INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2020 AND 2019

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

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INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We did not audit the financial statements of certain of the aggregate discretely presented component units, which represent 11.6%, 22.2%, and 39.4%, respectively, of the 2020 assets, net assets, and revenues and 11.0%, 13.0%, and 40.3%, respectively, of the 2019 assets, net assets, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the discretely presented component units, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Indiana University of Pennsylvania as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6, one of the University's component units, the Foundation for Indiana University of Pennsylvania, Inc. (the Foundation), is in default on certain covenants of its loan agreements at June 30, 2020, primarily as a result of (1) reduced enrollment and housing demand and (2) refunds issued to students when they were required to leave campus due to the COVID-19 pandemic.The lenders may demand repayment of the loans. No such demand has been made. Negotiations are presently under way to restructure the related indebtedness. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 12, and various schedules of proportionate share of net pension liability, proportionate share of net OPEB liability, pension and OPEB contributions, and OPEB liability on pages 88-92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 1, 2020

Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis for the financial activities of Indiana University of Pennsylvania (IUP) for the years ended June 30, 2020 and 2019. IUP's financial performance is discussed and analyzed within the context of the financial statements and disclosures which follow.

IUP, founded in 1875, is a public university of the Commonwealth of Pennsylvania and is one of fourteen (14) members comprising the Pennsylvania State System of Higher Education (the State System). As a public university, IUP is charged with providing affordable high-quality education to its students. With 10,348 students enrolled for Fall 2019, IUP had the 2nd largest enrollment of the State System's fourteen (14) universities.

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

The following is an overview of the IUP's financial activities for the year ended June 30, 2020, as compared to the years ended June 30, 2019 and 2018. Note, due to rounding, certain increases or decreases may vary slightly from audited financial statements.

Financial Highlights

- As a public institution of higher education, IUP receives state appropriations from the Commonwealth of Pennsylvania to support its operations. Total Commonwealth appropriations were $477.5 million statewide for the year ended June 30, 2020, $468.1 million and $453.1 million for the years ended June 30, 2019 and 2018, respectively. IUP received a general state appropriation of $56.1 million for the year ended June 30, 2020, which was a 2.2% increase over the $54.8 million for the year ended June 30, 2019. The appropriation for the year ended June 30, 2019 was a 1.75% increase over the $53.9 million received for the year ended June 30, 2018.

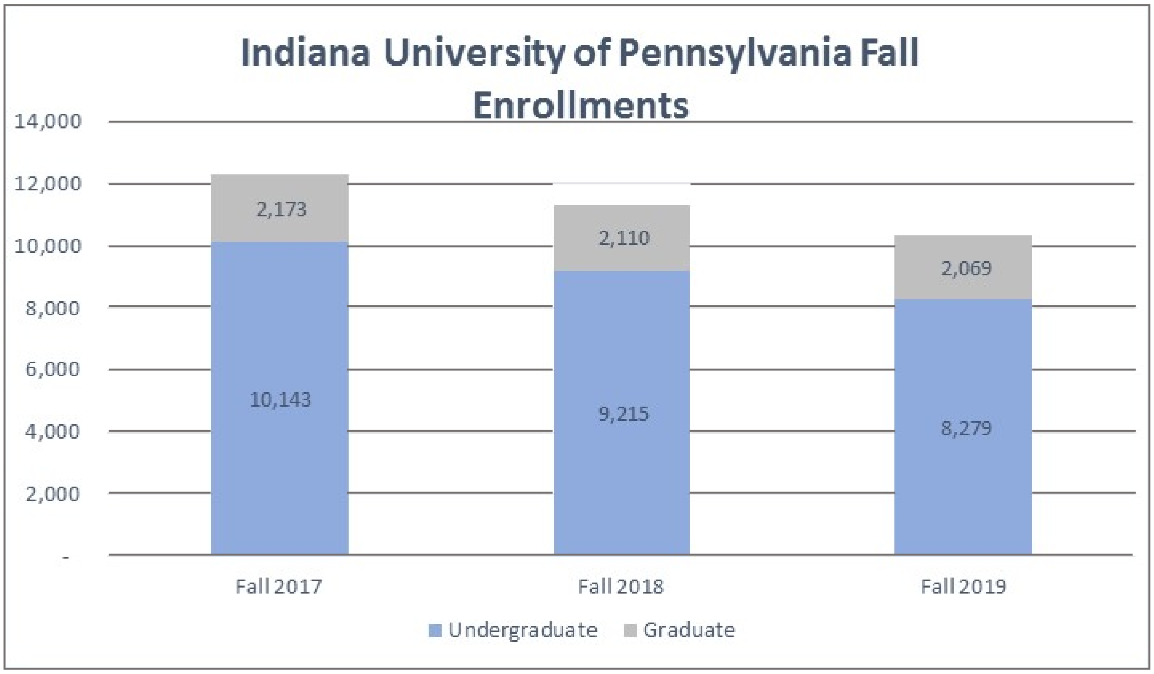
- The State System Board annually approves tuition rate increases. The rate increase approved for academic years 2019-2020, 2018-2019, and 2017-2018 were 0.00% 2.99%, and 3.5% respectively.

- Revenue recognized for tuition and fees net of discounts and allowances was $96.5 million in fiscal year 2019-2020, $106.0 million in fiscal year 2018-2019, and $111.6 million in fiscal year 2017-2018.

- After several years of State appropriations for capital remaining at steady or increasing funding levels, the appropriation in the most recent fiscal year decreased. Capital appropriations for 2019-2020 decreased by 4.2% compared to 2018-2019 capital appropriations. 2018-2019 capital appropriations increased 1.1% over 2017-2018 levels.

- Enrollment for Fall 2019 included 8,279 undergraduate and 2,069 graduate students, for a total of 10,348 students. Fall 2018 and 2017 included 9,215 and 10,143 undergraduate and 2,110 and 2,173 graduate students respectively. The chart below summarizes a three-year trend of undergraduate and graduate enrollment.

Financial Highlights (Continued)



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 IUP as of the end of the fiscal year. Assets include cash investments reported at fair value, the value of outstanding receivables due from students and other parties, and land, buildings, and equipment reported at cost, less accumulated depreciation. Deferred outflows of resources, which is defined as a consumption of net position that applies to future periods, includes deferred losses on refunding of debt and certain items associated with the net pension and other postemployment benefits (OPEB) liabilities and annual pension and OPEB expense.

Liabilities include payments due to vendors and students, the balance of bonds payable, and liabilities such as workers' compensation (IUP is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (benefits expected to be paid to certain current and future retirees). Deferred inflows of resources, which is defined as an acquisition of net position that applies to future periods, includes deferred gains on refunding of debt and certain items associated with the net pension and OPEB liabilities and annual pension and OPEB expense. The difference between the assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as net position.

Net position at fiscal year-end June 30, 2020 increased by $9.9 million to ($184.3) million from fiscal year-end June 30, 2019 net position of ($194.3) million. The net position at year-end June 30, 2019 increased $8.2 million from the net position at the end of fiscal year-end June 30, 2018 which was ($202.5).

Financial Statements (Continued)

Balance Sheet (Continued)

The following is a summary of the balance sheet for fiscal years ended June 30, 2020, 2019, and 2018.

	2020	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets			
Cash and Cash Equivalents	$ 93,398,404	$ 107,711,235	$ 117,310,624
Other Current Assets	28,239,379	24,238,082	23,158,787
Total Current Assets	121,637,783	131,949,317	140,469,411
Noncurrent Assets			
Capital Assets, Net	179,133,295	179,973,562	172,466,852
Other Noncurrent Assets	10,529,273	10,964,580	11,459,758
Total Noncurrent Assets	189,662,568	190,938,142	183,926,610
Total Assets	311,300,351	322,887,459	324,396,021
Deferred Outflow of Resources	27,215,377	41,229,800	26,693,909
Total Assets and Deferred Outflow of Resources	$ 338,515,728	$ 364,117,259	$ 351,089,930
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current Liabilities			
Accounts Payable and Accrued Expenses	$ 18,484,532	$ 19,507,358	$ 18,635,140
Unearned Revenue	5,012,293	3,632,453	3,229,179
Current Portion of Long Term Liabilities	13,156,327	14,711,633	13,865,886
Other Current Liabilities	4,498,685	3,898,521	3,981,540
Total Current Liabilities	41,151,837	41,749,965	39,711,745
Noncurrent Liabilities			
Long Term Liabilities, Net of Current Portion	62,535,549	65,587,789	70,998,544
Postretirement Benefits Obligation	200,395,315	230,857,962	278,067,382
Net Pension Liability	122,750,271	145,892,177	124,537,462
Other Noncurrent Liabilities	3,984,250	6,346,768	6,565,572
Total Noncurrent Liabilities	389,665,385	448,684,696	480,168,960
Total Liabilities	430,817,222	490,434,661	519,880,705
Deferred Inflow of Resources	92,013,249	67,942,941	33,691,410
Net Position			
Net Investment in Capital Assets	130,163,114	125,996,712	114,054,891
Total Restricted	18,281,545	18,772,333	19,144,550
Total Unrestricted	(332,759,402)	(339,029,388)	(335,681,626)
Total Net Position	(184,314,743)	(194,260,343)	(202,482,185)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 338,515,728	$ 364,117,259	$ 351,089,930

Financial Statements (Continued)

Net Position

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

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

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

- The liability for compensated absences increased during fiscal year 2019-2020 by $2.0 million to $19.4 million at June 30, 2020. Like the other postemployment benefits liability, cash payouts to employees upon termination or retirement for annual and sick leave balance are realized gradually over time, and because of its size, IUP funds the liability only as the liability becomes due.

- The OPEB liability for employees who participate in the State System of Higher Education (SSHE) health care plan decreased during fiscal year 2019-2020 by $8.5 million to $153.4 million at June 30, 2020. Additionally, the liability for other postemployment benefit obligations of the Retired Employee Healthcare Plan (REHP) decreased $22.9 million to $53.1 million and the Public School Employee's Retirement System (PSERS) plan increased $23,137 to remain at $0.5 million. The total liability at June 30, 2020 for OPEB was $207.0 million. Because the liability is realized gradually over time, and because of its size, IUP funds the liability only as the liability becomes due.

- The net pension liability decreased during fiscal year 2019-2020 by $23.1 million to $122.8 million as of June 30, 2020. The combined pension liability for fiscal year 2020 is comprised of $111.3 million for the State Employee Retirement System (SERS) and $11.5 million for PSERS.

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, IUP has classified revenues and expenses as either operating or nonoperating. GASB has determined all public college and university state appropriations are nonoperating revenues. In addition, GASB requires classification of gifts, Pell grants, investment income net of investment expenses, unrealized gains and losses on investment, interest expense, and losses on disposals of assets, as nonoperating revenues and expenses. IUP classifies all remaining activities as operating.

Financial Statements (Continued)

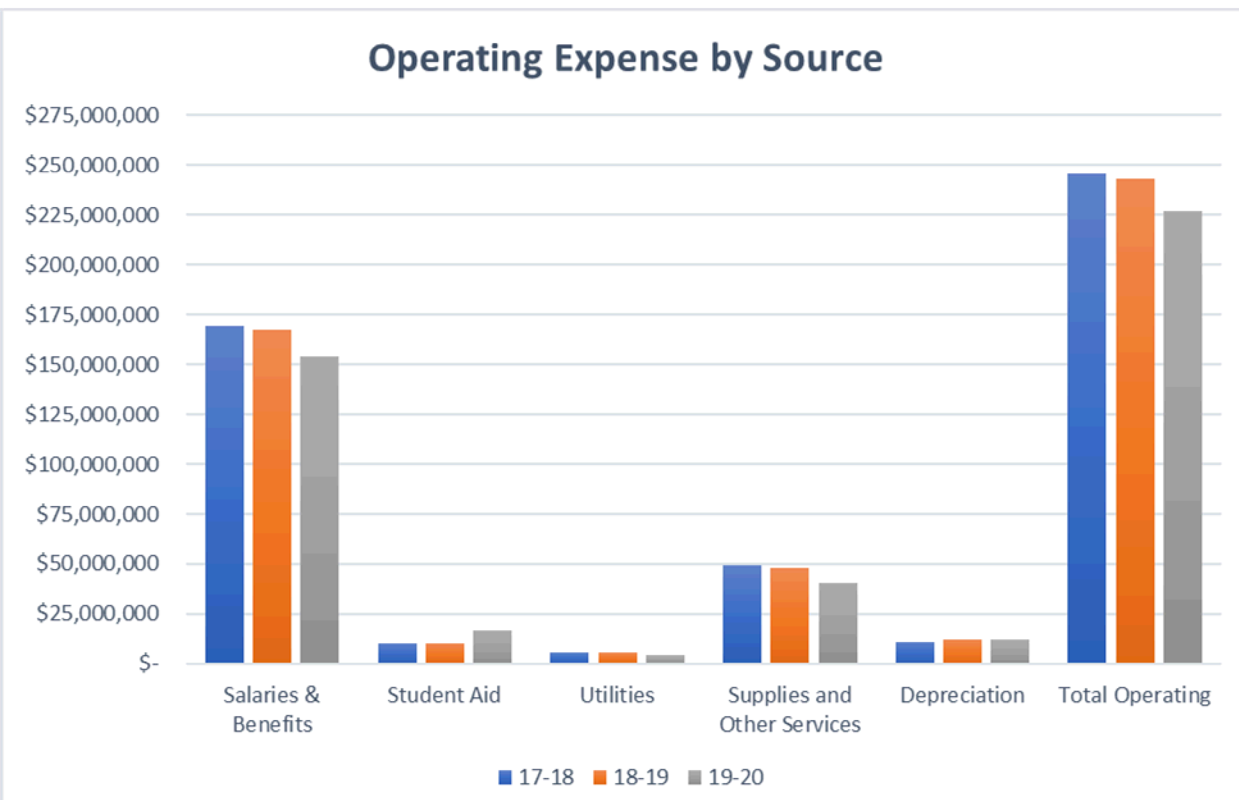
Statement of Revenues, Expenses, and Changes in Net Position (Continued)

Utilizing these definitions, operating expenses exceeded operating revenues by $80.9 million in fiscal year 2019-2020, by $77.2 million in 2018-2019, and by $72.7 million in 2017-2018 when including unfunded expenses for compensated absences, other postemployment benefits, and pension costs in excess of current funding requirements.

Including net nonoperating revenues (expenses) and excluding unfunded employee benefit expenses from the net operating revenues (expenses) results in an adjusted net operating loss of $7.1 million in fiscal year 2019-2020, an adjusted net operating loss of $6.0 million in fiscal year 2018-2019, and an adjusted net operating gain of $0.3 million in fiscal year 2017-2018.

Operating revenues in 2019-2020 decreased 12.0% compared to 2018-2019 while operating revenues decreased 4.0% in 2018-2019 compared to 2017-2018. Operating expenses in 2019-2020 decreased 6.7% compared to 2018-2019 while operating expenses in 2018-2019 decreased 1.0% compared to 2017-2018. The decrease in both operating revenues and expenses can be attributed to reduced enrollment in both years but the decreases in 2019-2020 are also a result of the minimizing the impact of the coronavirus pandemic by going to a distance learning environment in March of 2020.

The following graph reflects operating expenditures categorized as to the nature of the expense for the years ended June 30, 2020, 2019, and 2018, as opposed to the functional classification presentation on the statement of revenues, expenses, and change in net position.



