USED BY CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Capital Debt and Leases	-	10,794,783
Capital Appropriations	1,176,309	1,156,549
Capital Grants and Gifts Received	51,865	51,865
Proceeds from Sales of Capital Assets	-	13,201
Purchases of Capital Assets	(1,837,376)	(1,779,274)
Principal Repayments on Capital Debt and Leases	(11,894,252)	(17,415,788)
Interest Paid on Capital Debt and Leases	(2,246,610)	(7,407,337)
Net Cash Used by Capital Financing Activities	(14,750,064)	(14,586,001)
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>		
Proceeds from Sale and Maturities of Investments	119,290	-
Interest on Investments	1,386,535	1,188,985
Net Cash Provided by Investing Activities	1,505,825	1,188,985
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(573,020)	8,022,987
Cash and Cash Equivalents – Beginning of Year	35,154,960	27,131,973
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	\$ 34,581,940	\$ 35,154,960

See accompanying Notes to Financial Statements.

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

	2019	2018
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (47,834,537)	\$ (42,230,623)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	11,060,680	11,041,230
Expenses Paid by Commonwealth or Donor	629,271	655,866
Changes in Assets and Liabilities:		
Receivables, Net	(241,569)	6,220,519
Inventories	(6,714)	14,377
Other Assets	1,208,450	(193,090)
Accounts Payable	920,381	441,393
Unearned Revenue	(467,234)	42,360
Students' Deposits	29,140	80,811
Compensated Absences	124,747	499,488
Loans to Students and Employees	396,245	(4,146)
Other Postretirement Benefits Match	(21,140,092)	(9,203,162)
Defined Benefit Pensions	12,529,332	(8,257,266)
Other Liabilities	(788,469)	396,905
Deferred Outflows of Resources Related to OPEB	(5,784,668)	(3,699,466)
Deferred Outflows of Resources Related to Pensions	(2,373,305)	6,677,877
Deferred Inflows of Resources Related to OPEB	(3,194,306)	12,352,526
Deferred Inflows of Resources Related to Pensions	20,865,981	1,639,957
	<b>\$ (34,066,667)</b>	<b>\$ (23,524,444)</b>
<b>NONCASH TRANSACTIONS</b>		
Capital Assets Acquired Through Capital Lease	\$ 938,172	\$ -
Commonwealth on Behalf Contributions to PSERS	\$ 629,271	\$ 655,866

See accompanying Notes to Financial Statements.

**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS  
JUNE 30, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,944,693	\$ 2,173,868
Accounts and Interest Receivable, Net	249,492	675,907
Contributions Receivable, Net	2,091,828	993,155
Due from University	177,740	264,040
Inventories and Prepaid Expenses	352,825	386,715
Restricted Cash and Equivalents	1,687,518	2,697,257
Short-Term Investments	8,807,243	9,724,535
Long-Term Investments	35,854,757	34,815,525
Capital Assets, Net	16,821,967	16,484,002
Other Assets	11,200	11,200
	<b>\$ 67,999,263</b>	<b>\$ 68,226,204</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 2,430,157	\$ 3,528,002
Annuity Liabilities	131,844	136,569
Due to University	204,153	205,211
Deposits Payable	7,172,988	7,065,984
Capitalized Leases	274,925	274,925
Bonds and Notes Payable	26,303,557	26,826,180
Other Liabilities	501,089	450,513
Total Liabilities	37,018,713	38,487,384
<b>NET ASSETS</b>		
Without Donor Restriction	1,343,075	1,631,242
With Donor Restriction	29,637,475	28,107,578
Total Net Assets	30,980,550	29,738,820
Total Liabilities and Net Assets	<b>\$ 67,999,263</b>	<b>\$ 68,226,204</b>

See accompanying Notes to Financial Statements.

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

	2019	2018
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>REVENUES AND GAINS</b>		
Contributions	\$ 28,645	\$ 33,949
Sales and Services	270,644	525,962
Student Fees	2,279,693	2,423,729
Rental Income	4,382,907	4,371,022
Investment Return, Net	513,936	187,689
Other Revenues and Gains	131,718	112,917
Net Assets Released From Restrictions	4,209,489	4,366,866
Total Revenues and Other Additions	11,817,032	12,022,134
<b>EXPENSES AND LOSSES</b>		
Program Services		
Scholarships and Grants	1,651,675	1,666,978
Student Activities and Programs	2,727,229	2,889,260
University Stores	50,000	-
Housing	4,638,008	4,813,069
Other Programs	2,252,453	2,314,560
Management and General	705,273	667,891
Fundraising	42,408	-
Total Expenses and Losses	12,067,046	12,351,758
Other Expenses and Losses	38,153	1,596,473
Change in Net Assets Without Donor Restriction	(288,167)	(1,926,097)
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTION</b>		
Contributions	2,825,321	904,073
Investment Return, Net	1,716,234	1,942,656
Other Revenues and Gains	1,197,831	1,701,339
Net Assets Released From Restrictions	(4,209,489)	(4,366,866)
Change in Net Assets With Donor Restriction	1,529,897	181,202
<b>CHANGE IN NET ASSETS</b>	1,241,730	(1,744,895)
Net Assets – Beginning of Year	29,738,820	31,483,715
<b>NET ASSETS – END OF YEAR</b>	\$ 30,980,550	\$ 29,738,820

See accompanying Notes to Financial Statements.

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

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

2018	Program Activities						Supporting Activities			
Natural Expense	Student Scholarships and Grants	Student Activities and Programs	University Stores	Housing	Other Programs	Total Programs	Management and General	Fundraising	Total Supporting	Total Expenses
Salaries and benefits	\$ -	\$ 931,902	\$ -	\$ 461,987	\$ 43,687	\$ 1,437,576	\$ 395,861	\$ -	\$ 395,861	\$ 1,833,437
Gifts and grants	1,661,978	1,100	-	-	-	1,663,078	3,000	-	3,000	1,666,078
Supplies and travel	-	12,230	-	-	192	12,422	51,136	-	51,136	63,558
Services and professional fe	-	-	-	25,097	-	25,097	198,162	-	198,162	223,259
Office and occupancy	-	-	-	1,354,848	-	1,354,848	14,485	-	14,485	1,369,333
Depreciation	-	288,851	-	1,101,731	-	1,390,582	-	-	-	1,390,582
Interest	-	386	-	1,515,338	-	1,515,724	-	-	-	1,515,724
Other	5,000	1,654,791	-	354,068	2,270,681	4,284,540	5,247	-	5,247	4,289,787
<b>Total Expenses</b>	<b>\$ 1,666,978</b>	<b>\$ 2,889,260</b>	<b>\$ -</b>	<b>\$ 4,813,069</b>	<b>\$ 2,314,560</b>	<b>\$ 11,683,867</b>	<b>\$ 667,891</b>	<b>\$ -</b>	<b>\$ 667,891</b>	<b>\$ 12,351,758</b>

See accompanying Notes to Financial Statements.