Financial Statements (Continued)

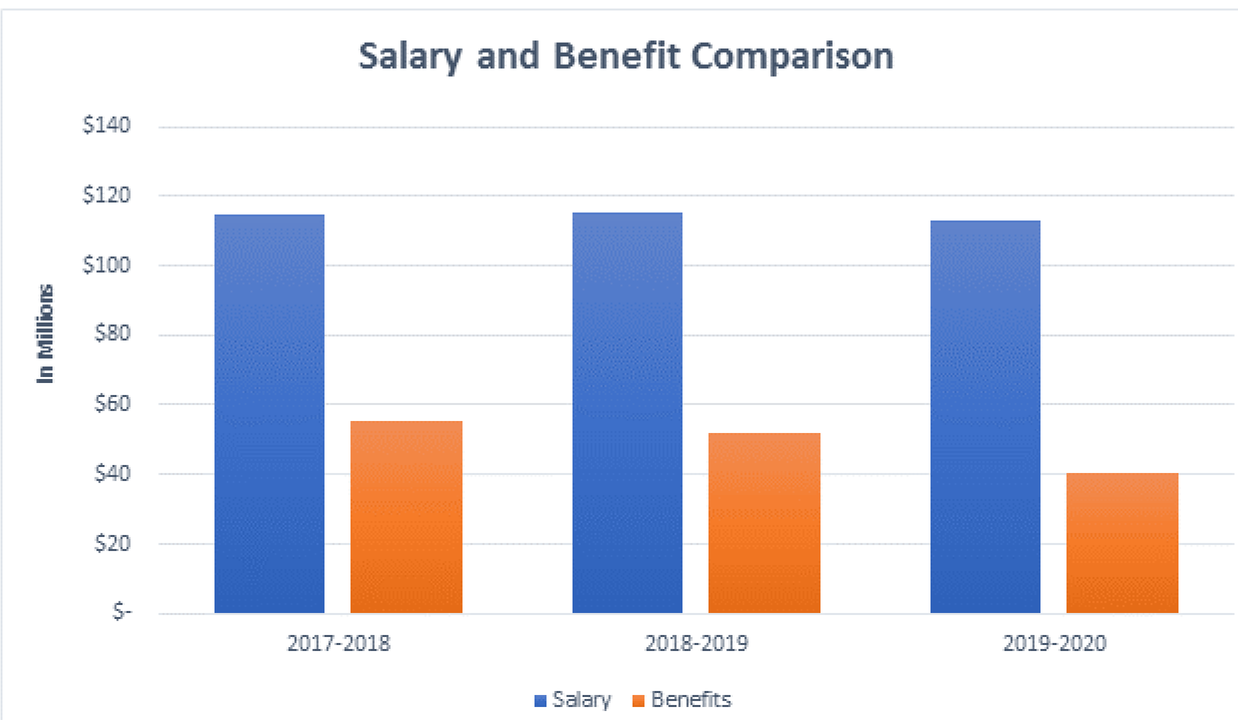
Statement of Revenues, Expenses, and Changes in Net Position (Continued)

Nonoperating revenues were $90.0 million in 2018-2019, $79.0 million in 2018-2019, and $77.2 million in 2017-2018. The increase of $11.0 million in 2019-2020 can be attributed to CARES Act Funding received due to the coronavirus pandemic and the increase of $1.8 million in 2018-2019 was primarily the result of increased state appropriations and net investment income.

Under "Other Revenue," capital gifts and grants were $298,267 in 2019-2020, $5.9 million in 2018-2019, and $12.6 million in 2017-2018.

In 2019-2020, IUP spent $113.1 million, or 49.9%, of operating expenses on salaries as compared to $115.3 million, or 47.4%, and $114.5 million, or 46.6%, of operating expenses on salaries in 2018-2019 and 2017-2018 respectively. Benefit costs in 2019-2020 were $40.6 million, or 17.9%, of operating expenses, while benefit costs were $52.2 million, or 21.4%, and $55.2 million, or 22.5%, of operating expenses in 2018-2019 and 2017-2018 respectively.

The following graph summarizes salaries and benefits for the years ended June 30, 2020, 2019, and 2018.



Financial Statements (Continued)

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

The following summary shows the statement of operating revenues, operating and nonoperating expenses, and changes in net position for the years ended June 30, 2020, 2019, 2018.

	2020	2019	2018
OPERATING REVENUES			
Tuition and Fees, Net	$ 96,482,368	$ 106,023,686	$ 111,612,935
Governmental Grants and Contracts	20,181,622	22,100,878	22,409,549
Nongovernmental Grants and Contracts	3,968,716	4,447,983	4,222,402
Sales and Services	7,199,549	7,974,092	9,242,847
Auxiliary Enterprises, Net	18,101,027	24,545,364	24,072,599
Other Revenue	85,309	876,107	1,297,148
Total Operating Revenue	146,018,591	165,968,110	172,857,480
NONOPERATING REVENUES			
State Appropriations, General and Restricted	56,058,332	54,846,695	53,901,743
Federal Grants and Appropriations, COVID	11,302,056	-	-
Pell Grants	15,678,514	17,047,154	17,308,214
Investment Income, Net (Includes Unrealized Gains and Losses)	2,691,113	3,689,777	2,794,121
Other Nonoperating Revenues	4,260,787	3,455,996	3,175,089
Total Nonoperating Revenues	89,990,802	79,039,622	77,179,167
OTHER REVENUES			
State Appropriations, Capital	2,280,182	2,378,988	2,352,428
Capital Gifts and Grants	298,267	5,940,176	12,632,699
Total Other Revenues	2,578,449	8,319,164	14,985,127
Total Revenues	238,587,842	253,326,896	265,021,774
OPERATING EXPENSES			
Instruction	90,690,337	99,196,247	100,213,898
Research	970,284	1,334,665	1,188,173
Public Service	7,689,012	8,039,743	7,963,316
Academic Support	19,987,707	21,875,065	21,966,740
Student Services	18,070,594	19,527,047	19,558,035
Institutional Support	30,820,364	31,622,202	29,248,210
Operations of Maintenance and Plant	14,067,363	16,798,126	18,868,856
Depreciation	12,397,423	11,873,986	10,923,011
Student Aid	16,445,698	10,185,623	10,263,293
Auxiliary Enterprises	15,762,111	22,695,996	25,408,214
Total Operating Expenses	226,900,893	243,148,700	245,601,746
NONOPERATING EXPENSES			
Interest Expense on Capital Asset-Related Debt	1,741,349	1,956,354	1,906,236
Total Expenses	228,642,242	245,105,054	247,507,982
CHANGE IN NET POSITION	9,945,600	8,221,842	17,513,792
Net Position - Beginning of the Year	(194,260,343)	(202,482,185)	(72,548,357)
Restatement for July 1, 2017 GASB 75 OPEB	-	-	(147,447,620)
Net Position - Beginning of the Year, Restated	(194,260,343)	(202,482,185)	(219,995,977)
NET POSITION - END OF YEAR	$ (184,314,743)	$ (194,260,343)	$ (202,482,185)

Financial Statements (Continued)

Statement of Cash Flows

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

The following summary shows IUP's cash at the end of 2019-2020 as $93.4 million, a 13.3% decrease of $14.3 million compared to cash at the end of 2018-2019. The cash balance of $107.7 million at the end of 2018-2019 is an 8.2% decrease of $9.6 million compared to the 2017-2018 ending cash balance of $117.3 million.

	2020	2019	2018
Cash Flows from Operating	$ (89,759,282)	$ (69,275,675)	$ (66,950,195)
Cash Flows from Noncapital Financing Activities	87,357,717	74,153,292	73,184,077
Cash Flows from Capital Financing Activities	(14,543,768)	(17,598,631)	1,024,674
Cash Flows from Investing Activities	2,632,502	3,121,625	2,243,077
Net Increase (Decrease) in Cash and Cash Equivalents	(14,312,831)	(9,599,389)	9,501,633
Cash and Cash Equivalents - Beginning of Year	107,711,235	117,310,624	107,808,991
Cash and Cash Equivalents - End of Year	$ 93,398,404	$ 107,711,235	$ 117,310,624

IUP Highlights and Future Considerations

Several considerations should be noted with respect to IUP's financial outlook in upcoming fiscal years as several conditions could limit IUP's financial flexibility in fiscal year 2020-2021 and beyond.

1. State Appropriations – IUP receives substantial funding annually from the Commonwealth of Pennsylvania as State Appropriation. The Commonwealth of Pennsylvania's level of funding for higher education per student is near the lowest of all states. Although there have been slight increases in Commonwealth funding in recent years, financial pressures on the Commonwealth could result in future reductions in state support.

2. Enrollment – In recent years the Commonwealth of Pennsylvania has experienced a decrease in traditional high school graduates, particularly in the western regions of the Commonwealth which are IUP's primary service area. This trend is expected to continue well into the foreseeable future. As a result, enrollment levels at IUP have been decreasing for the past few years. Competition among both public and private colleges and universities to maintain or increase enrollments will continue to grow under these market conditions, requiring IUP to be strategic in the areas of scholarship, marketing, recruitment, and program development. Currently IUP is implementing a marketing plan to develop the IUP Brand and leverage IUP's unique identity to attract potential students. Additionally, IUP has established a University College to attract incoming freshmen and provide student support to improve retention. Plus, a new science building will soon be constructed on campus by the Department of General Services which is expected to attract additional students to IUP's science programs.

IUP Highlights and Future Considerations (Continued)

3. New tuition and fees structure – IUP relies heavily on tuition and fee revenue to support current operating activities and must successfully compete for enrollments of traditional residential undergraduate students, graduate students, distance education students, international students, and nontraditional students. IUP has implemented a per-credit-based tuition rate and mandatory fee structure in place of the traditional full time per term methodology. Shifting to the per-credit methodology has generated increased resources necessary for IUP to maintain operating levels.

4. Increased costs mandated by collective bargaining agreements – IUP faculty are represented by the Association of Pennsylvania State College and University Faculties (APSCUF) union in negotiations with the State System to set salary and benefit levels. The APSCUF contract in effect during the 18/19 fiscal year terminated on June 30, 2019, and faculty received a pay increase for fiscal year 19/20 of 1.25% via an extension of the expired contract. A new APSCUF contract for the period July 1, 2019 through June 30, 2023, has been ratified. The new contract includes annual raises of 2.0%, 2.5%, and 2.5% for fiscal years 20/21, 21/22, and 22/23.

   A significant portion of IUP Staff are represented by the American Federation of State, County, and Municipal Employees (AFSCME) union in negotiations with the Commonwealth of Pennsylvania to set salary and benefit levels. The AFSCME contract in effect during the 18/19 fiscal year terminated on June 30, 2019. A new AFSCME contract for the period July 1, 2019, through June 30, 2023, has been ratified. The new contract includes step and general pay increases annually of 3.8%, 2.9%, 3.2%, and 3.8% for fiscal years 19/20, 20/21, 21/22, and 22/23, respectively. There were no significant changes to benefit levels in the new contract compared to the prior contract.

   Employee salary and benefit costs are a significant portion of IUP's operating expenses constituting approximately 78% of E&G expenditures. These cost increases, mandated by collective bargaining agreements, continue to strain the University's allocation of resources to meet operating needs. Without corresponding increases in revenues from tuition, fees, and appropriation, IUP may be forced to initiate workforce reduction measures. Management is currently reducing staffing levels via normal attrition attributable to retirements and resignations.

5. As with virtually all public and private higher education institutions, the financial health of IUP is being strained by decreasing enrollments and increasing operating costs. IUP management is exploring initiatives to increase enrollment and reduce costs. IUP achieved a balanced fiscal year 19/20 budget through a combination of expenditure reductions and use of carryover reserves. To ensure the continued sustainability of IUP, management is actively participating in the System Redesign project spearheaded by the Office of the Chancellor to streamline administrative support functions and take advantage of cost-effective shared service delivery opportunities.

6. As mentioned above, the State System began a review in 2016 of all State System operations with three priorities in mind: ensuring student success, leveraging university strengths, and transforming the governance/leadership structure. The Board of Governors adopted the System Redesign project in January 2019, and in July 2020, the Governor of Pennsylvania signed into law Act 50 of 2020, which through multiple requirements, should enable the State System's Board of Governors to better manage the State System. In July 2020, The Board authorized the review of the financial impacts of integrating operations of certain State System universities. More information on the State System Redesign can be reviewed at the following link: https://www.passhe.edu/SystemRedesign/.

IUP Highlights and Future Considerations (Continued)

7. Beginning in March 2020, COVID-19 has had a direct impact on the daily operations of the University. During the remainder of the Spring and Summer 2020 semesters, the University followed state recommendations and requirements and required students and staff to study and work remotely. An announcement was made in early August regarding the Fall 2020 semester in which only new freshmen, students in academic programs that require them to be on campus, most students in graduate programs, most international students who are in the United States, and students with special circumstances were to return to campus for face-to-face class delivery. All other students were asked not to return to campus during the Fall 2020 semester. The University made this decision to mitigate the risks associated with COVID-19 to the students, staff, and community. CARES Act funding has been awarded to the University to minimize the overall financial impact incurred by the University. However, the financial impact in the future may depend on ongoing responses needed to mitigate COVID-19, how COVID-19 may affect future enrollment, the continued need for social distancing, and responses to any resurgences of COVID-19 in the future.

   As previously mentioned, CARES Act funding (Coronavirus Aid, Relief, and Economic Security Act) has been or will be received to minimize, but not eliminate, the overall financial impact of COVID-19 on the University. The following is a list of CARES Act funding awarded to the University in 2019-2020, except for GEER Funds which were awarded in 2020-2021.

Emergency Aid for Students [1]	$ 5,025,231
Institutional Share [1]	5,025,230
Strengthening Institutional Programs [1]	493,092
Appropriated Coronavirus Relief Funds [2]	3,330,616
Governor's Education Emergency Relief [3]	357,986
Total CARES Act Funds	$14,232,155
For University Use (Less Emergency Aid for Students)	$ 9,206,924

[1]HEERF, US Department of Education
[2]Title V, Assistance for State, Local and Tribal Governments, US Department of the Treasury
[3]GEERF, US Department of Education, as distributed by Pennsylvania Department of Education

   Additionally, the University will be eligible for reimbursement for certain COVID-19 mitigation expenses through reimbursement submissions with the Pennsylvania Emergency Management Agency (PEMA) and the Federal Emergency Management Agency (FEMA).

Requests for Information

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

Mr. Gregory K. Cessna
Associate Director of Financial Operations
Indiana University of Pennsylvania
1090 South Drive
B17 Clark Hall
Indiana, PA 15705

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

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 93,398,404	$ 107,711,235
Accounts Receivable:		
Governmental Grants and Contracts	3,266,168	3,030,241
Students, Net of Allowance for Doubtful Accounts of $12,504,027 in 2020 and $10,156,528 in 2019	9,758,745	11,683,952
Sales and Service	481,701	510,800
Other	539,895	173,484
Inventories	850,601	811,839
Prepaid Expenses, Suppliers	2,568,932	2,660,758
Loans Receivable	1,337,488	2,957,229
Investment Income Receivable	106,581	201,347
Due from Component Units	9,101,203	1,639,549
Other Current Assets	228,065	568,883
Total Current Assets	121,637,783	131,949,317
NONCURRENT ASSETS		
Restricted Cash and Cash Equivalents	25,000	25,000
Investments	7,789,061	7,635,685
Loans Receivable, Net	2,715,212	3,303,895
Capital Assets, Net	179,133,295	179,973,562
Total Noncurrent Assets	189,662,568	190,938,142
Total Assets	311,300,351	322,887,459
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	100,022	127,239
Defined Benefit Retirement Plans Deferred Outflows	15,498,011	29,538,067
Other Post Employment Benefit Plans Deferred Outflows	11,617,344	11,564,494
Total Deferred Outflows of Resources	27,215,377	41,229,800
Total Assets and Deferred Outflows of Resources	$ 338,515,728	$ 364,117,259

See accompanying Notes to Financial Statements.

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

	2020	2019
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses:		
Supplies and Services	$ 2,810,857	$ 3,770,946
Employees	15,673,675	15,736,412
Unearned Revenue:		
Students	2,763,792	3,291,716
Grants and Appropriations	2,208,613	325,512
Sales and Service	25,000	337
Other	14,888	14,888
Accrued Interest Payable	77,514	84,497
Students' Deposits	361,740	347,345
Other Deposit Liabilities	304,653	257,339
Current Portion of Workers' Compensation Obligation	353,358	429,787
Current Portion of Compensated Absences Obligation	1,569,939	1,709,368
Current Portion of Capitalized Lease Obligations	44,996	54,178
Current Portion of Other Post Employment Benefits Obligation	6,616,470	7,460,975
Current Portion of Bonds Payable, Net	4,309,196	4,475,780
Current Portion Due to System, Academic Facilities Renovation Bond Program (AFRP)	262,368	581,545
Due to Component Units	2,518,602	2,062,019
Other Current Liabilities	1,236,176	1,147,321
Total Current Liabilities	41,151,837	41,749,965
NONCURRENT LIABILITIES		
Workers' Compensation Obligation, Net of Current Portion	136,227	667,231
Compensated Absences Obligation, Net of Current Portion	17,852,763	15,757,439
Other Postretirement Benefits Obligation	200,395,315	230,857,962
Net Pension Liability	122,750,271	145,892,177
Capitalized Lease Obligations, Net of Current Portion	38,824	83,820
Bonds Payable, Net of Current Portion	43,893,252	48,202,448
Due to System, AFRP	614,483	876,851
Other Noncurrent Liabilities	3,984,250	6,346,768
Total Noncurrent Liabilities	389,665,385	448,684,696
Total Liabilities	430,817,222	490,434,661
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	31,366	44,748
Defined Benefit Retirement Plans Deferred Inflows	12,348,069	3,536,381
Other Post Employment Benefit Plans Deferred Inflows	79,633,814	64,361,812
Total Deferred Inflows of Resources	92,013,249	67,942,941
NET POSITION (DEFICIT)		
Net Invested in Capital Assets	130,163,114	125,996,712
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	3,031,798	3,020,948
Student Loans	765,270	1,242,224
Other	798,978	798,784
Expendable:		
Scholarships and Fellowships	924,281	906,024
Research	997	996
Capital Projects	10,542,068	12,803,357
Other	2,218,153	-
Unrestricted	(332,759,402)	(339,029,388)
Total Net Position	(184,314,743)	(194,260,343)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 338,515,728	$ 364,117,259

See accompanying Notes to Financial Statements.

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

	2020	2019
OPERATING REVENUES		
Tuition and Fees, Net of Refunds	$ 123,505,744	$ 138,154,557
Less: Scholarship Discounts and Allowances	27,023,376	32,130,871
Net Tuition and Fees	96,482,368	106,023,686
Governmental Grants and Contracts:		
Federal	7,922,923	7,963,033
State	12,167,602	14,036,971
Local	91,097	100,874
Nongovernmental Grants and Contracts	3,968,716	4,447,983
Sales and Services of Educational Departments	7,199,549	7,974,092
Auxiliary Enterprises, Net of Refunds	18,101,027	24,545,364
Other Revenues	85,309	876,107
Total Operating Revenues	146,018,591	165,968,110
OPERATING EXPENSES		
Instruction	90,690,337	99,196,247
Research	970,284	1,334,665
Public Service	7,689,012	8,039,743
Academic Support	19,987,707	21,875,065
Student Services	18,070,594	19,527,047
Institutional Support	30,820,364	31,622,202
Operations and Maintenance of Plant	14,067,363	16,798,126
Depreciation	12,397,423	11,873,986
Student Aid	16,445,698	10,185,623
Auxiliary Enterprises	15,762,111	22,695,996
Total Operating Expenses	226,900,893	243,148,700
OPERATING LOSS	(80,882,302)	(77,180,590)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	56,058,332	54,846,695
Federal Grants and Appropriations - CARES Act COVID Relief	11,302,056	-
Commonwealth on behalf Contributions to PSERS	1,407,457	1,280,820
Pell Grants	15,678,514	17,047,154
Investment Income, Net	2,591,138	3,248,617
Unrealized Gain on Investments	99,975	441,160
Gifts for Other than Capital Purposes	2,739,567	1,966,077
Interest Expense on Capital Asset-Related Debt	(1,741,349)	(1,956,354)
Other Nonoperating Revenue	113,763	209,099
Nonoperating Revenues, Net	88,249,453	77,083,268
INCOME (LOSS) BEFORE OTHER REVENUES	7,367,151	(97,322)
OTHER REVENUES		
State Appropriations, Capital	2,280,182	2,378,988
Capital Gifts and Grants	298,267	5,940,176
Total Other Revenues	2,578,449	8,319,164
INCREASE IN NET POSITION	9,945,600	8,221,842
Net Position - Beginning of Year	(194,260,343)	(202,482,185)
NET POSITION - END OF YEAR	$ (184,314,743)	$ (194,260,343)

See accompanying Notes to Financial Statements.

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 97,906,443	$ 105,818,711
Grants and Contracts	24,379,007	25,439,652
Payments to Suppliers for Goods and Services	(46,557,783)	(53,902,254)
Payments to Employees	(167,267,962)	(171,644,906)
Loans Issued to Students	(33,119)	(58,765)
Loans Collected from Students	2,241,544	1,481,797
Student Aid	(16,445,698)	(10,185,623)
Auxiliary Enterprise Charges	17,688,629	24,575,395
Sales and Services of Educational Departments	7,253,649	8,325,649
Other Receipts (Payments)	(8,923,992)	874,669
Net Cash Used by Operating Activities	(89,759,282)	(69,275,675)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	59,388,950	54,846,695
Gifts and Nonoperating Grants for Other Than Capital Purposes	12,129,170	1,966,077
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	103,849,253	113,777,918
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(103,841,766)	(113,777,988)
PELL Grant	15,678,514	17,047,154
Agency Transactions, Net	39,827	84,025
Other	113,769	209,411
Net Cash Provided by Noncapital Financing Activities	87,357,717	74,153,292
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt	-	1,921,392
Capital Appropriations	2,280,182	2,378,988
Capital Grants and Gifts Received	298,267	963,991
Purchases of Capital Assets	(10,276,216)	(14,020,600)
Principal Paid on Capital Debt and Leases	(4,744,972)	(6,476,859)
Interest Paid on Capital Debt and Leases	(2,101,029)	(2,365,543)
Net Cash Used by Capital Financing Activities	(14,543,768)	(17,598,631)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	73,282	55,761
Interest on Investments	2,685,904	3,247,489
Purchase of Investments	(126,684)	(181,625)
Net Cash Provided by Investing Activities	2,632,502	3,121,625
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,312,831)	(9,599,389)
Cash and Cash Equivalents - Beginning of Year	107,711,235	117,310,624
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 93,398,404	$ 107,711,235

See accompanying Notes to Financial Statements.

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

	2020	2019
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (80,882,302)	$ (77,180,590)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	12,397,423	11,873,986
Expenses Paid by Commonwealth or Donor	1,407,457	1,280,820
Effect of Changes in Operating Assets, Liabilities, and Deferred Inflows and Outflows:		
Receivables, Net	1,318,380	(1,328,615)
Inventories	(38,763)	(21,641)
Other Assets	(6,995,422)	(88,741)
Accounts Payable	(2,303,771)	494,815
Deferred Revenue	(62,981)	388,385
Students' Deposits	14,395	(7,255)
Compensated Absences	1,955,894	(63,054)
Loans to Students and Employees	2,208,424	1,423,032
Post Employment Benefits Liability (OPEB)	(31,307,151)	(46,859,133)
Defined Benefit Pensions	(23,141,905)	21,354,715
Other Liabilities	(2,399,857)	(242,124)
Deferred Outflows of Resources Related to Pensions	14,040,056	(10,138,531)
Deferred Outflows of Resources Related to Other Post Employment Benefits Liability	(52,850)	(4,426,658)
Deferred Inflows of Resources Related to Pensions	8,811,688	(5,766,118)
Deferred Inflows of Resources Related to Other Post Employment Benefits Liability	15,272,003	40,031,032
Net Cash Used by Operating Activities	$ (89,759,282)	$ (69,275,675)
NONCASH TRANSACTIONS		
Capital Assets Included in Payables	$ 1,280,946	$ 377,403
Capital Assets Acquired by New Capital Leases	$ -	$ 6,820
Capital Assets Acquired by Gift	$ -	$ 4,976,185
Commonwealth on behalf contributions to PSERS	$ 1,407,457	$ 1,280,820

See accompanying Notes to Financial Statements.

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

	2020	2019
ASSETS		
ASSETS		
Cash and Cash Equivalents	$ 12,975,809	$ 9,734,468
Accounts Receivable	770,309	1,680,462
Contributions/Pledges Receivable	2,573,426	2,559,206
Due from University	2,518,640	2,062,019
Inventories	1,205,791	975,254
Investments	97,627,489	94,505,937
Capital Assets, Net	212,853,641	219,802,902
Funds Held by Component Unit	5,394,692	5,336,836
Note Receivable from Component Unit	-	18,309,898
Restricted Cash and Investments	30,570,883	34,124,578
Other Assets	6,043,371	6,713,170
Total Assets	$ 372,534,051	$ 395,804,730
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 3,653,711	$ 4,789,642
Deferred Revenues	1,402,431	1,351,846
Annuity Liabilities	141,168	95,271
Due to University	9,101,083	1,639,392
Deposits Payable	244,325	288,039
Funds Held for Component Unit	5,394,692	5,494,321
Capital Leases	26,341,317	26,847,889
Note Payable to Component Unit	17,546,606	18,309,898
Long-Term Debt, Net	205,738,745	210,782,065
Interest Rate Swap Agreements	43,237,099	30,551,521
Other Liabilities	1,662,699	1,460,667
Total Liabilities	314,463,876	301,610,551
NET ASSETS (DEFICIT)		
Without Donor Restriction	(6,845,570)	31,471,053
With Donor Restriction	64,915,745	62,723,126
Total Net Assets	58,070,175	94,194,179
Total Liabilities and Net Assets	$ 372,534,051	$ 395,804,730

See accompanying Notes to Financial Statements.

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

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION		
Revenues and Other Additions:		
Sales and Service	$ 4,131,925	$ 4,766,407
Student Fees	8,045,289	7,298,034
Grants and Contracts	3,175,795	3,936,129
Rental Income, Net of Refunds	17,194,575	26,545,626
Investment Income, Net	3,103,196	2,727,642
Unrealized Gain (Loss) on Investments	(527,582)	636,003
Other Revenues and Gains	1,447,628	4,379,336
Contributions	2,418,501	2,698,002
Net Assets Released Based on Satisfaction of Program Restrictions	4,220,809	4,119,270
Total Revenues and Other Additions	43,210,136	57,106,449
Expenses and Losses:		
Program Services:		
Scholarships and Grants	5,563,588	4,663,959
Student Activities and Programs	4,732,551	4,897,657
University Stores	2,971,746	3,602,773
Housing	24,379,224	25,884,232
Other Programs	8,949,478	14,512,611
Management and General	1,718,553	1,734,781
Fundraising	2,436,703	2,834,242
Total Expenses	50,751,843	58,130,255
Unrealized Loss on Interest Rate Swap Agreements	12,685,578	7,123,623
Other Expenses and Losses	18,089,337	565,452
Total Expenses and Losses	81,526,758	65,819,330
Change in Net Assets Without Donor Restriction	(38,316,622)	(8,712,881)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	4,838,580	3,060,368
Investment Income, Net	2,815,115	1,918,897
Other Revenues and Gains	(1,240,268)	405,574
Net Assets Released Based on Satisfaction of Program Restrictions	(4,220,809)	(4,119,270)
Change in Net Assets with Donor Restrictions	2,192,618	1,265,569
CHANGE IN NET ASSETS	(36,124,004)	(7,447,312)
Net Assets - Beginning of Year	94,194,179	101,641,491
NET ASSETS - END OF YEAR	$ 58,070,175	$ 94,194,179

See accompanying Notes to Financial Statements.

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

2020	Program Activities						Supporting Activities			
Natural Expense	Scholarships and Grants	Student Activities and Programs	University Stores	Housing	Other Programs	Total Programs	Management and General	Fundraising	Total Supporting	**Total Expenses**
Salaries and Benefits	$ -	$ 598,325	$ 736,153	$ 2,830,381	$ 2,148,949	$ 6,313,808	$ 1,211,295	$ -	$ 1,211,295	$ 7,525,103
Gifts and Grants	250,000	3,105,945	-	214,443	648,990	4,219,378	39,817	84,618	124,435	4,343,813
Supplies and Travel	-	-	2,048,089	222,288	930,472	3,200,849	48,984	114,594	163,578	3,364,427
Services and Professional Fees	-	208,040	50,929	586,048	1,124,782	1,969,799	154,675	2,173,463	2,328,138	4,297,937
Office and Occupancy	-	556,802	18,233	-	103,125	678,160	135,018	-	135,018	813,178
Depreciation	-	-	-	6,008,204	1,247,694	7,255,898	1,675	-	1,675	7,257,573
Interest	-	-	-	7,701,539	1,091,237	8,792,776	-	-	-	8,792,776
Other	5,313,588	263,439	118,342	6,816,321	1,654,229	14,165,919	127,089	64,028	191,117	14,357,036
Total Expenses	**$ 5,563,588**	**$ 4,732,551**	**$ 2,971,746**	**$ 24,379,224**	**$ 8,949,478**	**$ 46,596,587**	**$ 1,718,553**	**$ 2,436,703**	**$ 4,155,256**	**$ 50,751,843**

2019	Program Activities						Supporting Activities			
Natural Expense	Scholarships and Grants	Student Activities and Programs	University Stores	Housing	Other Programs	Total Programs	Management and General	Fundraising	Total Supporting	**Total Expenses**
Salaries and Benefits	$ -	$ 649,133	$ 858,134	$ 3,726,797	$ 2,347,227	$ 7,581,291	$ 1,193,616	$ -	$ 1,193,616	$ 8,774,907
Gifts and Grants	250,000	3,427,372	-	223,783	5,528,846	9,430,001	7,165	60,411	67,576	9,497,577
Supplies and Travel	-	-	2,547,398	306,939	1,616,890	4,471,227	56,860	264,340	321,200	4,792,427
Services and Professional Fees	-	62,483	93,282	657,797	1,083,127	1,896,689	164,560	2,419,519	2,584,079	4,480,768
Office and Occupancy	-	553,227	10,784	-	109,296	673,307	84,739	-	84,739	758,046
Depreciation	-	-	-	6,125,645	1,382,355	7,508,000	1,433	-	1,433	7,509,433
Interest	-	-	-	7,514,164	1,059,197	8,573,361	-	-	-	8,573,361
Other	4,413,959	205,442	93,175	7,329,107	1,385,673	13,427,356	226,408	89,972	316,380	13,743,736
Total Expenses	**$ 4,663,959**	**$ 4,897,657**	**$ 3,602,773**	**$ 25,884,232**	**$ 14,512,611**	**$ 53,561,232**	**$ 1,734,781**	**$ 2,834,242**	**$ 4,569,023**	**$ 58,130,255**

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Indiana University of Pennsylvania of the State System of Higher Education (the University), a public four-year doctoral intensive institution located in Indiana, Pennsylvania, was founded in 1875. The University is one of fourteen universities of Pennsylvania's State System of Higher Education (the State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

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 the Governmental Accounting Standards Board (GASB). The economic resources measurement focus reports all inflows, outflows, and balances that effect an entitity's net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

Reporting Entity

The University functions as a business-type activity, as defined by GASB.