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

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

California University of Pennsylvania of the State System of Higher Education (the University), located in California, Pennsylvania, was founded in 1852. The University is one of fourteen universities of the Pennsylvania State System of Higher Education (the State System). The University is a comprehensive public university that serves the state, national, and international communities by providing its students with academic instruction and the region with public service. The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

**Reporting Entity**

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB 14*, the University has determined that the Student Association, Inc. (Student Association or SAI) and the Foundation for California University (the Foundation) should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

Both the Student Association and the Foundation are legally separate, tax-exempt organizations. The Student Association, Inc. exists for and is owned by the students of the University. The Student Congress and the SAI Board of Directors determine the programs to be provided and an annual operating budget, with the concurrence of the University President. SAI coordinates and provides extracurricular programs, assists recognized student clubs and organizations, maintains a recreation park and provides financial operating and scholarship support to the University's athletic programs. Because the economic resources received and held by SAI are for the direct benefit of the University and the influence of the University over SAI, SAI is considered a component unit of the University and is included within the University's financial reporting entity. The financial activity of SAI is presented as of and for the years ended June 30, 2019 and 2018.



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(CONTINUED)**

**Reporting Entity (Continued)**

The Foundation acts as a repository for gifts given for the benefit of the University. Resources held by the Foundation are used solely to supplement the capital, public service, financial aid, and educational programs of the University and administratively operate the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources and income thereon is restricted for the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is included within the University's financial reporting entity. The financial activity of the Foundation is presented as of and for the years ended June 30, 2019 and 2018.

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

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

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

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

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(CONTINUED)**

**Operating Revenues and Expenses**

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

**Scholarship Discounts and Allowances**

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

**Net Position**

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

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

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

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

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

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

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(CONTINUED)**

**Cash Equivalents**

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

**Accounts and Loans Receivable**

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

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

**Inventory**

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

**Capital Assets**

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

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

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

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(CONTINUED)**

**Capital Assets (Continued)**

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

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

**Impairment of Capital Assets**

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

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

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

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

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

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

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

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(CONTINUED)**

**Unearned Revenue**

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

**Compensated Absences**

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

**Pension Plans**

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

**Scholarships and Waivers**

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

**Income Taxes**

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

**Use of Estimates**

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

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(CONTINUED)**

**Reclassifications**

Certain amounts previously reported in the financial statements for the year ended June 30, 2018 have been reclassified to conform to current year financial statement presentation.

**New Accounting Standards**

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

In June 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in a similar manner as capital leases, with assets and liabilities recorded at lease inception. The University has determined that the effect on net position and results of operations will be immaterial. The provisions in Statement No. 87 are effective for reporting periods beginning after 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 practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The provisions of Statement 91 are effective for reporting periods beginning after December 15, 2020.

**Subsequent Events**

Management's practice is to evaluate subsequent events through the date for which their approval regarding the issuance of the financial statements is granted. The University has evaluated subsequent events through November 12, 2019, which is the date that the financial statements were available to be issued.

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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION**

The following represents combining condensed statements of financial position information for the component units as of June 30, 2019 and 2018:

	June 30, 2019			June 30, 2018		
	The	Student	Total	The	Student	Total
	Foundation	Association		Foundation	Association	
Due from University	\$ -	\$ 177,740	\$ 177,740	\$ -	\$ 264,040	\$ 264,040
Investments	36,981,610	7,680,390	44,662,000	35,677,442	8,862,618	44,540,060
Capital Assets, Net	-	16,821,967	16,821,967	-	16,484,002	16,484,002
Other Assets	2,358,207	3,979,349	6,337,556	1,667,830	5,270,272	6,938,102
Total Assets	<u>\$ 39,339,817</u>	<u>\$ 28,659,446</u>	<u>\$ 67,999,263</u>	<u>\$ 37,345,272</u>	<u>\$ 30,880,932</u>	<u>\$ 68,226,204</u>
Due to University	\$ -	\$ 204,153	\$ 204,153	\$ -	\$ 205,211	\$ 205,211
Deposits Payable	7,141,357	31,631	7,172,988	7,034,353	31,631	7,065,984
Long-Term Debt	-	26,578,482	26,578,482	-	27,101,105	27,101,105
Other Liabilities	649,640	2,413,450	3,063,090	465,569	3,649,515	4,115,084
Total Liabilities	<u>7,790,997</u>	<u>29,227,716</u>	<u>37,018,713</u>	<u>7,499,922</u>	<u>30,987,462</u>	<u>38,487,384</u>
Net Assets:						
Without Donor Restriction	1,911,345	(568,270)	1,343,075	1,737,772	(106,530)	1,631,242
With Donor Restriction	29,637,475	-	29,637,475	28,107,578	-	28,107,578
Total Net Assets	<u>31,548,820</u>	<u>(568,270)</u>	<u>30,980,550</u>	<u>29,845,350</u>	<u>(106,530)</u>	<u>29,738,820</u>
Total Liabilities and Net Assets	<u>\$ 39,339,817</u>	<u>\$ 28,659,446</u>	<u>\$ 67,999,263</u>	<u>\$ 37,345,272</u>	<u>\$ 30,880,932</u>	<u>\$ 68,226,204</u>

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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

The following represents combining revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2019 and 2018:

	June 30, 2019			June 30, 2018		
	The Foundation	Student Association	Total	The Foundation	Student Association	Total
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>						
<b>REVENUES AND GAINS</b>						
Contributions	\$ 7,565	\$ 21,080	\$ 28,645	\$ 12,238	\$ 21,711	\$ 33,949
Sales and Services	-	270,644	270,644	-	525,962	525,962
Student Fees	-	2,279,693	2,279,693	-	2,423,729	2,423,729
Rental Income	-	4,382,907	4,382,907	-	4,371,022	4,371,022
Investment Return, Net	292,418	221,518	513,936	62,629	125,060	187,689
Other Revenues and Gains	15,519	116,199	131,718	14,485	98,432	112,917
Net Assets Released						
From Restrictions	4,209,489	-	4,209,489	4,366,866	-	4,366,866
Total Revenues and Other Additions	4,524,991	7,292,041	11,817,032	4,456,218	7,565,916	12,022,134
<b>EXPENSES AND LOSSES</b>						
Program Services						
Scholarships and Grants	1,646,425	5,250	1,651,675	1,660,728	6,250	1,666,978
Student Activities and Programs	-	2,727,229	2,727,229	-	2,889,260	2,889,260
University Stores	-	50,000	50,000	-	-	-
Housing	-	4,638,008	4,638,008	-	4,813,069	4,813,069
Other Programs	2,252,453	-	2,252,453	2,314,560	-	2,314,560
Management and General	410,132	295,141	705,273	357,994	309,897	667,891
Fundraising	42,408	-	42,408	-	-	-
Total Expenses and Losses	4,351,418	7,715,628	12,067,046	4,333,282	8,018,476	12,351,758
Other Expenses and Losses	-	38,153	38,153	-	1,596,473	1,596,473
Change in Net Assets Without Donor Restriction	173,573	(461,740)	(288,167)	122,936	(2,049,033)	(1,926,097)
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTION</b>						
Contributions	2,825,321	-	2,825,321	904,073	-	904,073
Investment Return, Net	1,716,234	-	1,716,234	1,942,656	-	1,942,656
Other Revenues and Gains	1,197,831	-	1,197,831	1,701,339	-	1,701,339
Net Assets Released						
From Restrictions	(4,209,489)	-	(4,209,489)	(4,366,866)	-	(4,366,866)
Change in Net Assets With Donor Restriction	1,529,897	-	1,529,897	181,202	-	181,202
CHANGE IN NET ASSETS	1,703,470	(461,740)	1,241,730	304,138	(2,049,033)	(1,744,895)
Net Assets – Beginning of Year	29,845,350	(106,530)	29,738,820	29,541,212	1,942,503	31,483,715
NET ASSETS – END OF YEAR	<u>\$ 31,548,820</u>	<u>\$ (568,270)</u>	<u>\$ 30,980,550</u>	<u>\$ 29,845,350</u>	<u>\$ (106,530)</u>	<u>\$ 29,738,820</u>



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**NOTE 3 DEPOSITS AND INVESTMENTS**

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns all assets. The University does not participate in the unrealized gains or losses of the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of \$1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals \$32,910,245 and \$33,814,884 at June 30, 2019 and 2018, respectively.

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

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

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

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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

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

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

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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

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

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

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

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

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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

***Fair Value Hierarchy (Continued):***

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

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

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

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

At June 30, 2019 and 2018, the carrying amount of the University's local demand and time deposits were \$1,671,695 and \$1,340,076, respectively, as compared to bank balances of \$1,662,811 and \$1,334,076, respectively. The differences are primarily caused by items in-transit and outstanding checks. All bank balances were covered by federal depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions, or uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2019 and 2018, none of the University's demand and time deposits were exposed to foreign currency risk.

The carrying value (fair value) of the University's investments on June 30, 2019 and 2018 is presented below:

	Fair Value Hierarchy	2019	2018
Funds Held by Foundation in Fiduciary Capacity	3	<u>\$ 7,141,358</u>	<u>\$ 7,034,353</u>

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**NOTE 4 ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at June 30:

	2019		2018	
	Current	Noncurrent	Current	Noncurrent
Student Tuition and Fees	\$ 10,566,203	\$ -	\$ 9,982,763	\$ -
Government Grants and Contracts	824,811	-	1,332,058	-
Employee Conversion Pay Due from Component Units and Other	-	3,263	-	4,247
	<u>933,407</u>	<u>185,000</u>	<u>1,046,259</u>	<u>185,000</u>
Total	12,324,421	188,263	12,361,080	189,247
Less: Allowance for Uncollectible Accounts	<u>(5,113,116)</u>	<u>-</u>	<u>(4,346,495)</u>	<u>-</u>
Total	<u>\$ 7,211,305</u>	<u>\$ 188,263</u>	<u>\$ 8,014,585</u>	<u>\$ 189,247</u>

**NOTE 5 STUDENT LOANS**

The student loans receivable represents loans to students funded primarily by advances to the University from the federal government under the Federal Perkins Loan Program (the Program). The University matches and contributes one third of the amount contributed by the federal government. The University match has been predominantly provided, on a restricted basis, by the Pennsylvania Higher Education Assistance Agency (PHEAA). In the event such matches were insufficient in any one year, the University provided the balance. In the event that the University ceases to participate in the Program, portions are refundable to the federal government and PHEAA. As of June 30, 2019 and 2018, the University's liability to the federal government and PHEAA were as follows:

	2019	2018
Current	\$ 342,000	\$ 326,000
Long-Term	<u>2,138,185</u>	<u>2,106,288</u>
Total	<u>\$ 2,480,185</u>	<u>\$ 2,432,288</u>

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**NOTE 6 CAPITAL ASSETS**

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

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

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**NOTE 6 CAPITAL ASSETS (CONTINUED)**

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following for the year ended June 30, 2018.

	Beginning Balance July 1, 2017	Additions	Reclassifications	Retirements	Ending Balance June 30, 2018
Capital Assets Not Being Depreciated:					
Land	\$ 2,381,119	\$ -	\$ -	\$ -	\$ 2,381,119
Construction in Progress	119,523	483,394	(37,214)		565,703
Total Assets Not Being Depreciated	2,500,642	483,394	(37,214)	-	2,946,822
Capital Assets Being Depreciated:					
Buildings and Improvements	214,846,501	843,831	24,337	-	215,714,669
Land Improvements	32,643,124	47,651	12,877	-	32,703,652
Furnishings and Equipment	26,622,581	385,574	-	(58,021)	26,950,134
Library Books	4,385,926	18,824	-	(3,247)	4,401,503
Total Assets Being Depreciated	278,498,132	1,295,880	37,214	(61,268)	279,769,958
Less: Accumulated Depreciation	(92,545,715)	(11,041,230)	-	57,656	(103,529,289)
Total Assets Being Depreciated, Net	185,952,417	(9,745,350)	37,214	(3,612)	176,240,669
Capital Assets, Net	\$ 188,453,059	\$ (9,261,956)	\$ -	\$ (3,612)	\$ 179,187,491

**NOTE 7 ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

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

	2019		2018	
	Current	Noncurrent	Current	Noncurrent
Employees	\$ 8,994,782	\$ -	\$ 7,965,589	\$ -
Suppliers and Services	1,574,943	-	1,595,404	-
Workers' Compensation	450,646	280,811	377,289	440,468
Interest	262,147	-	276,502	-
Other / Component Units	919,733	-	1,045,079	-
Total	\$ 12,202,251	\$ 280,811	\$ 11,259,863	\$ 440,468

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**NOTE 8 UNEARNED REVENUE**

Unearned revenue consisted of the following at June 30:

	2019		2018	
	Current	Noncurrent	Current	Noncurrent
Summer Sessions	\$ 8,438,030	\$ -	\$ 8,816,060	\$ -
Grants	163,508	-	161,418	-
Summer Conferences	109,032	-	182,407	-
Gifts	-	-	-	-
Other	119,904	58,521	75,418	120,926
Total	<u>\$ 8,830,474</u>	<u>\$ 58,521</u>	<u>\$ 9,235,303</u>	<u>\$ 120,926</u>

**NOTE 9 DEBT OBLIGATIONS**

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

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

	Beginning Balance July 1, 2017	Additions	Retirements	Ending Balance June 30, 2018	Current Portion
	Capital Leases			\$ 1,087,940	
Bonds Payable	163,007,371	9,179,442	(16,741,618)	155,445,195	7,131,539
Unamortized Bond Premiums	4,660,248	1,615,341	(933,763)	5,341,826	727,080
PASSHE Bond – AFRP	1,311,609	-	(317,145)	994,464	304,390
Total	<u>\$ 170,067,168</u>	<u>\$ 10,794,783</u>	<u>\$ (18,349,551)</u>	<u>\$ 162,512,400</u>	<u>\$ 8,575,372</u>



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**NOTE 9 DEBT OBLIGATIONS (CONTINUED)**

**Lease Obligations**

The University leases equipment and facilities under various leasing arrangements. Certain equipment leases have bargain purchase options at the end of the lease term, and are classified as capital leases. No equipment was acquired through capital lease during the year ended June 30, 2018. The University acquired equipment totaling \$527,390 for the year ended June 30, 2017. The University has also entered into various long-term operating leases for the use of facilities and equipment. Future annual minimum payments in the aggregate, under noncancelable capital and operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Capital</u>	<u>Operating</u>
2020	\$ 449,545	\$ 153,381
2021	343,624	132,191
2022	242,749	111,780
2023	85,806	-
2024	85,806	-
Total Minimum Lease Payments	1,207,530	397,352
Less: Amount Representing Interest	72,093	-
Total	<u>\$ 1,135,437</u>	<u>\$ 397,352</u>

Total rent expense for operating leases was \$310,834 and \$471,322 for years ended June 30, 2019 and 2018, respectively.