The University has determined that the Student Cooperative Association, Inc. (the Cooperative); the College Student Union Association, Inc. (the Student Union); the Foundation for Indiana University of Pennsylvania, Inc. (the Foundation); the IUP Research Institute, Inc. (the Research Institute); the Indiana University of Pennsylvania Alumni Association, Inc. (the Alumni Association); and Residential Revival Indiana (RR Indiana), 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.

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

Reporting Entity (Continued)

The Cooperative includes Student Funds, the Co-op Store, and Central Treasury. Student Funds administers activity fees assessed and collected by the University. The Co-op Store sells college textbooks, clothing, and supplies, and Central Treasury acts as a banking agent for campus organizations. Because the economic resources received and held by the Cooperative are for the direct benefit of the University and the influence of the University over the Cooperative, the Cooperative is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The fiscal activity of the Cooperative is presented as of and for the years ended June 30, 2020 and 2019.

The Student Union is a nonprofit entity that is affiliated with the Cooperative. Its assets include the various buildings and the main furnishings and fixtures. Because the economic resources received and held by the Student Union are for the direct benefit of the University and the influence of the University over the Student Union, the Student Union is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The financial activity of the Student Union is presented as of and for the years ended June 30, 2020 and 2019.

The Foundation acts as a repository for gifts given for the benefit of the University. Resources held by the Foundation are used solely for supplement of the capital, public services, 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 discretely presented component unit of the University and is included within the University's financial reporting entity. The financial activity of the Foundation is presented as of and for the years ended June 30, 2020 and 2019.

The RR Indiana is a nonprofit entity which was incorporated to maintain and manage certain student housing facilities on the main campus of the University. Because the economic resources received and held by the RR Indiana are for the direct benefit of the University and the influence of the University over the RR Indiana, it is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The financial activity of the RR Indiana is presented as of and for the years ended June 30, 2020 and 2019.

The Research Institute engages in, fosters, and supports research related to fields of study at the University and provides development and administrative services for such research. The Research Institute also disseminates information related to research to the academic community and public and offers programs and services related to the procurement of funding for conducting research and development projects.

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

Reporting Entity (Continued)

Because these restricted resources held by the Research Institute can only be used by, or for the benefit of the University, the Research Institute is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The financial activity of the Research Institute is presented as of and for the years ended June 30, 2020 and 2019.

The Alumni Association is a nonprofit entity that serves alumni of the University as an independent association governed by a volunteer board of directors. The Alumni Association is dedicated to connecting alumni, students, and friends of the University to create and enrich relationships to advance IUP. Because the resources received and held by the Alumni Association are for the direct benefit of the University and the influence of the University over the Alumni Association, the Alumni Association is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The financial activity of the Alumni Association is presented as of and for the years ended June 30, 2020 and 2019.

Complete financial statements for the Cooperative, Student Union, Foundation, RR Indiana, Research Institute, and Alumni Association may be obtained at the University's Administrative Office.

Operating Revenues and Expenses

Operating revenues of the University consist of tuition, student fees, student financial aid, auxiliary activity, corporate partnerships, and revenue from cogeneration sales. In addition, governmental and private grants and contracts, in which the grantor receives equal value for the funds given to the University, are recorded as operating revenue. All expenses, with the exception of interest expense, loss on the sale of investments, loss on the disposal of assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, interest income, capital grants, gains on the sale of 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 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.

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

Net Position

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

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

Restricted – Nonexpendable: 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.

Cash Equivalents and Investments

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

Accounts Receivable and Loans Receivable

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

Accounts and loans receivable are reported at their 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.

Inventories

Inventories consist mainly of supplies and are stated at the lower of cost or market, with cost being determined principally on the weighted average method.

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

Capital Assets

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

Buildings, equipment, and furnishings acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation, calculated using the straight-line method. All individual assets with a purchase cost, or acquisition value if acquired by gift, in excess of $5,000 with an estimated useful life of two years or greater are capitalized. All library books are capitalized on a composite basis in the year of purchase. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Buildings and improvements are depreciated over the useful lives ranging from 20 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years. Library books are depreciated over 10 years. Amortization of assets under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong useful life.

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

Impairment of Capital Assets

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

Unearned Revenue

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

Compensated Absences

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

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

Pension Plans and Other Post Employment Benefit (OPEB) Plans

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

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

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

Income Taxes

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

Deferred Outflows and Deferred Inflows of Resources

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

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

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

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

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

- Deferred gain or loss on bond 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 of 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.

Use of Estimates

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

Derivative Instruments – Component Unit

The Foundation uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts are reported at fair value. The unrealized gain or loss on the interest rate swap agreements is included as a change in net assets in the period of change. The Foundation's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable rate debt to fixed rate debt.

Reclassifications

Certain items in the 2019 financial statements have been reclassified to conform to the 2020 financial statement presentation. These reclassifications have no effect on previously reported net position of changes therein.

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

New Accounting Standards

In May 2020, GASB issued Statement No. 95, *Postponement of Effective Dates*, which is effective immediately. Statement 95 provides relief to governments and other stakeholders in light of the COVID-19 pandemic. It postpones the following standards, which are evaluated below, by one year from the original effective date: Statements 84, 89, 91 and 93. It postpones the effective date of Statement 87 by 18 months. Statement 94 and those issued after were not affected by Statement 95.

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

In June 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in a similar manner as capital leases, with assets and liabilities recorded at lease inception. The University is evaluating the impact of the adoption of this standard on its financial statements. The provisions in Statement No. 87 are effective for reporting periods beginning after June 15, 2021.

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

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, 2021.

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

New Accounting Standards (Continued)

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

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

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

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

NOTE 2 COMPONENT UNIT INFORMATION

The following represents combining condensed balance sheet information for the component units as of June 30, 2020:

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
ASSETS							
Due from University	$ 228,958	$ -	$ 1,617,471	$ 550,789	$ 121,422	$ -	$ 2,518,640
Funds Held by Component Unit	-	-	-	-	-	5,394,692	5,394,692
Note Receivable From Component Unit	-	-	-	-	-	-	-
Investments	15,678	-	97,124,311	-	487,500	-	97,627,489
Capital Assets, Net	27,005,150	380,782	93,722,428	91,721,393	23,888	-	212,853,641
Other Assets	7,285,977	6,250	36,729,682	8,001,404	2,116,276	-	54,139,589
Total Assets	$ 34,535,763	$ 387,032	$ 229,193,892	$ 100,273,586	$ 2,749,086	$ 5,394,692	$ 372,534,051
LIABILITIES AND NET ASSETS							
Liabilities:							
Due to University	$ 534,825	$ -	$ 6,035,696	$ 2,157,652	$ 372,910	$ -	$ 9,101,083
Funds Held for Component Unit	-	-	5,394,692	-	-	-	5,394,692
Note Payable to Component Unit	-	-	-	17,546,606	-	-	17,546,606
Capital Leases	26,341,317	-	-	-	-	-	26,341,317
Long-Term Debt, Net	-	-	124,516,791	81,221,954	-	-	205,738,745
Other Liabilities	1,578,373	-	45,879,061	1,522,079	1,061,920	300,000	50,341,433
Total Liabilities	28,454,515	-	181,826,240	102,448,291	1,434,830	300,000	314,463,876
Net Assets:							
Without Donor Restrictions	6,081,248	387,032	(17,548,093)	(2,174,705)	1,314,256	5,094,692	(6,845,570)
With Donor Restrictions	-	-	64,915,745	-	-	-	64,915,745
Total Net Assets	6,081,248	387,032	47,367,652	(2,174,705)	1,314,256	5,094,692	58,070,175
Total Liabilities and Net Assets	$ 34,535,763	$ 387,032	$ 229,193,892	$ 100,273,586	$ 2,749,086	$ 5,394,692	$ 372,534,051

NOTE 2 COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining condensed balance sheet information for the component units as of June 30, 2019:

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
ASSETS							
Due from University	$ 267,844	$ -	$ 1,161,189	$ 512,986	$ 120,000	$ -	$ 2,062,019
Funds Held by Component Unit	-	-	-	-	-	5,336,836	5,336,836
Note Receivable From Component Unit	-	-	18,309,898	-	-	-	18,309,898
Investments	18,969	-	94,486,968	-	-	-	94,505,937
Capital Assets, Net	27,977,659	397,702	97,112,404	94,291,409	23,728	-	219,802,902
Other Assets	6,741,776	3,618	36,123,087	10,103,643	2,815,014	-	55,787,138
Total Assets	$ 35,006,248	$ 401,320	$ 247,193,546	$ 104,908,038	$ 2,958,742	$ 5,336,836	$ 395,804,730
LIABILITIES AND NET ASSETS							
Liabilities:							
Due to University	$ 102,107	$ -	$ 815,267	$ 329,632	$ 392,386	$ -	$ 1,639,392
Funds Held for Component Unit	-	-	5,494,321	-	-	-	5,494,321
Note Payable to Component Unit	-	-	-	18,309,898	-	-	18,309,898
Capital Leases	26,847,889	-	-	-	-	-	26,847,889
Long-Term Debt, Net	-	-	128,117,433	82,664,632	-	-	210,782,065
Other Liabilities	2,430,093	-	33,424,024	969,802	1,363,067	350,000	38,536,986
Total Liabilities	29,380,089	-	167,851,045	102,273,964	1,755,453	350,000	301,610,551
Net Assets:							
Without Donor Restrictions	5,626,159	401,320	16,619,375	2,634,074	1,203,289	4,986,836	31,471,053
With Donor Restrictions	-	-	62,723,126	-	-	-	62,723,126
Total Net Assets	5,626,159	401,320	79,342,501	2,634,074	1,203,289	4,986,836	94,194,179
Total Liabilities and Net Assets	$ 35,006,248	$ 401,320	$ 247,193,546	$ 104,908,038	$ 2,958,742	$ 5,336,836	$ 395,804,730

NOTE 2 COMPONENT UNIT INFORMATION (CONTINUED)

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

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
Changes in Net Assets Without Donor Restriction							
Revenues and Other Additions:							
Sales & Services	$ 2,780,032	$ -	$ -	$ -	$ 1,351,893	$ -	$ 4,131,925
Student Fees	8,045,289	-	-	-	-	-	8,045,289
Grants and Contracts	-	-	-	-	3,175,795	-	3,175,795
Rental Income, Net of Refunds	-	-	13,386,157	3,808,418	-	-	17,194,575
Investment Income	144,964	-	2,550,681	119,835	13,161	274,555	3,103,196
Unrealized Gain (Loss) on Investments	(10,676)	-	(400,081)	-	-	(116,825)	(527,582)
Other Revenues and Gains	119,976	17,000	1,182,718	-	52,214	75,720	1,447,628
Contributions	-	-	2,417,976	-	-	525	2,418,501
Net Assets Released from Restrictions	-	-	4,220,809	-	-	-	4,220,809
Total Revenues and Other Additions	11,079,585	17,000	23,358,260	3,928,253	4,593,063	233,975	43,210,136
Expenses and Losses:							
Program Services:							
Scholarships and Grants	250,000	-	5,313,588	-	-	-	5,563,588
Student Activities and Programs	4,732,551	-	-	-	-	-	4,732,551
University Stores	2,971,746	-	-	-	-	-	2,971,746
Housing	-	-	15,762,044	8,617,180	-	-	24,379,224
Other Programs	2,317,496	31,288	2,606,698	-	3,922,293	71,703	8,949,478
Management and General	352,703	-	631,782	119,849	559,803	54,416	1,718,553
Fundraising	-	-	2,436,703	-	-	-	2,436,703
Total Expenses	10,624,496	31,288	26,750,815	8,737,029	4,482,096	126,119	50,751,843
Unrealized Loss on Interest Rate Swap Agreements	-	-	12,685,578	-	-	-	12,685,578
Other Expenses and Losses	-	-	18,089,337	-	-	-	18,089,337
Total Expenses and Losses	10,624,496	31,288	57,525,730	8,737,029	4,482,096	126,119	81,526,758
Change in Net Assets Without Donor Restriction	455,089	(14,288)	(34,167,470)	(4,808,776)	110,967	107,856	(38,316,622)
Changes in Net Assets With Donor Restrictions							
Contributions	-	-	4,838,580	-	-	-	4,838,580
Investment Gain	-	-	2,815,115	-	-	-	2,815,115
Other Revenues and Gains	-	-	(1,240,268)	-	-	-	(1,240,268)
Net Assets Released From Restrictions	-	-	(4,220,809)	-	-	-	(4,220,809)
Change in Net Assets with Donor Restrictions	-	-	2,192,618	-	-	-	2,192,618
Change in Net Assets	455,089	(14,288)	(31,974,852)	(4,808,776)	110,967	107,856	(36,124,004)
Net Assets - Beginning of Year	5,626,159	401,320	79,342,504	2,634,071	1,203,289	4,986,836	94,194,179
Net Assets - End of Year	$ 6,081,248	$ 387,032	$ 47,367,652	$ (2,174,705)	$ 1,314,256	$ 5,094,692	$ 58,070,175

NOTE 2 COMPONENT UNIT 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:

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
Changes in Net Assets Without Donor Restriction							
Revenues and Other Additions:							
Sales & Services	$ 3,431,765	$ -	$ -	$ -	$ 1,334,642	$ -	$ 4,766,407
Student Fees	7,298,034	-	-	-	-	-	7,298,034
Grants and Contracts	-	-	-	-	3,936,129	-	3,936,129
Rental Income	-	-	18,406,630	8,138,996	-	-	26,545,626
Investment Income, Net	178,382	-	2,136,602	208,545	18,850	185,263	2,727,642
Unrealized Gain (Loss) on Investments	(5,219)	-	598,235	-	-	42,987	636,003
Other Revenues and Gains	113,299	22,000	4,199,724	-	20,888	23,425	4,379,336
Contributions	-	-	2,698,002	-	-	-	2,698,002
Net Assets Released from Restrictions	-	-	4,119,270	-	-	-	4,119,270
Total Revenues and Other Additions	11,016,261	22,000	32,158,463	8,347,541	5,310,509	251,675	57,106,449
Expenses and Losses:							
Program Services:							
Scholarships and Grants	250,000	-	4,413,959	-	-	-	4,663,959
Student Activities and Programs	4,897,657	-	-	-	-	-	4,897,657
University Stores	3,602,773	-	-	-	-	-	3,602,773
Housing	-	-	17,094,868	8,789,364	-	-	25,884,232
Other Programs	2,397,613	38,508	7,249,861	-	4,782,238	44,391	14,512,611
Management and General	305,138	-	601,078	222,341	550,406	55,818	1,734,781
Fundraising	-	-	2,834,242	-	-	-	2,834,242
Total Expenses	11,453,181	38,508	32,194,008	9,011,705	5,332,644	100,209	58,130,255
Unrealized Loss on Interest Rate Swap Agreements	-	-	7,123,623	-	-	-	7,123,623
Other Expenses and Losses	-	-	-	565,452	-	-	565,452
Total Expenses and Losses	11,453,181	38,508	39,317,631	9,577,157	5,332,644	100,209	65,819,330
Change in Net Assets Without Donor Restriction	(436,920)	(16,508)	(7,159,168)	(1,229,616)	(22,135)	151,466	(8,712,881)
Changes in Net Assets With Donor Restrictions							
Contributions	-	-	3,060,368	-	-	-	3,060,368
Investment Income, Net	-	-	1,918,897	-	-	-	1,918,897
Other Revenues and Gains	-	-	405,574	-	-	-	405,574
Net Assets Released from Restrictions	-	-	(4,119,270)	-	-	-	(4,119,270)
Changes in Net Assets With Donor Restrictions	-	-	1,265,569	-	-	-	1,265,569
Change in Net Assets	(436,920)	(16,508)	(5,893,599)	(1,229,616)	(22,135)	151,466	(7,447,312)
Net Assets - Beginning of Year	6,063,079	417,828	85,236,103	3,863,687	1,225,424	4,835,370	101,641,491
Net Assets - End of Year	$ 5,626,159	$ 401,320	$ 79,342,504	$ 2,634,071	$ 1,203,289	$ 4,986,836	$ 94,194,179

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System which maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of $1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals $91,756,605 and $104,879,925 at June 30, 2020 and 2019, respectively.