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

	<u>2019</u>	<u>2018</u>
Assets Held under Lease Agreement	\$ 2,686,432	\$ 1,818,167
Accumulated Depreciation	(1,577,744)	(1,097,549)
Total	<u>\$ 1,108,688</u>	<u>\$ 720,618</u>

Depreciation expense includes capital lease amortization of \$537,286 and \$363,633 for the years ended June 30, 2019 and 2018, respectively.

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**NOTE 9 DEBT OBLIGATIONS (CONTINUED)**

**Bonds Payable**

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

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

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

**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
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**NOTE 9 DEBT OBLIGATIONS (CONTINUED)**

**Bonds Payable (Continued)**

Activity for the various bond series allocated to the University for the year ended June 30, 2018 is as follows:

	2018					
	Weighted Average Interest Rate	Balance July 1, 2017	Bonds Issued	Bonds Redeemed/ Refunded	Transfers Between Projects	Balance June 30, 2018
Student Center Expansion:						
Series AK Issued in September 2009	4.00%	\$ 253,979	\$ -	\$ (109,612)	\$ -	\$ 144,367
Series AM Issued in July 2011	4.66%	5,333,149	-	(209,992)	-	5,123,157
Series AO Issued in July 2013	4.44%	10,295,000	-	(315,000)	-	9,980,000
Series AR Issued in September 2015	3.95%	10,116,780	-	(267,657)	-	9,849,123
Academic Buildings:						
Series AK Issued in September 2009	4.00%	105,075	-	(33,591)	-	71,484
Series AU Issued in September 2017	3.51%	-	741,451	(73,077)	-	668,374
Infrastructure and Deferred Maintenance:						
Series AM Issued in July 2011	4.66%	8,065,000	-	(740,000)	-	7,325,000
Quad Landscaping:						
Series AN Issued in March 2012	5.00%	365,552	-	(66,350)	-	299,202
Campus Improvements:						
Series AN Issued in March 2012	5.00%	678,593	-	(102,183)	-	576,410
Series AP Issued in May 2014	4.60%	123,574	-	(15,731)	-	107,843
Series AU Issued in September 2017	3.51%	-	928,659	(91,529)	-	837,130
Building Renovations:						
Series AH Issued in July 2008	4.68%	10,346,343	-	(10,346,343)	-	-
Series AL Issued in July 2010	5.00%	625,327	-	(35,314)	-	590,013
Series AQ Issued in May 2015	4.65%	1,179,094	-	(373,635)	-	805,459
Series AU Issued in September 2017	3.51%	-	7,509,332	-	-	7,509,332
Convocation Center:						
Series AJ Issued in July 2009	4.86%	17,835,000	-	(700,000)	-	17,135,000
Series AM Issued in July 2011	4.66%	12,420,000	-	(420,000)	-	12,000,000
Parking Garage:						
Series AJ Issued in July 2009	4.86%	13,703,756	-	(865,084)	-	12,838,672
Soccer Complex:						
Series AL Issued in July 2010	5.00%	2,771,149	-	(156,520)	-	2,614,629
Student Housing Repurchase:						
Series AR Issued in September 2015	3.95%	68,790,000	-	(1,820,000)	-	66,970,000
<b>Total</b>		<u>\$ 163,007,371</u>	<u>\$ 9,179,442</u>	<u>\$ (16,741,618)</u>	<u>\$ -</u>	<u>\$ 155,445,195</u>

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**NOTE 9 DEBT OBLIGATIONS (CONTINUED)**

**Bonds Payable (Continued)**

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

Series		2020	2021	2022	2023	2024	2025-2029	2030-2034	2035-2039	2040-2044	Total
AJ	Principal	\$ 1,723,665	\$ 1,812,668	\$ 1,901,670	\$ 1,994,442	\$ 2,094,099	\$ 12,023,694	\$ 6,780,002	\$ -	\$ -	\$ 28,330,240
	Interest	1,363,341	1,277,157	1,186,524	1,091,441	991,718	3,408,707	1,050,000	-	-	10,368,888
	Total	3,087,006	3,089,825	3,088,194	3,085,883	3,085,817	15,432,401	7,830,002	-	-	38,699,128
AK	Principal	66,523	-	-	-	-	-	-	-	-	66,523
	Interest	2,661	-	-	-	-	-	-	-	-	2,661
	Total	69,184	-	-	-	-	-	-	-	-	69,184
AL	Principal	211,295	221,952	233,073	244,657	257,168	1,490,649	344,284	-	-	3,003,078
	Interest	150,154	139,589	128,491	116,838	104,605	316,966	17,214	-	-	973,857
	Total	361,449	361,541	361,564	361,495	361,773	1,807,615	361,498	-	-	3,976,935
AM	Principal	1,494,369	1,571,388	1,647,500	1,726,023	1,820,143	6,900,529	5,461,124	2,403,376	-	23,024,452
	Interest	1,066,153	991,435	912,865	830,490	739,874	2,557,475	1,274,815	163,429	-	8,536,536
	Total	2,560,522	2,562,823	2,560,365	2,556,513	2,560,017	9,458,004	6,735,939	2,566,805	-	31,560,988
AN	Principal	182,993	191,900	200,337	124,731	-	-	-	-	-	699,961
	Interest	24,170	14,680	4,470	686	-	-	-	-	-	44,006
	Total	207,163	206,580	204,807	125,417	-	-	-	-	-	743,967
AO	Principal	340,000	355,000	375,000	390,000	410,000	2,285,000	2,795,000	2,705,000	-	9,655,000
	Interest	417,144	400,144	382,394	363,644	344,144	1,489,919	982,113	310,725	-	4,690,227
	Total	757,144	755,144	757,394	753,644	754,144	3,774,919	3,777,113	3,015,725	-	14,345,227
AP	Principal	16,836	17,486	18,201	19,111	20,023	-	-	-	-	91,657
	Interest	4,240	3,566	2,867	1,957	1,001	-	-	-	-	13,631
	Total	21,076	21,052	21,068	21,068	21,024	-	-	-	-	105,288
AQ	Principal	413,449	-	-	-	-	-	-	-	-	413,449
	Interest	20,672	-	-	-	-	-	-	-	-	20,672
	Total	434,121	-	-	-	-	-	-	-	-	434,121
AR	Principal	2,301,334	2,414,080	2,535,012	2,665,943	2,796,875	15,847,915	18,647,977	22,390,935	5,028,650	74,628,721
	Interest	2,927,809	2,812,742	2,692,038	2,565,287	2,431,990	10,306,934	7,499,833	3,751,754	201,146	35,189,533
	Total	5,229,143	5,226,822	5,227,050	5,231,230	5,228,865	26,154,849	26,147,810	26,142,689	5,229,796	109,818,254
AU	Principal	935,481	983,493	1,030,752	1,084,146	789,537	3,577,166	-	-	-	8,400,575
	Interest	420,029	373,255	324,080	272,542	218,335	458,009	-	-	-	2,066,250
	Total	1,355,510	1,356,748	1,354,832	1,356,688	1,007,872	4,035,175	-	-	-	10,466,825
Total	Principal	7,685,945	7,567,967	7,941,545	8,249,053	8,187,845	42,124,953	34,028,387	27,499,311	5,028,650	148,313,656
	Interest	3,048,535	2,826,571	2,617,611	2,405,056	2,181,342	7,773,067	3,324,142	474,154	-	61,906,261
Total		<u>\$ 10,734,480</u>	<u>\$ 10,394,538</u>	<u>\$ 10,559,156</u>	<u>\$ 10,654,109</u>	<u>\$ 10,369,187</u>	<u>\$ 49,898,020</u>	<u>\$ 37,352,529</u>	<u>\$ 27,973,465</u>	<u>\$ 5,028,650</u>	<u>\$ 210,219,917</u>