Board of Governors' Policy 1986-02-A, *Investment*, authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset backed securities, and internal loan funds. Restricted nonexpendable funds and amounts designated by the board or University trustees may be invested in the investments described above, as well as in corporate equities and approved pooled common funds. For purposes of convenience and expedience, 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.

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

CMO Risk

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

Moody’s Rating

The State System and the University use 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 indicated medium-grade obligations, subject to moderate credit risk, that may possess certain speculative characteristics. Moody’s appends the rating with numerical modifiers 1, 2, and 3, with 1 indicating a higher ranking and 3 indicating a lower ranking within the category. For short-term obligations, a rating of P-1 indicates that issuers have a superior ability to repay short-term debt obligations, and a rating of P-2 indicates that issuers have a strong ability to repay short-term debt obligations.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Modified Duration

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

Fair Value Hierarchy

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

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

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

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

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

In addition, the fair value of certain investments that do not have a readily determinable fair value is classified as NAV, meaning Net Asset Value per share, when the fair value is calculated in a manner consistent with the FASB'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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

Securities classified in Level 3 of the fair value hierarchy lack an independent pricing source and so are valued using an internal fair value as provided by the investment manager.

Commonfund investments, held locally by the University, are valued based upon the unit values (NAV) of the funds held by the University at year-end. Unit values are based upon the underlying assets of the funds derived from inputs principally from or corroborated by observable market data, by correlation, or other means. Redemption restrictions for the Commonfund vary, depending upon the type of fund in which the University has invested, and are restricted to withdrawals only on a weekly basis or the last business day of the month. All withdrawals require five days' notice. Both the Multi-Strategy Equity Fund and the High Quality Bond Fund, held by the University, are restricted to withdrawals on the last day of business of the month. There are no unfunded commitments on these investments.

Multi-Strategy Equity Fund

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

High Quality Bond Fund

The investment objective of the fund is to offer a program devoted to investing in high quality, investment-grade only, fixed income securities. The fund seeks to outperform its benchmark, the Barclays Aggregate Bond Index, over a full market cycle.

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

Custodial Credit Risk

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

Concentration of Credit Risk

The University does not have a formal investment policy for concentration of credit risk.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2020 and 2019, the University had the following investments which exceeded 5% of the University's total investments:

June 30, 2020

Issuer	Type of Investment	Amount	Percentage of Total Long-Term Investments
Common Fund	Multi-Strategy Equity Fund	$ 4,574,992	58.74%
Common Fund	High Quality Bond Fund	3,214,069	41.26%
		$ 7,789,061	

June 30, 2019

Issuer	Type of Investment	Amount	Percentage of Total Long-Term Investments
Common Fund	Multi-Strategy Equity Fund	$ 4,609,932	60.37%
Common Fund	High Quality Bond Fund	3,025,753	39.63%
		$ 7,635,685	

At June 30, 2020 and 2020, the carrying amount of the University's demand and time deposits were $1,666,799 and $2,856,310, respectively, as compared to bank balances of $1,670,820 and $2,600,850, respectively. The difference is caused primarily by items in-transit and outstanding checks. All bank balances were covered by federal government depository insurance 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.

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

	Fair Value Hierarchy Level	Moody's Rating (if Applicable)	Modified Duration (if Applicable)	Fair Value
Deposits:				
Demand and Time Deposits	N/A			$ 1,666,799
Investments:				
Fixed Income Mutual Funds	NAV			3,214,069
Equity/Balanced Mutual Funds	NAV			4,574,992
Total				$ 9,455,860

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	Fair Value Hierarchy Level	Moody's Rating (if Applicable)	Modified Duration (if Applicable)	Fair Value
Deposits:				
Demand and Time Deposits	N/A			$ 2,856,310
Investments:				
Fixed Income Mutual Funds	NAV			3,025,753
Equity/Balanced Mutual Funds	NAV			4,609,932
Total				$ 10,491,995

Of all local investments noted above, the University has no exposure to foreign currency risk for either of the years ended June 30, 2020 or 2019, respectively.

NOTE 4 CAPITAL ASSETS

The classification of capital assets and related depreciation at June 30, 2020 is as follows:

	Estimated Lives (in Years)	Beginning Balance July 1, 2019	Additions	Retirements	Transfers	Ending Balance June 30, 2020
Capital Assets Not Being Depreciated						
Land		$ 6,875,821	$ 402,258	$ -	$ 20,290	$ 7,298,369
Construction in Progress		4,869,418	5,031,638	(6)	(2,646,692)	7,254,358
Total Capital Assets Not Being Depreciated		11,745,239	5,433,896	(6)	(2,626,402)	14,552,727
Capital Assets Being Depreciated						
Buildings, including Improvements	40/20	277,880,862	3,909,319	-	2,616,078	284,406,259
Land Improvements	20	55,092,309	501,246	-	10,324	55,603,879
Furnishings and Equipment (including Cost of Capital Leases)	3-10	44,824,324	1,686,294	(167,619)	-	46,342,999
Library Books	10	10,443,448	26,407	(286,944)	-	10,182,911
Total Capital Assets Being Depreciated		388,240,943	6,123,266	(454,563)	2,626,402	396,536,048
Less: Accumulated Depreciation:						
Buildings, including Improvements		(137,264,628)	(8,147,834)	-	-	(145,412,462)
Land Improvements		(34,410,155)	(1,421,175)	-	-	(35,831,330)
Furnishings and Equipment		(38,375,293)	(2,706,991)	167,619	-	(40,914,665)
Library Books		(9,962,544)	(121,423)	286,944	-	(9,797,023)
Total Accumulated Depreciation		(220,012,620)	(12,397,423)	454,563	-	(231,955,480)
Total Capital Assets being Depreciated, Net		168,228,323	(6,274,157)	-	2,626,402	164,580,568
Capital Assets, Net		$ 179,973,562	$ (840,261)	$ (6)	$ -	$ 179,133,295

NOTE 4 CAPITAL ASSETS (CONTINUED)

The classification of capital assets and related depreciation at June 30, 2019 is as follows:

	Estimated Lives (in Years)	Beginning Balance July 1, 2018	Additions	Retirements	Transfers	Ending Balance June 30, 2019
Capital Assets Not Being Depreciated						
Land		$ 5,627,271	$ 1,248,550	$ -	$ -	$ 6,875,821
Construction in Progress		4,328,661	3,770,354	-	(3,229,597)	4,869,418
Total Capital Assets Not Being Depreciated		9,955,932	5,018,904	-	(3,229,597)	11,745,239
Capital Assets Being Depreciated						
Buildings, including Improvements	40/20	266,596,799	9,806,921	-	1,477,142	277,880,862
Land Improvements	20	51,228,776	2,111,078	-	1,752,455	55,092,309
Furnishings and Equipment (including Cost of Capital Leases)	3-10	43,618,976	2,372,363	(1,167,015)	-	44,824,324
Library Books	10	10,482,661	71,742	(110,955)	-	10,443,448
Total Capital Assets Being Depreciated		371,927,212	14,362,104	(1,277,970)	3,229,597	388,240,943
Less: Accumulated Depreciation:						
Buildings, including Improvements		(129,296,634)	(7,967,994)	-	-	(137,264,628)
Land Improvements		(33,120,099)	(1,290,056)	-	-	(34,410,155)
Furnishings and Equipment		(37,075,656)	(2,466,338)	1,166,701	-	(38,375,293)
Library Books		(9,923,903)	(149,598)	110,957	-	(9,962,544)
Total Accumulated Depreciation		(209,416,292)	(11,873,986)	1,277,658	-	(220,012,620)
Total Capital Assets being Depreciated, Net		162,510,920	2,488,118	(312)	3,229,597	168,228,323
Capital Assets, Net		$ 172,466,852	$ 7,507,022	$ (312)	$ -	$ 179,973,562

NOTE 5 LEASES

The University has entered into long-term operating leases maturing through August 2023 for the use of facilities and equipment. Future annual minimum payments in the aggregate, under noncancelable operating leases are as follows:

Year Ending June 30,	Amount
2021	$ 246,280
2022	242,716
2023	239,557
2024	39,747
Total Minimum Lease Payments	$ 768,300

Total rent expense for operating leases was $2,396,988 and $2,347,583 for the years ended June 30, 2020 and 2019, respectively.

NOTE 5 LEASES (CONTINUED)

The University has entered into capital lease agreements for the financing of equipment maturing through fiscal year 2023. The interest rates implicit to the lease agreements range from 0% to 9.12%. Changes in the capital lease obligations was as follows:

	2020	2019
Balance - July 1	$ 137,998	$ 183,259
Increases	-	6,820
Repayments	(54,178)	(52,081)
Balance - June 30	83,820	137,998
Less Current Portion	(44,996)	(54,178)
Noncurrent Portion	$ 38,824	$ 83,820

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

	2020	2019
Assets Held under Lease Agreement	$ 217,881	$ 217,881
Accumulated Depreciation	(129,055)	(85,138)
Total	$ 88,826	$ 132,743

Depreciation expense includes capital lease amortization of $43,917 and $43,065 for the years ended June 30, 2020 and 2019, respectively.

Future annual minimum payments in the aggregate under the noncancelable capital leases are as follows:

Year Ending June 30,	Amount
2021	$ 47,744
2022	34,376
2023	5,754
Total Minimum Lease Payments	87,874
Less: Amount Representing Interest on Capital Leases	4,054
Present Value of Net Minimum Capital Lease Payments	$ 83,820

NOTE 5 LEASES (CONTINUED)

The Cooperative, a component unit, has entered into capital lease agreements for the financing of buildings, building improvements, and equipment. Future annual minimum payments in the aggregate under noncancelable capital leases are as follows:

Year Ending June 30,	Amount
2021	$ 2,697,989
2022	2,674,843
2023	2,660,696
2024	2,658,366
2025	2,656,831
Thereafter	22,011,208
Total Minimum Lease Payments	35,359,933
Less: Amount Representing Interest on Capital Leases	9,018,616
Present Value of Net Minimum Capital Lease Payments	$ 26,341,317

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT

The University's bonds payable consist of tax-exempt revenue bond series 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.

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

Activity for the various bond series for the year-end June 30, 2020 is as follows:

	Weighted Average Interest Rate	Balance July 1, 2019	Bonds Issued	Bonds Redeemed	Balance June 30, 2020
Series AL Issued in July 2010 for Various Projects Final Maturity June 2021	5.00%	$ 282,165	$ -	$ (137,710)	$ 144,455
Series AM Issued in July 2011 for Various Projects Final Maturity June 2031	4.61%	5,492,521	-	(349,622)	5,142,899
Series AO Issued in July 2013 for Various Projects Final Maturity June 2033	4.50%	14,395,000	-	(770,000)	13,625,000
Series AP Issued in May 2014 for Various Projects Final Maturity June 2024	4.77%	412,287	-	(75,732)	336,555
Series AQ issued in May 2015 for Various Projects Final Maturity 2025	4.56%	1,452,077	-	(436,425)	1,015,652
Series AS issued in June 2016 for Various Projects Final Maturity 2027	4.13%	706,479	-	(77,583)	628,896
Series AT issued in September 2016 for Various Projects Final Maturity 2036	3.45%	16,880,000	-	(810,000)	16,070,000
Series AU-1 Issued In September 2017 for Various Projects Final Maturity June 2037	3.52%	4,516,125	-	(208,188)	4,307,937
Series AU-2 Issued In September 2017 for Various Projects Final Maturity June 2028	3.52%	5,473,884	-	(965,091)	4,508,793
Series AV-1 Issued In September 2018 for Various Projects Final Maturity June 2025	4.22%	1,477,430	-	(278,896)	1,198,534
Total Bonds Payable		$ 51,087,968	$ -	$ (4,109,247)	46,978,721
Plus: Unamortized Bond Premium					1,277,399
Less: Unamortized Bond Discount					(53,672)
Outstanding at End of Year					48,202,448
Less: Current Portion					4,309,196
Bonds Payable, Net of Current Portion					$ 43,893,252

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

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

	Weighted Average Interest Rate	Balance July 1, 2018	Bonds Issued	Bonds Redeemed	Balance June 30, 2019
Series AI Issued in August 2008 for Various Projects Final Maturity June 2025	4.36%	$ 1,882,256	$ -	$ (1,882,256)	$ -
Series AL Issued in July 2010 for Various Projects Final Maturity June 2021	5.00%	413,347	-	(131,182)	282,165
Series AM Issued in July 2011 for Various Projects Final Maturity June 2031	4.64%	5,825,710	-	(333,189)	5,492,521
Series AO Issued in July 2013 for Various Projects Final Maturity June 2033	4.49%	15,145,000	-	(750,000)	14,395,000
Series AP Issued in May 2014 for Various Projects Final Maturity June 2024	4.62%	485,096	-	(72,809)	412,287
Series AQ issued in May 2015 for Various Projects Final Maturity 2025	4.61%	1,866,544	-	(414,467)	1,452,077
Series AS issued in June 2016 for Various Projects Final Maturity 2027	3.97%	782,652	-	(76,173)	706,479
Series AT issued in September 2016 for Various Projects Final Maturity 2036	3.44%	17,675,000	-	(795,000)	16,880,000
Series AU-1 Issued In September 2017 for Various Projects Final Maturity June 2037	3.51%	4,714,563	-	(198,438)	4,516,125
Series AU-2 Issued In September 2017 for Various Projects Final Maturity June 2028	3.51%	6,312,002	-	(838,118)	5,473,884
Series AV-1 Issued In September 2018 for Various Projects Final Maturity June 2025	4.22%	-	1,767,280	(289,850)	1,477,430
Total Bonds Payable		$ 55,102,170	$ 1,767,280	$ (5,781,482)	51,087,968
Plus: Unamortized Bond Premium					1,650,170
Less: Unamortized Bond Discount					(59,910)
Outstanding at End of Year					52,678,228
Less: Current Portion					4,475,780
Bonds Payable, Net of Current Portion					$ 48,202,448