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**NOTE 9 DEBT OBLIGATIONS (CONTINUED)**

**Bonds Payable (Continued)**

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. The State System will issue bonds to provide a pool for funding for AFRP (\$9,228,259 and \$13,298,828 was outstanding at June 30, 2019 and 2018, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. As of June 30, 2019 and 2018, the balance owed by the University to the State System's AFRP pool of funding was \$690,074 and \$994,464, respectively.

**NOTE 10 COMPENSATED ABSENCES**

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

	<u>2019</u>	<u>2018</u>
Balance – July 1	\$ 8,089,212	\$ 7,589,724
Current Changes in Estimate	848,407	1,143,931
Payouts	<u>(723,660)</u>	<u>(644,443)</u>
Balance – June 30	<u>\$ 8,213,959</u>	<u>\$ 8,089,212</u>

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB)**

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

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

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

	System Plan		REHP		Premium Assistance		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Net OPEB liabilities	<u>\$ 84,654,493</u>	<u>\$ 92,925,611</u>	<u>\$ 38,712,289</u>	<u>\$ 51,587,798</u>	<u>\$ 248,795</u>	<u>\$ 242,260</u>	<u>\$ 123,615,577</u>	<u>\$ 144,755,669</u>
Deferred outflows of resources:								
Difference between expected and actual experience	\$ -	\$ -	\$ -	\$ -	\$ 1,560	\$ -	\$ 1,560	\$ -
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	-	-	\$ 390	262	390	262
Changes in assumptions	-	-	-	-	3,900	-	3,900	-
Changes in proportion	-	-	2,068,493	-	2,990	-	2,071,483	-
Contributions after the measurement date	<u>\$ 2,450,094</u>	<u>2,424,910</u>	<u>1,531,650</u>	<u>1,261,037</u>	<u>13,694</u>	<u>13,257</u>	<u>3,995,438</u>	<u>3,699,204</u>
Total deferred outflows of resources	<u>\$ 2,450,094</u>	<u>\$ 2,424,910</u>	<u>\$ 3,600,143</u>	<u>\$ 1,261,037</u>	<u>\$ 22,534</u>	<u>\$ 13,519</u>	<u>\$ 6,072,771</u>	<u>\$ 3,699,466</u>
Deferred inflows of resources:								
Difference between expected and actual experience	\$ 9,434,926	\$ -	\$ 11,856,695	\$ -	\$ -	\$ -	\$ 21,291,621	\$ -
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	59,167	43,087	-	-	59,167	43,087
Changes in assumptions	6,767,014	7,595,103	5,089,070	4,700,352	9,424	11,292	11,865,508	12,306,747
Changes in proportion	N/A	N/A	-	-	2,211	2,692	2,211	2,692
Total deferred inflows of resources	<u>\$ 16,201,940</u>	<u>\$ 7,595,103</u>	<u>\$ 17,004,932</u>	<u>\$ 4,743,439</u>	<u>\$ 11,635</u>	<u>\$ 13,984</u>	<u>\$ 33,218,507</u>	<u>\$ 12,352,526</u>
OPEB Expense	<u>\$ 1,576,940</u>	<u>\$ 3,736,556</u>	<u>\$ (377,760)</u>	<u>\$ 2,394,848</u>	<u>\$ 23,006</u>	<u>\$ 19,945</u>	<u>\$ 1,222,186</u>	<u>\$ 6,151,349</u>
Contributions recognized by OPEB plans	<u>N/A</u>	<u>N/A</u>	<u>\$ 1,531,650</u>	<u>1,261,037</u>	<u>\$ 13,694</u>	<u>\$ 13,257</u>	<u>\$ 1,545,344</u>	<u>\$ 1,274,294</u>

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The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling \$2,450,094 for the System Plan, \$1,531,650 for the REHP plan, and \$13,694 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

Fiscal Year Ended	Amortization		
	System Plan	REHP	Premium Assistance
June 30, 2020	\$ 3,547,770	\$ 3,804,745	\$ 780
June 30, 2021	3,547,770	3,804,745	845
June 30, 2022	3,547,770	3,804,745	845
June 30, 2023	3,547,770	3,502,147	845
June 30, 2024	2,010,860	2,063,436	910
Thereafter	-	(2,043,379)	(1,430)
	<u>\$ 16,201,940</u>	<u>\$ 14,936,439</u>	<u>\$ 2,795</u>

**System Plan**

**Plan Description**

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

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

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

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**System Plan (Continued)**

**Plan Description (Continued)**

A total of 12,511 employees are covered by the benefit terms, including 7,762 inactive employees currently receiving benefit payments, 52 inactive employees entitled to but not yet receiving benefits, and 4,697 active employees. Effective January 16, 2016, the State System OPEB plan became closed to newly hired SCUPA, SPFPA, OPEIU, and nonrepresented employees, while newly hired APSCUF employees (faculty and coaches) continue to be eligible to participate in the plan.

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement or the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2019.

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

**Actuarial Assumptions and Other Inputs**

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

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



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**System Plan (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

- 90% of employees eligible for a subsidy and 15% of employees not eligible for a subsidy are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- The cost due to the excise tax under the Patient Protection and Affordable Care Act beginning in 2022 is 40% of the projected premiums in excess of the annual limits, calculated using an inflation rate of 2%.
- The annual cost of living increase beginning in 2018 is assumed to be 2.2% per year.
- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates based on the RP-2014 Total Mortality Tables, which incorporate rates based on a generational projection using Scale MP-2018 to reflect mortality improvement, updated from Scale MP-2017.
- The discount rate decreased from 3.13% to 2.98%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2018.
- Participant data is based on census information as of July 1, 2018.
- Experience assumptions for withdrawal and retirement, expected vs. actual, and election percentages were reviewed in 2019, and it was determined that the results were reasonable and did not warrant a further formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all eligible retirees, regardless of employee bargaining unit when active, and including those not represented when active, who meet years of service and/or age criteria.