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

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

Series		2021	2022	2023	2024	2025	2026-2030	2031-2035	2036-2037	Total
AL	Principal	$ 144,455	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 144,455
	Interest	7,222	-	-	-	-	-	-	-	7,222
	Total	151,677	-	-	-	-	-	-	-	151,677
AM	Principal	367,188	385,321	404,587	426,119	448,219	2,532,351	579,114	-	5,142,899
	Interest	237,917	219,558	200,292	179,051	156,680	493,062	26,060	-	1,512,620
	Total	605,105	604,879	604,879	605,170	604,899	3,025,413	605,174	-	6,655,519
AO	Principal	800,000	835,000	865,000	900,000	940,000	5,375,000	3,910,000	-	13,625,000
	Interest	637,175	605,175	571,775	537,175	500,050	1,821,660	410,920	-	5,083,930
	Total	1,437,175	1,440,175	1,436,775	1,437,175	1,440,050	7,196,660	4,320,920	-	18,708,930
AP	Principal	78,656	81,873	85,966	90,060	-	-	-	-	336,555
	Interest	16,041	12,895	8,802	4,503	-	-	-	-	42,241
	Total	94,697	94,768	94,768	94,563	-	-	-	-	378,796
AQ	Principal	184,000	192,762	202,619	212,842	223,429	-	-	-	1,015,652
	Interest	50,783	41,583	31,945	21,814	11,171	-	-	-	157,296
	Total	234,783	234,345	234,564	234,656	234,600	-	-	-	1,172,948
AS	Principal	78,994	80,875	84,872	89,103	93,570	201,482	-	-	628,896
	Interest	29,075	27,495	23,451	19,208	14,753	15,235	-	-	129,217
	Total	108,069	108,370	108,323	108,311	108,323	216,717	-	-	758,113
AT	Principal	825,000	845,000	860,000	880,000	900,000	4,870,000	5,650,000	1,240,000	16,070,000
	Interest	453,007	436,508	419,185	400,265	379,585	1,524,800	747,020	39,680	4,400,050
	Total	1,278,007	1,281,508	1,279,185	1,280,265	1,279,585	6,394,800	6,397,020	1,279,680	20,470,050
AU-1	Principal	219,687	229,625	242,688	254,187	265,687	1,533,313	1,204,000	358,751	4,307,937
	Interest	174,759	163,775	152,294	140,159	127,450	433,656	147,103	16,678	1,355,874
	Total	394,446	393,400	394,982	394,346	393,137	1,966,969	1,351,103	375,429	5,663,811
AU-2	Principal	1,015,518	1,063,918	1,119,562	236,822	249,041	823,932	-	-	4,508,793
	Interest	225,440	174,664	121,468	65,490	53,649	83,732	-	-	724,443
	Total	1,240,958	1,238,582	1,241,030	302,312	302,690	907,664	-	-	5,233,236
AV-1	Principal	293,711	482,541	227,228	162,470	32,584	-	-	-	1,198,534
	Interest	59,927	45,241	21,114	9,753	1,629	-	-	-	137,664
	Total	353,638	527,782	248,342	172,223	34,213	-	-	-	1,336,198
Total	Principal	4,007,209	4,196,915	4,092,522	3,251,603	3,152,530	15,336,078	11,343,114	1,598,751	46,978,721
	Interest	1,891,346	1,726,894	1,550,326	1,377,418	1,244,967	4,372,145	1,331,103	56,358	13,550,557
	Total	$ 5,898,555	$ 5,923,809	$ 5,642,848	$ 4,629,021	$ 4,397,497	$ 19,708,223	$ 12,674,217	$ 1,655,109	$ 60,529,278

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. In the past, the State System issued bonds to provide a pool for funding for AFRP ($5,548,427 and $9,228,259 was outstanding as of June 30, 2020 and 2019, respectively). Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance owed by the University to the AFRP pool of funding were as follows:

	Beginning Balance July 1, 2019	Additions	Retirements	Ending Balance June 30, 2020	Current Portion
PASSHE Bond - AFRP	$ 1,458,396	$ -	$ (581,545)	$ 876,851	$ 262,368

	Beginning Balance July 1, 2018	Additions	Retirements	Ending Balance June 30, 2019	Current Portion
PASSHE Bond - AFRP	$ 2,101,692	$ -	$ (643,296)	$ 1,458,396	$ 581,545

The University is informed by the State System each year of their amortization for the next year. Amortization beyond the current portion is not available.

Component Units Long-Term Debt

The Foundation and RR Indiana, component units, have entered into long-term debt agreements for the financing of buildings and building improvements, primarily for student housing.

Future minimum payments by year and in the aggregate as originally scheduled in the debt agreements are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	$ 45,524,425	$ 6,772,698	$ 52,297,123
2022	5,937,990	6,271,075	12,209,065
2023	6,162,601	6,050,980	12,213,581
2024	6,398,283	5,822,052	12,220,335
2025	6,640,061	5,583,835	12,223,896
Thereafter	138,063,318	51,450,800	189,514,118
Total	208,726,678	$ 81,951,440	$ 290,678,118
Plus Unamortized Bond Premium	-		
Less: Unamortized Bond Issue Costs	(2,987,933)		
Total	$ 205,738,745		

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

Component Units Long-Term Debt (Continued)

Subsequent to year-end, in connection with the master lease transaction described in Note 19, RRI restructured its debt with the United States Department of Agriculture (USDA). Due to the RR Indiana restructuring with the USDA, approximately $39.6 million of principal maturities as shown in the chart above, originally scheduled to mature during the year June 30, 2021, will now mature in August 2043. The new USDA loans will require equal payments of principal and interest totaling $186,118 per month over the course of the loan.

During the fiscal year ended June 30, 2020, the Foundation did not meet its debt service coverage ratio financial covenants under the 2007 Series A Revenue Bond documents and the 2015 Series A Revenue Bond documents and the related interest rate swap agreements (collectively, the FIUP Bonds) due to (1) reduced enrollment and housing demand and (2) refunds issued to students when they were required to leave campus due to the University’s transition to remote learning as a result of the COVID-19 pandemic. To date, the Foundation has made all required debt service payments and has not requested a waiver relating to the financial covenant violations under the FIUP Bonds.

Due to the debt covenant violation, the Foundation’s debt is considered to be currently due as of June 30, 2020 because payment in full could be required under the FIUP Bond agreements. Approximately $4 to $5 million of principal maturities per annum during the years 2021-2025 and approximately $105 million of principal maturities thereafter, per the original FIUP Bond agreements and as shown in the chart above, are considered to be currently due as of June 30, 2020.

The FIUP Bond debt is non-recourse debt with respect to the Foundation, with the collateral for such debt being limited to, among other things, gross revenues from the student housing facilities (the Student Housing), and the following collateral related to the Student Housing facilities: receivables, furnishings, related equipment, and related real and personal property rights.

The Foundation has engaged legal counsel to assist the Foundation with strategic options and a possible restructuring of indebtedness associated with the Student Housing. The Foundation and its counsel have participated in preliminary discussions with Deutsche Bank, the Phase III bondholder, and Assured Guaranty Corporation, representing the Phase II bondholders, relating to its current financial condition and intend to continue such discussions. Absent a significant change in circumstances associated with the Student Housing and the FIUP Bonds, should demand for payment in full be made and if project reserves/revenues are insufficient, the trustees for the bondholders could exercise the respective rights under the applicable FIUP Bond documents, which could include among other things, foreclosure. No adjustments have been made for the outcome of this uncertainty.

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

Promissory Notes Between the Foundation and RR Indiana

During the year ended June 30, 2018, the RR Indiana entered into a promissory note to the Foundation totaling $5,180,092 to finance the purchase of Phase IV student housing facilities. The note bears interest at a rate of 3% per annum, and is payable in the greater of annual installments of $33,333 plus interest or the Net Distribution on the Phase IV Indenture as defined in the Subordinated Promissory Note Agreement dated September 28, 2017. The principal outstanding as of June 30, 2020 and June 30, 2019 is $4,267,100 and $4,325,085, respectively.

RR Indiana also has an outstanding promissory note to the Foundation totaling $14,876,800 which was used to finance the purchase of Phase I student housing facilities. The note bears interest at a rate of 3% per annum, and is payable in the greater of annual installments of $33,333 plus interest or the Net Distribution on the 2017 Indenture as defined in the Subordinated Promissory Note Agreement dated April 4, 2017. The principal outstanding as of June 30, 2020 and 2019 is $13,279,506 and $13,984,813, respectively.

Future minimum payments on the RR Indiana promissory notes payable to the Foundation are as follows:

Year Ending June 30,	Amount
2021	$ 66,666
2022	66,666
2023	66,666
2024	66,666
2025	66,666
Thereafter	17,213,276
Total	$ 17,546,606

NOTE 7 COMPENSATED ABSENCES

Changes in the compensated absences liability in fiscal years 2020 and 2019 are as follows:

	2020	2019
Balance - July 1	$ 17,466,807	$ 17,529,861
Current Changes in Estimate	3,693,078	1,712,404
Payouts	(1,737,183)	(1,775,458)
Balance - June 30	$ 19,422,702	$ 17,466,807
Current	$ 1,569,939	$ 1,709,368
Noncurrent	17,852,763	15,757,439
Balance - June 30	$ 19,422,702	$ 17,466,807

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS

Other postemployment benefits (OPEB) are benefits, such as healthcare benefits, that are paid in the period after employment and that are provided separately from a pension plan. OPEB does not include termination benefits or termination payments for sick leave (see Note 7).

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

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

	System Plan		REHP		Premium Assistance		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Net OPEB liabilities	$ 153,416,569	$ 161,883,866	$ 53,072,236	$ 75,935,228	$ 522,980	$ 499,843	$ 207,011,785	$ 238,318,937
Deferred outflows of resources:								
Difference between expected and actual experience	$ -	$ -	$ -	$ -	$ 2,999	$ 3,134	$ 2,999	$ 3,134
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	-	-	913	783	913	783
Change in assumptions	-	-	1,697,972	-	17,211	7,835	1,715,183	7,835
Changes in proportion	-	-	3,236,176	4,057,407	16,820	6,007	3,252,996	4,063,414
Contributions after the measurement date	4,271,837	4,453,727	2,344,631	3,007,248	28,785	28,353	6,645,253	7,489,328
Total deferred outflows of resources	$ 4,271,837	$ 4,453,727	$ 7,278,779	$ 7,064,655	$ 66,728	$ 46,112	$ 11,617,344	$ 11,564,494
Deferred inflows of resources:								
Difference between expected and actual experience	$ 14,057,073	$ 18,042,307	$ 39,472,016	$ 23,257,236	$ -	$ -	$ 53,529,089	$ 41,299,543
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	93,995	116,058	-	-	93,995	116,058
Change in assumptions	16,373,195	12,940,487	7,351,076	9,982,351	15,516	18,933	23,739,787	22,941,771
Changes in proportion	N/A	N/A	2,267,423	-	3,520	4,440	2,270,943	4,440
Total deferred inflows of resources	$ 30,430,268	$ 30,982,794	$ 49,184,510	$ 33,355,645	$ 19,036	$ 23,373	$ 79,633,814	$ 64,361,812
OPEB expense	$ (4,566,096)	$ 1,015,451	$ (4,903,621)	$ 2,780,930	$ 54,743	$ (54,192)	$ (9,414,974)	$ 3,742,189
Contributions recognized by OPEB plans	N/A	N/A	$ 2,344,631	$ 3,007,248	$ 28,785	$ 28,353	$ 2,373,416	$ 3,035,601

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $4,271,837 for the System Plan, $2,344,631 for the REHP plan, and $28,785 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

	Amortization		
Year Ending June 30,	System Plan	REHP	Premium Assistance
2021	$ (7,979,966)	$ (11,124,981)	$ 2,217
2022	(7,979,966)	(11,124,981)	2,217
2023	(7,979,966)	(10,540,021)	2,086
2024	(5,117,672)	(7,984,083)	1,956
2025	(1,372,698)	(3,459,385)	6,650
Thereafter	-	(16,911)	3,781
Totals	$ (30,430,268)	$ (44,250,362)	$ 18,907

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.

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Plan Description (Continued)

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

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

Actuarial Assumptions and Other Inputs

The System performs actuarial valuations every two years for the System Plan and utilizes a measurement date that is the first day of its current fiscal year-end. The actuarial valuation on which the total OPEB liability as of June 30, 2020 is based is dated July 1, 2018, which is rolled forward to the measurement date of July 1, 2019. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Healthcare cost trend rate of 6.0% in 2018 and 5.5% in 2019 through 2021, with rates gradually decreasing from 5.4% in 2022 to 3.8% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Annual salary increase of 4%.
- 90% of employees eligible for a subsidy and 15% of employees not eligible for a subsidy are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

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

	1% Decrease (4.5% Decreasing to 2.8%)	Healthcare Cost Trend Rates 5.5% Decreasing to 3.8%	1% Increase (6.5% Decreasing to 4.8%)
2020	$ 127,957,909	$ 153,416,569	$ 186,385,279

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the System Plan's net OPEB liability at June 30, 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 healthcare cost trend rates used (5.5% decreasing to 3.8%).

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

	1% Decrease (4.5% decreasing to 2.8%)	Healthcare Cost Trend Rates 5.5% decreasing to 3.8%	1% Increase (6.5% decreasing to 4.8%)
2019	$ 135,531,244	$ 161,883,866	$ 195,985,861

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

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

	1% Decrease 2.36%	Current Rate 3.36%	1% Increase 4.36%
2020	$ 179,088,306	$ 153,416,569	$ 132,956,494

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 discount rate used (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	$ 190,000,922	$ 161,883,866	$ 139,578,677

University OPEB Liability

The University's portion of the System Plan's total OPEB liability as of June 30, 2020 of $153,416,569 was measured as of July 1, 2019, and was determined by an actuarial valuation as of July 1, 2018 that was rolled forward to July 1, 2019.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

University OPEB Liability (Continued)

The University's portion of the System Plan's total OPEB liability as of June 30, 2019 of $161,883,866 was measured as of July 1, 2018, and was determined by an actuarial valuation as of July 1, 2018.

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

	Fiscal Year June 30, 2020	Fiscal Year June 30, 2019
Changes in the System Plan Total OPEB Liability		
Total OPEB Liability – Beginning Balance	$ 161,883,866	$ 183,519,604
Service Cost	4,385,301	5,324,961
Interest	4,871,602	5,813,501
Changes of Benefit Terms	-	(128,007)
Difference Between Expected and Actual Experience	(8,456,952)	(22,099,508)
Changes of Assumptions	-	(1,450,784)
Benefit Payments	(9,267,248)	(9,095,901)
Net Changes	(8,467,297)	(21,635,738)
Total OPEB Liability—Ending Balance	$ 153,416,569	$ 161,883,866
Covered Employee Payroll	$ 69,899,009	$ 71,772,516
OPEB Liability as a Percent of Covered Payroll	219.48%	225.55%

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

REHP

Plan Description

The Retired Employees Health Program (REHP) is a single-employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an agreement with the Commonwealth. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and the Secretary of Administration. 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 included in the report of a public employee retirement system or other entity, but is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The CAFR is an audited financial statement and is available at www.budget.pa.us.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Plan Description (Continued)

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

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, and their salary at retirement. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2020.

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

Employer contribution requirements are established by the Commonwealth as provided by pertinent statutory authority. With the exception of certain employing agencies, employers contributed to the REHP Trust a retiree health assessment rate of $300 for each current REHP eligible active employee during the fiscal year ended June 30, 2019.

Actuarial Assumptions and Other Inputs

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The total OPEB liability in the June 30, 2019 and 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 6.0%, with rates gradually decreasing to 4.1% in 2075 and later, based on the SOA-Getzen trend rate model version 2019_b.
- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase.
- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates based on the RP-2000 Male and Female Combined Healthy Mortality Tables or the RP-2000 Male and Female Disabled Retiree Mortality Tables, as appropriate, adjusted to ensure sufficient margin improvement in certain age ranges.
- Participant data based on census information as of December 31, 2018, for the June 30, 2019 measurement date; and as of December 31, 2017 for the June 30, 2018, measurement date.

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

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

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	47.0%	5.6%
International Equity	20.0%	5.8%
Fixed Income	25.0%	1.7%
Real Estate	8.0%	4.6%
Cash	0.0%	0.9%
Total	100.0%	

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

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

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

The following presents the University's share of the REHP net OPEB liability at June 30, 2020, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 3.1%) or one percentage point higher (7.0% decreasing to 5.1%) than the current healthcare cost trend rates (6.0% decreasing to 4.1%).

	Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate		
	1% Decrease (5.0% decreasing to 3.1%)	Healthcare Cost Trend Rates 6.0% decreasing to 4.1%	1% Increase (7.0% decreasing to 5.1%)
2020	$ 46,102,970	$ 53,072,235	$ 61,644,894

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the REHP net OPEB liability at June 30, 2019, as well as what the liability would be if it were calculated using 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 healthcare cost trend rates used (6.2% decreasing to 4.1%).