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

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

	1% Decrease (4.5% decreasing to 2.8%)	Healthcare Cost Trend Rates (5.5% decreasing to 3.8%)	1% Increase (6.5% decreasing to 4.8%)
2019	\$ 70,873,824	\$ 84,654,493	\$ 102,487,568

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**System Plan (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 76,940,937	\$ 92,925,611	\$ 113,788,318

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
2019	\$ 99,357,844	\$ 84,654,493	\$ 72,990,363

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 109,523,583	\$ 92,925,611	\$ 79,823,230

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**University OPEB Liability**

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

The University's portion of the System Plan's total OPEB liability as of June 30, 2018 of \$92,925,611 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.

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

	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018
Balance - Beginning of Year	\$ 92,925,611	\$ 100,753,636
Service Cost	2,696,307	3,842,140
Interest	2,943,682	3,115,707
Changes of Benefit Terms	(64,816)	-
Differences Between Expected and Actual Experience	(11,190,141)	-
Changes in Assumptions	(734,608)	(11,312,534)
Benefit Payments	(1,921,542)	(3,473,338)
Net Changes	(8,271,118)	(7,828,025)
Balance - End of Year	\$ 84,654,493	\$ 92,925,611
Covered Employee Payroll	\$ 37,532,251	\$ 37,693,919
OPEB Liability as a Percent of Covered Payroll	225.55%	246.53%

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

**REHP**

**Plan Description**

The Retired Employees Health Program (REHP) is a single-employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement.

The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an agreement with the Commonwealth.

The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and the Secretary of Administration.

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**REHP (Continued)**

**Plan Description (Continued)**

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

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

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

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**REHP (Continued)**

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

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

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

- Discount rate of 3.87% as of June 30, 2018, and 3.58% as of June 30, 2017.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the index rate for the 20-year tax-exempt general obligation municipal bond index with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.
- The long-term expected rate of return on REHP plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class.

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**REHP (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	47.0%	6.6%
International Equity	20.0%	8.6%
Fixed Income	25.0%	3.0%
Real Estate	8.0%	6.9%
Cash	0.0%	1.0%
Total	<u>100.00%</u>	

- Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized as follows at June 30, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	47.0%	7.5%
International Equity	20.0%	8.5%
Fixed Income	25.0%	3.0%
Real Estate	8.0%	3.0%
Cash	0.0%	1.0%
Total	<u>100.00%</u>	

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

The actuarial valuation on which the total REHP OPEB liability at June 30, 2018 is based was dated June 30, 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 June 30, 2017.

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**REHP (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

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

Sensitivity of the REHP Net OPEB			
Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (5.2% decreasing to 3.1%)	Healthcare Cost Trend Rates (6.2% decreasing to 4.1%)	1% Increase (7.2% decreasing to 5.1%)
2019	\$ 33,231,340	\$ 38,712,290	\$ 45,525,025

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

Sensitivity of the REHP Net OPEB			
Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 44,770,195	\$ 51,587,798	\$ 61,793,527

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

Sensitivity of the REHP Net OPEB			
Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.87%	Current Rate 3.87%	1% Increase 4.87%
2019	\$ 44,351,154	\$ 38,712,290	\$ 34,066,561

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**REHP (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

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

Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
2018	\$ 60,444,148	\$ 51,587,798	\$ 45,713,766

**REHP Fiduciary Net Position**

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

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

**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.



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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**Premium Assistance (Continued)**

**Plan Description (Continued)**

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

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

**Actuarial Assumptions and Other Inputs**

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

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016, determined the employer contribution rate for fiscal year 2017/18.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**Premium Assistance (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

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

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

- The discount rate used to measure the total OPEB liability was 2.98% 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.9%	0.3%
US Core Fixed Income	92.8%	1.2%
Non-US Developed Fund	1.3%	0.4%
Total	<u>100.00%</u>	

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**Premium Assistance (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

- Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2017.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
US Core Fixed Income	23.6%	1.5%
Total	<u>100.00%</u>	

The actuarial valuation on which the total Premium Assistance OPEB liability at June 30, 2019 is based was dated June 30, 2017, and was rolled forward to June 30, 2018. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.18% for the measurement date of June 30, 2018.

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

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

<u>Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate</u>			
	<u>Healthcare Cost Trend Rates Between 4% and 6.75%</u>	<u>Healthcare Cost Trend Rates Between 5% and 7.75%</u>	<u>Healthcare Cost Trend Rates Between 6% and 8.75%</u>
2019	\$ 248,730	\$ 248,795	\$ 248,860

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**NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)**

**Premium Assistance (Continued)**

**Actuarial Assumptions and Other Inputs (Continued)**

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4% and 7%) or one percentage point higher (between 6% and 9%) than the healthcare cost trend rates used (between 5% and 8%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	Healthcare Cost Trend Rates Between 4% and 7%	Healthcare Cost Trend Rates Between 5% and 8%	Healthcare Cost Trend Rates Between 6% and 9%
2018	\$ 242,193	\$ 242,260	\$ 242,326

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

Sensitivity of the Premium Assistance Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
2019	\$ 282,917	\$ 248,795	\$ 220,458

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

Sensitivity of the Premium Assistance Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 275,348	\$ 242,260	\$ 214,750

**Fiduciary Net Position**

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

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**NOTE 12 PENSION BENEFITS**

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

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

	SERS		PSERS		ARP		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Net Pension Liabilities</b>	<u>\$ 75,657,922</u>	<u>\$ 62,869,233</u>	<u>\$ 5,609,729</u>	<u>\$ 5,869,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,267,651</u>	<u>\$ 68,738,319</u>
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	\$ 1,135,365	\$ 1,062,989	\$ 45,126	\$ 61,222	\$ -	\$ -	\$ 1,180,491	\$ 1,124,211
Net Difference Between Projected and Actual Investment Earnings	7,361,070	-	27,496	136,028	-	-	7,388,566	136,028
Changes in Assumptions	2,015,713	3,147,603	104,573	159,454	-	-	2,120,286	3,307,057
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	-	22,145	33,991	-	-	22,145	33,991
Change in Proportions	1,085,139	1,503,030	95,726	104,356	-	-	1,180,865	1,607,386
Contributions After the Measurement Date	<u>4,018,954</u>	<u>3,956,738</u>	<u>540,292</u>	<u>501,520</u>	<u>-</u>	<u>-</u>	<u>4,559,246</u>	<u>4,458,258</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 15,616,241</u>	<u>\$ 9,670,360</u>	<u>\$ 835,358</u>	<u>\$ 996,571</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,451,599</u>	<u>\$ 10,666,931</u>
Deferred Inflows of Resources:								
Net Difference Between Projected and Actual Investment Earnings	\$ -	\$ 2,499,647	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,499,647
Difference Between Projected and Actual Experience	819,829	1,193,733	86,816	35,434	-	-	906,645	1,229,167
Change in Proportions	598,398	985,730	59,257	85,108	-	-	657,655	1,070,838
Difference Between Employer Contributions and Proportionate Share of Total Contributions	<u>404,135</u>	<u>363,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>404,135</u>	<u>363,089</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ 1,822,362</u>	<u>\$ 5,042,199</u>	<u>\$ 146,073</u>	<u>\$ 120,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,968,435</u>	<u>\$ 5,162,741</u>
<b>Pension Expense</b>	<u>\$ 10,973,095</u>	<u>\$ 6,801,608</u>	<u>\$ 1,085,379</u>	<u>\$ 1,431,919</u>	<u>\$ 2,857,031</u>	<u>\$ 2,710,723</u>	<u>\$ 14,915,505</u>	<u>\$ 10,944,250</u>
Contributions Recognized by Pension Plans	<u>\$ 7,350,122</u>	<u>\$ 7,025,487</u>	<u>\$ 540,292</u>	<u>\$ 501,520</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ 7,890,414</u>	<u>\$ 7,527,007</u>

The University will recognize the \$4,018,954 reported as 2019 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$540,292 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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

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

Fiscal Year Ended	Amortization	
	SERS	PSERS
June 30, 2020	\$ 3,677,695	\$ 161,195
June 30, 2021	2,057,393	60,708
June 30, 2022	1,354,700	(52,585)
June 30, 2023	2,668,721	(20,325)
June 30, 2024	16,416	-
	<u>\$ 9,774,925</u>	<u>\$ 148,993</u>

**SERS**

**Plan Description**

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

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

**Benefits Provided**

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's Constitution assigns the authority to establish and amend the benefit 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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

**Benefits Provided (Continued)**

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

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

**Contributions**

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

For the SERS defined benefit plan, the University's actuarially determined contribution rate for most active members was 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's contributions to SERS for the years ended June 30, 2019, 2018, and 2017, were \$7,350,122, \$7,025,487, and \$6,207,169, respectively, equal to the required contractual contribution.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

**Contributions (Continued)**

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

For the SERS defined contribution plan, the University contributed actuarially determined rates of between 2.0% and 3.5% of active members' annual covered payroll at June 30, 2019, depending on the plan chosen by the employee. The University recognized \$1,657 in SERS defined contribution pension expense for the year ended June 30, 2019, the first year of the plan's implementation. The vesting period for employer contributions to the defined contribution plan, both for members who participate in the straight 410(a) defined contribution plan and those who participate in one of the defined benefit/defined contribution hybrid plans, is three years. Once money is contributed to the plan, it cannot be removed from the plan, except for making distribution payments to participants. Forfeitures of unvested employer contributions and earnings are invested in the PA Treasury short-term investment fund. The funds are forfeited to the employee's most recent employer and used to offset future contributions to the plan and correct funding discrepancies. Forfeitures seized under the Pension Forfeiture Act are used for administrative expenses of the plan.

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

**Actuarial Methods and Assumptions**

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

Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the 18th Investigation of Actuarial Experience at its March 2016 meeting.



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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

**Actuarial Methods and Assumptions (Continued)**

In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its April 2017 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.5% to 7.25%. The next SERS review occurred in summer 2019 and will be used for its 2019 annual valuation.

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

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

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

Asset Class	2018		2017	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Cash	3.0%	0.00%	3.0%	-0.25%
Fixed Income	11.0%	1.26%	14.0%	1.63%
Global Public Equity	48.0%	5.15%	43.0%	5.30%
Private Equity	16.0%	7.25%	16.0%	8.00%
Real Estate	12.0%	5.26%	12.0%	5.44%
Multi-Strategy	10.0%	4.44%	12.0%	5.10%
Total	<u>100.0%</u>		<u>100.0%</u>	

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

**Actuarial Methods and Assumptions (Continued)**

The discount rate used to measure the total SERS pension liability was 7.25% as of December 31, 2017 and 2016. 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, calculated using the discount rate of 7.25%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the rate used for the current period.

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

(In Thousands)		
1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
\$ 92,902	\$ 75,658	\$ 60,881

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

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

(In Thousands)		
1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
\$ 79,801	\$ 62,869	\$ 48,366

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

**Fiduciary Net Position**

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

**Proportionate Share**

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

At June 30, 2018, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2017, was \$62,869,233.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the December 2018 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2019/20 from the December 31, 2018 funding valuation to the expected funding payroll.

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

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

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS**

**Plan Description**

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

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

**Benefits Provided**

Members who joined prior to July 1, 2011, are eligible for monthly retirement benefits upon reaching age 62 with at least one year of credited service, age 60 with 30 or more years of credited service, or any age with 35 or more years of service. Act 120 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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

**Benefits Provided (Continued)**

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

**Member Contributions**

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

**Employer Contributions**

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2019, was 31.7 % 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 15.85% of covered payroll. The University's contribution to PSERS for the years ended June 30, 2019, 2018, and 2017 was \$540,292, \$501,520, and \$466,384, respectively, equal to the required contractual contribution.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

**Actuarial Assumptions**

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

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

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

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:

Asset Class	2018		2017	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Absolute Return	10.0%	3.5%	10.0%	3.4%
Alternative Investments	15.0%	6.7%	15.0%	6.2%
Cash	3.0%	0.4%	3.0%	0.6%
Commodities	8.0%	3.2%	8.0%	3.0%
Financing (LIBOR)	-20.0%	90.0%	-20.0%	1.1%
Fixed Income	36.0%	2.2%	36.0%	2.6%
Global Public Equity	20.0%	5.2%	20.0%	5.1%
Infrastructure/MLPs	8.0%	5.5%	8.0%	4.8%
Real Estate	10.0%	4.2%	10.0%	3.6%
Risk Parity	10.0%	3.9%	10.0%	3.8%
Total	<u>100.0%</u>		<u>100.0%</u>	

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

**Actuarial Assumptions (Continued)**

The discount rate used to measure the total PSERS pension liability was 7.25% for the years ended June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

The following presents the University's proportionate share of the PSERS net pension liability at June 30, 2017 calculated using the discount rate of 7.25%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the rate used:

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

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
\$ 7,224	\$ 5,869	\$ 4,725

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**NOTE 12 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](http://www.psers.state.pa.us).

**Proportionate Share**

At June 30, 2019 and 2018, the amount recognized as the University's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows:

	<u>2019</u>	<u>2018</u>
Total PSERS Net Pension Liability Associated with the University	\$ 11,219,458	\$ 11,738,172
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	<u>5,609,729</u>	<u>5,869,086</u>
University's Proportionate Share of the PSERS Net Pension Liability	<u>\$ 5,609,729</u>	<u>\$ 5,869,086</u>

At June 30, 2019 and 2018, PSERS measured the net pension liability 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.

At June 30, 2017, the State System's proportion was .1811%, a decrease of .0022% from its proportion calculated as of June 30, 2017.



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**NOTE 12 PENSION BENEFITS (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 State System's contribution rate on June 30, 2019 and 2018 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2019 and 2018, were \$2,857,031 and \$2,710,723, respectively, from the University; and \$1,537,692 and \$1,257,490, respectively, from active members. No liability is recognized for the ARP.