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

	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	$ 65,184,196	$ 75,935,228	$ 89,298,597

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

Sensitivity of the REHP Net OPEB
Net OPEB Liability to Changes in the Discount Rate

	1% Decrease 2.50%	Current Rate 3.50%	1% Increase 4.50%
2020	$ 60,213,397	$ 53,072,235	$ 47,094,814

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 rates (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	$ 86,996,016	$ 75,935,228	$ 66,822,502

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.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance

Plan Description

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

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

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

Actuarial Assumptions and Other Inputs

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

- Valuation Date – June 30, 2018
- Actuarial cost method was entry-age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at $1,200 per year.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Assumed healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

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

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

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2019.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	13.2%	0.2%
U.S. Core Fixed Income	83.1%	1.0%
Non-U.S. Developed Fixed	3.7%	0.0%
Total	100.0%	

Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2018.

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

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

The actuarial valuation on which the total Premium Assistance OPEB liability at June 30, 2019 is based was dated June 30, 2017, rolled forward to June 30, 2018. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.1836% for the measurement date of June 30, 2018.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

	Healthcare Cost Trend Rates Between 4% and 6.50%	Healthcare Cost Trend Rates Between 5% and 7.50%	Healthcare Cost Trend Rates Between 6% and 8.50%
2020	$ 522,981	$ 522,981	$ 523,111

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

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

	Healthcare Cost Trend Rates Between 4% and 6.75%	Healthcare Cost Trend Rates Between 5% and 7.75%	Healthcare Cost Trend Rates Between 6% and 8.75%
2019	$ 499,712	$ 499,843	$ 499,973

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

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

	1% Decrease 1.79%	Current Rate 2.79%	1% Increase 3.79%
2020	$ 595,867	$ 522,981	$ 462,612

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 discount rate used (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	$ 568,395	$ 499,843	$ 442,912

NOTE 9 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).

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

	SERS		PSERS		ARP		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Net Pension Liabilities	$ 111,276,908	$ 134,471,346	$ 11,473,363	$ 11,420,831	$ -	$ -	$ 122,750,271	$ 145,892,177
Deferred Outflows of Resources								
Difference Between Expected and Actual Experience	$ 1,387,458	$ 2,017,952	$ 63,198	$ 91,872	$ -	$ -	$ 1,450,656	$ 2,109,824
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	13,083,269	-	55,979	-	-	-	13,139,248
Changes in Assumptions	4,288,042	3,582,646	109,621	212,901	-	-	4,397,663	3,795,547
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	33,328	45,086	-	-	33,328	45,086
Changes in Proportion	1,151,897	1,928,682	306,235	194,889	-	-	1,458,132	2,123,571
Contributions After the Measurement Date	6,995,763	7,211,069	1,162,469	1,113,722	-	-	8,158,232	8,324,791
Total Deferred Outflows of Resources	$ 13,823,160	$ 27,823,618	$ 1,674,851	$ 1,714,449	$ -	$ -	$ 15,498,011	$ 29,538,067
Deferred Inflows of Resources								
Difference Between Expected and Actual Experience	$ 753,698	$ 1,457,132	$ 380,226	$ 176,747	$ -	$ -	$ 1,133,924	$ 1,633,879
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	7,936,142	-	32,899	-	-	-	7,969,041	-
Difference Between Employer Contributions and Proportionate Share of Contributions	581,845	718,294	-	-	-	-	581,845	718,294
Changes in Proportion	2,589,788	1,063,569	73,471	120,639	-	-	2,663,259	1,184,208
Total Deferred Inflows of Resources	$ 11,861,473	$ 3,238,995	$ 486,596	$ 297,386	$ -	$ -	$ 12,348,069	$ 3,536,381
Pension Expense	$ 11,792,492	$ 17,682,917	$ 2,823,492	$ 2,638,511	$ -	$ 5,446,621	$ 14,615,984	$ 25,768,049
Contributions Recognized by Pension Plans	$ 12,363,991	$ 12,500,062	$ 1,162,469	$ 1,113,722	$ -	$ -	$ 13,526,460	$ 13,613,784

NOTE 9 PENSION BENEFITS (CONTINUED)

The University will recognize the $6,995,763 reported as 2020 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $1,162,469 reported as 2020 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Amortization	
Year Ending June 30,	SERS	PSERS
2021	$ (365,068)	$ 136,868
2022	(1,553,455)	(101,356)
2023	654,824	(33,099)
2024	(3,814,827)	23,373
2025	44,450	-
Totals	$ (5,034,076)	$ 25,786

SERS

Plan Description

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

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

Benefits Provided

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

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

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

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

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

Contributions

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

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

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

The University's contributions to SERS for the years ended June 30, 2020, 2019, and 2018, were $12,363,991, $12,500,062, and $12,486,818, respectively, equal to the required contractual contribution.

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Contributions (Continued)

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

For the SERS defined contribution plan, the University contributed actuarially determined rates of between 2.0% and 3.5% of active members' annual covered payroll at June 30, 2020, depending on the plan chosen by the employee. The University recognized $28,011 in SERS defined contribution pension expense for the year ended June 30, 2020 and $4,856 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

Actuarial valuations are performed annually using a December 31 measurement date. Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18th Investigation of Actuarial Experience study for the period 2011–2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates).

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its June 2019 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.25% to 7.125%. The next SERS review occurred in summer 2020 and will be used for its 2020 annual valuation.

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

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

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

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2019 and 2018, are summarized below.

	December 31, 2019 and 2018	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.00%	7.25%
Global Public Equity	48.00%	5.15%
Real Estate	12.00%	5.26%
Multi-Strategy	10.00%	4.44%
Fixed Income	11.00%	1.26%
Cash	3.00%	0.00%
Total	100.0%	

The discount rate used to measure the total SERS pension liability was 7.125% for the year ended June 30, 2020 and 7.25% for the year ended June 30, 2019. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and nonactive SERS members. The long-term expected rate of return on SERS' investments, therefore, was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

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

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

	1% Decrease 6.125%	Current Rate 7.125%	1% Increase 8.125%
2020	$ 141,396	$ 111,277	$ 85,492

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 each 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%
2019	$ 165,120	$ 134,471	$ 108,207

Proportionate Share

At June 30, 2020, the amount recognized as the University's proportionate share of the SERS net pension liability, measure at December 31, 2019 was $111,276,908. At June 30, 2019, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2018, was $134,471,346. The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the December 2019 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2020/21 from the December 31, 2019 funding valuation to the expected funding payroll. For the allocation of the December 2018 amounts this methodology applies the most recently calculated contribution rates for fiscal year 2019/20 from the December 31, 2018 funding valuation to the expected funding payroll. At December 31, 2019, the State System's proportion was 4.773% an increase of 0.124% from its proportion calculated as of December 31, 2018, measurement date.

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS

Plan Description

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

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–8535) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established. The Commonwealth's General Assembly has the authority to amend the benefit terms by passing bills in the Senate and House of Representatives and sending them to the Governor for approval. The Code requires contributions by active members, the employer (State System), and the Commonwealth. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund.

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

PSERS issues a comprehensive annual financial report that may be obtained at www.psers.state.pa.us.

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.

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

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

Member Contributions

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2020 was 33.36% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 16.68% of covered payroll. The University's contributions to PSERS for the years ended June 30, 2020, 2019, and 2018 was $1,162,469, $1,113,722, and $1,021,044, respectively, equal to the required contractual contribution.

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Employer Contributions (Continued)

For the PSERS defined contribution plan, the University is required to contribute at actuarially determined average rate 0.09% of active members' annual covered payroll for the year ending June 30, 2020, depending upon the plan chosen by the employee.

Members were first eligible to choose the defined contribution plan on July 1, 2019. Therefore, the University contributions for the year ended June 30, 2020 were immaterial.

Actuarial Assumptions

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

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

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. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (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, 2019 and 2018:

	June 30, 2019	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0%	5.6%
Fixed Income	36.0%	1.9%
Commodities	8.0%	2.7%
Absolute Return	10.0%	3.4%
Risk Parity	10.0%	4.1%
Infrastructure/MLPs	8.0%	5.5%
Real Estate	10.0%	4.1%
Alternative Investments	15.0%	7.4%
Cash	3.0%	0.3%
Financing (LIBOR)	-20.0%	0.7%
Total	100.0%	

	June 30, 2018	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0%	5.2%
Fixed Income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute Return	10.0%	3.5%
Risk Parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real Estate	10.0%	4.2%
Alternative Investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	-20.0%	0.9%
Total	100.0%	

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

The discount rate used to measure the total PSERS pension liability was 7.25% at both 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 calculated using the discount rate of 7.25% as of June 30, 2020 and June 30, 2019, 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% in 2020 and 2019) or one percentage point higher (8.25% in 2020 and 2019) 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%
2020	$ 14,291	$ 11,473	$ 9,087
2019	14,157	11,421	9,107

NOTE 9 PENSION BENEFITS (CONTINUED)

Proportionate Share

At June 30, 2020 and 2019, the amount recognized as the University's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows:

	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019
Total PSERS Net Pension Liability Associated with the University	$ 22,946,726	$ 22,841,662
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	(11,473,363)	(11,420,831)
University's Proportionate Share of the PSERS Net Pension Liability	$ 11,473,363	$ 11,420,831

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

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

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

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2020 and 2019 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2020 and 2019, were $5,266,880 and $5,446,621, respectively, from the University; and $2,834,704 and $2,931,443, respectively, from active members. No liability is recognized for the ARP.

NOTE 10 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 $61,414, $58,076, and 150,753 to the Reserve Fund for the years ended June 30, 2020, 2019, and 2018, respectively.

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

	2020	2019	2018
Balance - July 1	$ 1,097,018	$ 981,437	$ 751,149
Projected Retained Losses	346,532	419,013	417,529
Retirements and Changes in Estimates	(953,965)	(303,432)	(187,241)
Balance - June 30	$ 489,585	$ 1,097,018	$ 981,437

NOTE 11 COMMITMENTS AND CONTINGENCIES

Contingencies

The nature of the education industry is such that, from time to time, the universities of the State System are 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 assets, damage to or 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.

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The University participates in the State System's self-insured workers' compensation plan up to stated limits (see Note 10). 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.

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

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2020 and 2019, were approximately $12,485,783 and $10,501,527, respectively.

Labor Concentrations

Approximately 86% of PASSHE's employees are covered by nine collective bargaining agreements. Seven of the agreements were renegotiated during the past fiscal year; most of which are effective through fiscal year 2022/2023. The only exceptions are two minor unions: the agreement for police supervisors and security officers with the International Union, Security, Police, and Fire Professionals of America (SPFPA), which expired on August 31, 2020, and the Professional Doctor's Association (PDA). A tentative agreement was reached with SPFPA in September 2020. The terms of the prior contracts remain in effect until a successor agreement is achieved.

COVID-19 Pandemic

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

NOTE 12 UNRESTRICTED NET POSITION

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

	2020	2019
Designated Amounts for Educational and General Activities	$ 44,065,188	$ 45,506,699
Designated Amounts for Healthcare Reserve	674,461	678,219
Designated Amounts for Auxiliary Enterprises (Operations, Plant Activities, and Debt Retirement)	8,003,728	9,409,022
Designated Amounts for Plant Activities and Debt Retirement	28,548,506	33,850,225
Compensated Absences Deficit - Non-Auxiliary	(19,124,842)	(17,128,868)
Postretirement Benefit Deficit - Non-Auxiliary	(261,013,099)	(273,687,418)
Pension Benefit Deficit - Non-Auxiliary	(113,085,014)	(113,848,385)
Compensated Absences Deficit - Auxiliary	(297,859)	(337,939)
Postretirement Benefit Deficit - Auxiliary	(14,015,156)	(17,428,837)
Pension Benefit Deficit - Auxiliary	(6,515,315)	(6,042,106)
Total Unrestricted Net Position	$ (332,759,402)	$ (339,029,388)

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

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP

Ground Lease Agreement – Phase II

The University entered into the Phase II ground lease as of May 1, 2007. The Foundation has paid annual base rents for Phase II in the amount of $36,600 beginning in fiscal year ended June 30, 2009. The base rent for Phase II increases by 2% in each subsequent year through the expiration date of the lease on June 30, 2049. Additional rents equaling .5% of actual room rental charges began in the fiscal year ended June 30, 2009 for Phase II. The Foundation also provides room fee waivers for Resident Assistants residing in the facilities which the University recognizes as rental income.

The Foundation paid base rent, additional rent, and provided room waivers to the University during the fiscal years ended June 30 of:

	Base Rent		Additional Rent		Room Waivers	
	2020	2019	2020	2019	2020	2019
Phase II	$ 45,508	$ 44,616	$ 30,085	$ 41,986	$ 138,328	$ 143,786

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP (CONTINUED)

Ground Lease Agreement – Phase III

The University entered into the Phase III ground lease agreement as of May 1, 2008. The Foundation began paying an annual base rent in the amount of $37,713 during the fiscal year ended June 30, 2010. This base rent increases by 2% each subsequent year through the lease expiration date of June 30, 2050. Additional rents equaling .5% of actual room rental charges are being paid, beginning in fiscal year ended June 30, 2010. The Foundation also provides room fee waivers for Resident Assistants residing in the facility which the University recognizes as rental income.

The Foundation paid base rent, additional rent, and provided room waivers to the University during the fiscal years ended June 30 in the amounts of:

	Base Rent		Additional Rent		Room Waivers	
	2020	2019	2020	2019	2020	2019
Phase III	$ 45,971	$ 45,070	$ 28,416	$ 40,966	$ 163,900	$ 207,474

Ground Lease Agreement – All Phases

Total ground lease base rent revenues from all Phases received from the Foundation for the years ended June 30, 2020 and 2019 were $91,479 and $89,686, respectively. Total additional rents from all Phases received from the Foundation for the years ended June 30, 2020 and 2019 were $58,501 and $85,952, respectively. Total room waivers from all Phases received from the Foundation for the years ended June 30, 2020 and 2019 were $302,228 and $351,260, respectively.

Approximate minimum ground lease base rent for future years from all Phases are:

Year Ending June 30,	Amount
2021	$ 93,308
2022	95,174
2023	97,078
2024	99,020
2025	101,000
2026-2030	536,116
2031-2035	591,911
2036-2040	653,508
2041-2045	721,515
2045-2050	714,183
Total	$ 3,702,813

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP (CONTINUED)

Facilities Management Contract for Student Housing Facilities

The University entered into facilities management contracts with the Foundation to provide the Foundation with management services operating all Phases of the Foundation's Student Housing Facilities and the Foundation's Fairman Centre. The agreement regarding Phase II continues through June 30, 2023, the agreement regarding Phase III expired on June 30, 2019 and was automatically renewed through June 30, 2024, the agreement regarding Phase IV terminated on September 28, 2017, and the agreement regarding Fairman Centre terminated on August 31, 2018. Automatic renewal terms exist associated with these agreements. Total management fees charged to the Foundation for the years ended June 30, 2020 and 2019 were $751,375 and $710,002, respectively, and are included in auxiliary revenues.

Under the terms of the management agreements the University collects rent, advance deposits, and other fees from the student renters then transfers the money to the Foundation. The total amount due to the Foundation at June 30, 2020 and 2019 was $1,617,471 and $1,157,715, respectively.

Other Property Leases

The University leased classroom space from the Foundation under a noncancelable operating lease entered into on September 1, 2008 and terminated on August 31, 2018. Total rent expense for these facilities for the years ended June 30, 2019 was $68,000.

The University leases office space from the Foundation in the Phase II facility for the Student Health Center under a noncancelable operating lease terminating on December 31, 2037. Total rent expense for these facilities was $775,399 and $759,723 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2021	$ 759,929
2022	775,128
2023	790,630
2024	806,443
2025	822,572
2026-2030	4,366,311
2031-2035	4,820,760
2036-2038	2,598,027
Total	$ 15,739,800

At June 30, 2020, $379,964 of these future minimum lease payments were prepaid for the period July 1, 2020 to December 31, 2020.