**NOTE 13 WORKERS' COMPENSATION**

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University must pay up to \$100,000; for claims occurring on or after July 1, 1995, the University must pay up to \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which the University contributes an amount as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$80,634 and \$132,529 during the years ended June 30, 2019 and 2018, respectively, and was given a refund of \$27,159 during the year ended June 30, 2017.

Changes in the University's claims liability amount for the fiscal years ended June 30, 2019, 2018, and 2017 were as follows:

Year	2018	2017	2016
Balance - July 1	\$ 547,644	\$ 579,402	\$ 658,740
Current Year Claims and Changes in Estimates	756,264	419,053	217,108
Claims Payments	<u>(486,151)</u>	<u>(450,811)</u>	<u>(296,446)</u>
Balance - June 30	<u>\$ 817,757</u>	<u>\$ 547,644</u>	<u>\$ 579,402</u>

**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
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**NOTE 14 COMMITMENTS AND CONTINGENCIES**

**Construction Commitments**

Authorized expenditures for construction projects unexpended as of June 30, 2019 and 2018 were approximately \$439,645 and \$1,134,727, respectively.

**Contingencies**

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

The University is self-insured for workers' compensation up to stated limits (Note 13). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its Risk Management Program. The University does not participate in any public entity risk pools, and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant. The University has not reduced significantly any of its insurance coverage from the prior year.

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

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

**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.

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**NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Cheyney University Loan Forgiveness (Continued)**

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. California 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 California 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 UNRESTRICTED NET POSITION**

Unrestricted net positions, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations; however, they are subject to internal designations. Unrestricted net positions have been internally designated at June 30, 2019 and 2018 as follows:

	2019	2018
Designated Accounts for Educational and General Activities	\$ 10,451,807	\$ 11,298,074
Designated Accounts for Healthcare Reserve	328,343	351,034
Designated Accounts for Auxiliary Enterprise	9,579,586	10,492,836
Designated Accounts for Plant Acquisition and Renewal Activities	5,207,920	5,709,662
Compensated Absences Deficit	(8,213,959)	(8,089,212)
Other Postretirement Benefit Deficit	(150,761,313)	(153,408,729)
Pension Benefit Deficit	(66,784,487)	(63,234,129)
Total	\$ (200,192,103)	\$ (196,880,464)

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

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**NOTE 16 RELATED PARTIES**

**Foundation**

During the 2019 and 2018 fiscal years, the Foundation provided the following support to the University:

	2019	2018
Contributions (Including Scholarships)	\$ 2,000,364	\$ 2,246,740
Fees for Services	179,766	224,143
Other Support	168,627	128,414
Total	\$ 2,348,757	\$ 2,599,297

The Foundation holds investments in a fiduciary capacity for the University (Note 3). These investments totaled \$7,141,358 and \$7,034,353 at June 30, 2019 and 2018, respectively.

**SAI**

During the years ended June 30, 2019 and 2018, SAI provided \$206,653 and \$207,711, respectively, of athletic scholarship support.

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

In cooperation with the University, SAI has constructed two off-campus student housing complexes (Vulcan Village Phase I & Phase II) to supplement the University's on-campus student housing. During FY 2017-18, the initial tax-exempt bond financing of Vulcan Village Phase I (Series 2000) & Phase II (Series 2003) was called and paid off with new funds issued through the Series 2017 Vulcan Village (Phase I & Phase II are now combined into one financing arrangement). During the 2017-18 fiscal year, SAI offered student housing at Vulcan Village situated on land owned by SAI and managed by a private housing manager. The University assisted SAI in facilitating student rent payments through the application of student financial aid awards. In return for allowing SAI to provide supplementary student housing, the University and SAI have entered into contractual arrangements to share any residual net cash flows from Vulcan Village housing project. During the years ended June 30, 2019 and 2018, the University recognized no income from the residual net cash flows of the Vulcan Village project.

The University entered a lease agreement with SAI for the use of Roadman Park. The Roadman Park agreement requires the University to provide maintenance support payments for the park through 2038. The University estimates these payments to be approximately \$100,000 per year. The costs paid for use of these properties for the years ended June 30, 2019 and 2018 was \$95,592 and \$92,637, respectively.

**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
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**NOTE 17 RATING ACTIONS**

In August 2019, Moody's Investors Services, 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*.

**CALIFORNIA UNIVERSITY OF PENNSYLVANIA  
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Changes in the System Plan Total OPEB Liability  
Determined as of the June 30 Measurement Dates

	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018
Balance - Beginning of Year	\$ 92,925,611	\$ 100,753,636
Service Cost	2,696,307	3,842,140
Interest	2,943,682	3,115,707
Changes of Benefit Terms	(64,816)	-
Differences Between Expected and Actual Experience	(11,190,141)	-
Changes in Assumptions	(734,608)	(11,312,534)
Benefit Payments	(1,921,542)	(3,473,338)
Net Changes	<u>(8,271,118)</u>	<u>(7,828,025)</u>
Balance - End of Year	<u>\$ 84,654,493</u>	<u>\$ 92,925,611</u>
Covered Employee Payroll	\$ 37,532,251	\$ 37,693,919
OPEB Liability as a Percent of Covered Payroll	225.55%	246.53%

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

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

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

REHP Schedule of Contributions  
(in thousands)

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

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

Fiscal Year	PSERS Net OPEB Liability			University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total OPEB Liability
	State System's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share			
2018/19	0.1836%	\$ 249	\$ 249	\$ 3,213	7.74%	5.56%
2017/18	0.1811%	\$ 242	\$ 242	\$ 3,167	7.65%	5.73%

PSERS Schedule of Contributions  
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2018/19	\$ 14	\$ 14	\$ -	\$ 3,409	0.40%
2017/18	\$ 13	\$ 13	\$ -	\$ 3,277	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 Proportion Share	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered- Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2018/19	4.897%	\$ 75,658	\$ 23,622	320%	56.4%
2017/18	4.906%	\$ 62,870	\$ 22,906	274%	63.0%
2016/17	4.837%	\$ 71,174	\$ 22,981	310%	57.8%
2015/16	4.721%	\$ 67,519	\$ 23,417	288%	58.9%
2014/15	4.901%	\$ 56,657	\$ 23,109	245%	64.8%

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

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



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

Fiscal Year	PSERS Net Pension Liability				University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total			
2018/19	0.1836%	\$ 5,609	\$ 5,609	\$ 11,218	\$ 3,147	200%	54.0%
2017/18	0.1811%	\$ 5,869	\$ 5,869	\$ 11,738	\$ 3,165	200%	51.8%
2016/17	0.1833%	\$ 5,821	\$ 5,821	\$ 11,642	\$ 3,043	200%	50.1%
2015/16	0.1852%	\$ 5,715	\$ 5,715	\$ 11,430	\$ 3,396	200%	54.4%
2014/15	0.1785%	\$ 4,604	\$ 4,604	\$ 9,208	\$ 1,484	310%	57.2%

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

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