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP (CONTINUED)

Other Property Leases (Continued)

The University leases office space from the Foundation in the Phase II facility for the Housing and Resident Life and Dining Management Offices under a noncancelable operating lease terminating on December 31, 2037. Total rent expense for these facilities was $11,796 and $11,376 for the years ended June 30, 2020 and 2019, respectively. Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2021	$ 13,639
2022	14,376
2023	15,152
2024	15,970
2025	16,832
2026-2030	98,817
2031-2035	128,535
2036-2038	78,328
Total	$ 381,649

Additional office space is leased by the University from the Foundation in the Phase II facility for the Student Conduct Office under a lease expiring on June 30, 2027. Rent expense for this space was $14,625 and $14,355 for year ended June 30, 2020 and 2019, respectively. Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2021	$ 12,558
2022	12,809
2023	13,065
2024	13,327
2025	13,593
2026-2027	28,008
Total	$ 93,360

At June 30, 2020, $12,558 of these future minimum lease payments were prepaid for the period July 1, 2020 to June 30, 2021.

COVID-19 Refunds

Under current arrangements with the Foundation, student housing charges are collected by the University and remitted to the Foundation. Due to the COVID-19 pandemic and the University's change to remote instruction, refunds of a portion of the student housing charges were made to students in April 2020. The University issued the refunds to the students on behalf of the Foundation for IUP, with corresponding receivables recorded as due from the Foundation for IUP for each housing phase. At June 30, 2020, receivables of $2,129,750 for Phase II and $2,015,906 for Phase III were recorded by the University.

The Phase II receivable has been paid and received in full. As of December 1, 2020, a receivable balance of $321,194 remains of the original Phase III receivable.

NOTE 14 INTEREST RATE SWAP AGREEMENTS – FOUNDATION FOR IUP

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Foundation participates in interest rate swap agreements to eliminate its exposure to variability in interest payments on its bonds payable. The interest rate swaps are marked to market currently with a gain or loss recognized in the statements of activities.

The Foundation has three interest rate swap agreements whereby the Foundation pays a fixed rate of interest, in exchange for receiving payments based on a floating interest rate tied to LIBOR. The floating rate is reset on the first day of each January, April, July, and October for two of the agreements and monthly for the other.

In accordance with FASB Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, included in the obligation under interest rate swap in the statement of financial position is the net cumulative unrealized loss on these derivative transactions in the amount of $43,237,099 and $30,551,521 at June 30, 2020 and 2019, respectively. Additionally, the change in the cumulative unrealized loss is included in the net loss on interest rate swap agreement in the accompanying statement of activities - component unit, and amounted to a loss of $12,685,578 and a loss of $7,123,623 for the years ended June 30, 2020 and 2019, respectively.

NOTE 15 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA

Ground Lease Agreements

The University leases land to RR Indiana for the RR Indiana’s student housing facilities under separate ground lease agreements for Phase I and Phase IV facilities.

Ground Lease Agreement – Phase I

The University entered into a ground lease agreement as of April 4, 2017, with RR Indiana. The RR Indiana began paying annual base rent in the amount of $29,877 per lease year commencing with the lease year beginning July 1, 2016. This base rent increases by 2% each subsequent year through the lease expiration date of April 4, 2046. Additional rents equaling .5% of actual room rental charges are being paid, which began in fiscal year ended June 30, 2017. The RR Indiana provides room fee waivers for Resident Assistants residing in the facility which the University recognizes as rental income.

RR Indiana paid base rent, additional rent, and provided room waivers to the University during the fiscal years ended June 30 in the amounts of:

	Base Rent		Additional Rent		Room Waivers	
	2020	2019	2020	2019	2020	2019
Phase I	$ 31,707	$ 31,085	$ 10,511	$ 21,030	$ 37,100	$ 78,214

NOTE 15 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA (CONTINUED)

Ground Lease Agreement – Phase IV

The University entered into an amended and restated ground lease agreement as of September 28, 2017, assigning RR Indiana as successor to the interest of the Foundation. The RR Indiana began paying annual base rent in the amount of $21,038 per lease year commencing with the lease year beginning July 1, 2017. This base rent increases by 2% each subsequent year through the lease expiration date of September 28, 2046. Additional rents equaling .5% of actual room rental charges are being paid, beginning in fiscal year ended June 30, 2018.

The RR Indiana provides room fee waivers for Residential Assistants residing in the facility which the University recognizes as rental income. The RR Indiana paid base rent, addition rent, and provided room waivers to the University during the fiscal years ended June 30 in the amounts of:

	Base Rent		Additional Rent		Room Waivers	
	2020	2019	2020	2019	2020	2019
Phase IV	$ 21,889	$ 21,460	$ 5,089	$ 16,093	$ 29,900	$ 65,717

Ground Lease Agreement – Phase I and IV

Total ground lease base rent revenues from Phase I and IV received from the RR Indiana for the years ended June 30, 2020 and 2019 were $53,596 and $52,545, respectively. Total additional rents from Phases I and IV received from the RR Indiana for the years ended June 30, 2020 and 2019 were $15,600 and $37,123, respectively. Total room waivers from Phases I and IV received from the RR Indiana for the year ended June 30, 2020 and 2019 were $67,000 and $143,931, respectively.

Approximate minimum ground lease base rent for future years from Phases I and IV are:

Year Ending June 30,	Amount
2021	$ 54,668
2022	55,762
2023	56,877
2024	58,015
2025	59,175
2026-2030	314,104
2031-2035	346,792
2036-2040	382,885
2041-2045	422,740
2046-2047	86,254
Total	$ 1,837,272

The University entered in to a master lease agreement with RRI Indiana effective July 1, 2020 for Phase I and a master lease agreement with RR Indiana effective July 1, 2020 for Phase IV. Notwithstanding the foregoing, the 2017 Ground Lease for Phase I and Phase IV shall remain in full force and effect during the term of the Master Lease although minimum ground lease base rent payments for future years are suspended as the University is required to pay all operating expenses under the master lease agreement.

NOTE 15 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA (CONTINUED)

Facilities Management Contract for Student Housing Facilities

The University entered into facilities management contracts with the RR Indiana to provide the RR Indiana with management services operating all of the RR Indiana's Student Housing Facilities. The facility management agreement regarding Phase I was to continue through April 4, 2022, and the agreement regarding Phase IV was to continue through September 28, 2022, however both were suspended upon execution of the master lease agreements that became effective July 1, 2020. Total management fees charged to the RR Indiana for the years ended June 30, 2020 and 2019 were $366,239 and $423,072, respectively, and are included in auxiliary revenues. Under the terms of the management agreements the University collects rent, advance deposits, and other fees from the student renters then transfers the money to the RR Indiana. The total amount due to the RR Indiana at June 30, 2020 and 2019 was $550,789 and $509,584, respectively.

Other Property Leases

The University leases office space from RR Indiana in the Phase I facility for various purposes under a noncancelable operating lease transferred from the Foundation to RR Indiana effective April 4, 2017, and which was set to terminate on April 4, 2046, however, the University entered into a master lease agreement with RR Indiana effective July 1, 2020 for Phase I which suspended future minimum lease payments related to the Phase I operating lease as the University is required to pay all operating expenses under the master lease agreement. Total rent expense for this space was $318,640 and $313,803 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2021	$ 282,653
2022	288,306
2023	294,072
2024	299,954
2025	305,953
2026-2030	1,624,034
2031-2035	1,793,065
2036-2040	1,979,689
2041-2045	2,185,736
2046-2047	352,275
Total	$ 9,405,737

At June 30, 2020, $717,995 of these future minimum lease payments were prepaid for the period July 1, 2020 to December 31, 2022.

COVID-19 Refunds

Under current arrangements with RR Indiana, student housing charges are collected by the University and remitted to RR Indiana. Due to the COVID-19 pandemic and the University's change to remote instruction, refunds of a portion of the student housing charges were made to students in April 2020.

NOTE 15 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA (CONTINUED)

COVID-19 Refunds (Continued)

The University issued the refunds to the students on behalf of RR Indiana, with corresponding receivables recorded due from RR Indiana for each Phase. At June 30, 2020, receivables of $759,254 for Phase I and $362,486 for Phase IV were recorded by the University. As of December 1, 2020, no payments have been received from RR Indiana

NOTE 16 RELATED PARTY TRANSACTION – IUP RESEARCH INSTITUTE

The Research Institute contracts with the University to receive services in support of various research grant projects. These contracted services are in the normal course of business for both the Research Institute and the University. For the years ended June 30, 2020 and 2019, the Research Institute paid IUP $1,407,096 and $1,427,048, respectively, for contracted services. The Research Institute owed the University $372,910 as of June 30, 2020 and $392,386 as of June 30, 2019, which are included in Due from Component Units.

The University pays a fee to the Research Institute for promoting and developing research opportunities, managing research grants on behalf of the University, and providing the University with other services as needed. For the years ended June 30, 2020 and 2019, total amounts paid by the University to the Research Institute were $1,151,829 and $1,197,989, respectively. The University owed the Research Institute $121,422 as of June 30, 2020 and $120,000 as of June 30, 2019, which are included in Due to Component Units.

NOTE 17 RELATED PARTY TRANSACTION – STUDENT COOPERATIVE ASSOCIATION

Under current arrangements with the Student Cooperative Association, student activity fees are collected by the University and remitted to the Student Cooperative Association. Due to the COVID-19 pandemic and the University's change to remote instruction, refunds of a portion of the student activity fees were made to students in April 2020. The University issued the refunds to the students on behalf of the Student Cooperative Association, with a corresponding receivable recorded due from the Student Cooperative Association for the student activity fees. At June 30, 2020, a receivable of $335,803 was recorded. As of December 1, 2020, a balance of $235,671 remains due.

NOTE 18 DEBT REFUNDING

In September 2018, approximately $1.8 million of the net proceeds from the Series AV-1 tax-exempt revenue bonds were used to current refund Series AG and a portion of Series AI bonds. The refunding was performed to reduce debt service by approximately $96,000, resulting in an economic gain (difference between the present values of the old and new debt service payments) of approximately $87,000. The accounting gain, or deferred gain on refunding, is reported as a deferred inflow of resources that will be amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

NOTE 19 RATING ACTIONS

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

NOTE 20 SUBSEQUENT EVENTS

In July 2020, PHEFA issued Series AX tax-exempt revenue bonds in the amount of $141,000 on behalf of the University. The net proceeds from the Series AX revenue bonds were used to current refund various outstanding bonds. The refunding was performed to reduce debt service by approximately $4,070 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately $3,900. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of the bonds.

In October 2020, PHEFA issued Series AY taxable revenue bonds, in the amount of $5,071,000 on behalf of the University. The purpose of this issue is to advance refund a portion of Series AM revenue bonds and will result in a reduction of debt service of approximately $681,000 and an economic gain of $631,000 for the University. The State System will enter into a loan agreement with PHEFA under which the State System will pledge its full faith and credit for repayment of the bonds.

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

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

Schedule of Proportionate Share of SERS Net Pension Liability
Determined as of December 31, SERS 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
2014/15	4.9010%	$ 99,954	$ 40,768	245%	64.8%
2015/16	4.7210%	$ 117,929	$ 40,900	288%	58.9%
2016/17	4.8370%	$ 127,626	$ 41,208	310%	57.8%
2017/18	4.9059%	$ 113,047	$ 41,189	275%	63.0%
2018/19	4.8971%	$ 134,471	$ 41,984	320%	56.4%
2019/20	4.7732%	$ 111,277	$ 40,398	276%	63.1%

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 7,792	$ 7,792	$ -	$ 40,768	19.1%
2015/16	$ 9,455	$ 9,455	$ -	$ 40,185	23.5%
2016/17	$ 11,161	$ 11,161	$ -	$ 40,399	27.6%
2017/18	$ 12,487	$ 12,487	$ -	$ 40,100	31.1%
2018/19	$ 12,500	$ 12,500	$ -	$ 40,269	31.0%
2019/20	$ 12,364	$ 12,364	$ -	$ 38,772	31.9%

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(UNAUDITED)

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

	PSERS Net Pension Liability						
Fiscal Year	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	0.1785%	$ 10,072	$ 10,072	$ 20,144	$ 3,247	310%	57.2%
2015/16	0.1852%	$ 11,851	$ 11,851	$ 23,702	$ 7,042	168%	54.4%
2016/17	0.1833%	$ 12,772	$ 12,772	$ 25,544	$ 6,677	191%	50.1%
2017/18	0.1811%	$ 11,491	$ 11,491	$ 22,982	$ 6,197	185%	51.8%
2018/19	0.1836%	$ 11,421	$ 11,421	$ 22,842	$ 6,406	178%	54.0%
2019/20	0.1866%	$ 11,473	$ 11,473	$ 22,946	$ 6,764	170%	55.7%

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 774	$ 774	$ -	$ 3,247	23.8%
2015/16	$ 845	$ 845	$ -	$ 6,917	12.2%
2016/17	$ 913	$ 913	$ -	$ 6,313	14.5%
2017/18	$ 1,021	$ 1,021	$ -	$ 6,567	15.6%
2018/19	$ 1,114	$ 1,114	$ -	$ 6,890	16.2%
2019/20	$ 1,162	$ 1,162	$ -	$ 7,011	16.6%

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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
2017/18	4.3740%	$ 101,185	$ 13,795	733.5%	1.4%
2018/19	4.4830%	$ 75,935	$ 13,544	560.7%	2.2%
2019/20	4.3701%	$ 53,072	$ 13,628	389.4%	3.8%

REHP Schedule of Contributions
Determined as of University's June 30 Fiscal Year-End Dates
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	$ 2,474	$ 2,474	$ -	$ 16,855	14.7%
2018/19	$ 3,007	$ 3,007	$ -	$ 17,168	17.5%
2019/20	$ 2,345	$ 2,345	$ -	$ 16,527	14.2%

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

	PSERS Net OPEB Liability						
Fiscal Year	State System's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University' Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total OPEB Liability
2017/18	0.1811%	$ 474	$ 474	$ 948	$ 6,200	7.65%	5.73%
2018/19	0.1836%	$ 500	$ 500	$ 1,000	$ 6,455	7.74%	5.56%
2019/20	0.1886%	$ 523	$ 523	$ 1,046	$ 6,783	7.71%	5.56%

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	$ 27	$ 27	$ -	$ 6,597	0.41%
2018/19	$ 28	$ 28	$ -	$ 6,890	0.41%
2019/20	$ 29	$ 29	$ -	$ 7,011	0.41%

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YEARS ENDED JUNE 30, 2020 AND 2019
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System Plan OPEB Liability
Determined as of the June 30 Measurement Dates

	Fiscal Year June 30, 2020	Fiscal Year June 30, 2019	Fiscal Year June 30, 2018
Changes in the System Plan Total OPEB Liability			
Total OPEB Liability – Beginning Balance	$ 161,883,866	$ 183,519,604	$ 200,733,192
Service Cost	4,385,301	5,324,961	8,448,749
Interest	4,871,602	5,813,501	6,851,343
Changes of Benefit Terms	-	(128,007)	-
Difference Between Expected and Actual Experience	(8,456,952)	(22,099,508)	-
Changes of Assumptions	-	(1,450,784)	(24,875,917)
Benefit Payments	(9,267,248)	(9,095,901)	(7,637,763)
Net Changes	(8,467,297)	(21,635,738)	(17,213,588)
Total OPEB Liability—Ending Balance	$ 153,416,569	$ 161,883,866	$ 183,519,604
Covered Employee Payroll	$ 69,899,009	$ 71,772,516	$ 74,442,050
OPEB Liability as a Percent of Covered Payroll	219.48%	225.55%	246.53%

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