

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

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2019 AND 2018



CLAconnect.com

**WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING**

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
BALANCE SHEETS – PRIMARY INSTITUTION	12
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PRIMARY INSTITUTION	14
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION	15
STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS	17
STATEMENTS OF ACTIVITIES – COMPONENT UNITS	18
EXPENSES BY FUNCTION AND NATURE – COMPONENT UNITS	19
NOTES TO FINANCIAL STATEMENTS	20
REQUIRED SUPPLEMENTARY INFORMATION	82



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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of certain of the aggregate discretely presented component units, which represent 11.0%, 13.0%, and 40.3%, respectively, of the 2019 assets, net assets, and revenues and 11.9%, 14.8%, and 18.5%, respectively, of the 2018 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.

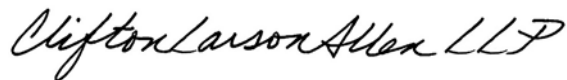
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2019 and 2018, 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.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the various schedules of proportionate share of net pension liability, OPEB liability, proportionate share of net OPEB liability, and contributions on pages 82-85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 31, 2019

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

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, 2019 and 2018. 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 11,325 students enrolled for Fall 2018, 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.

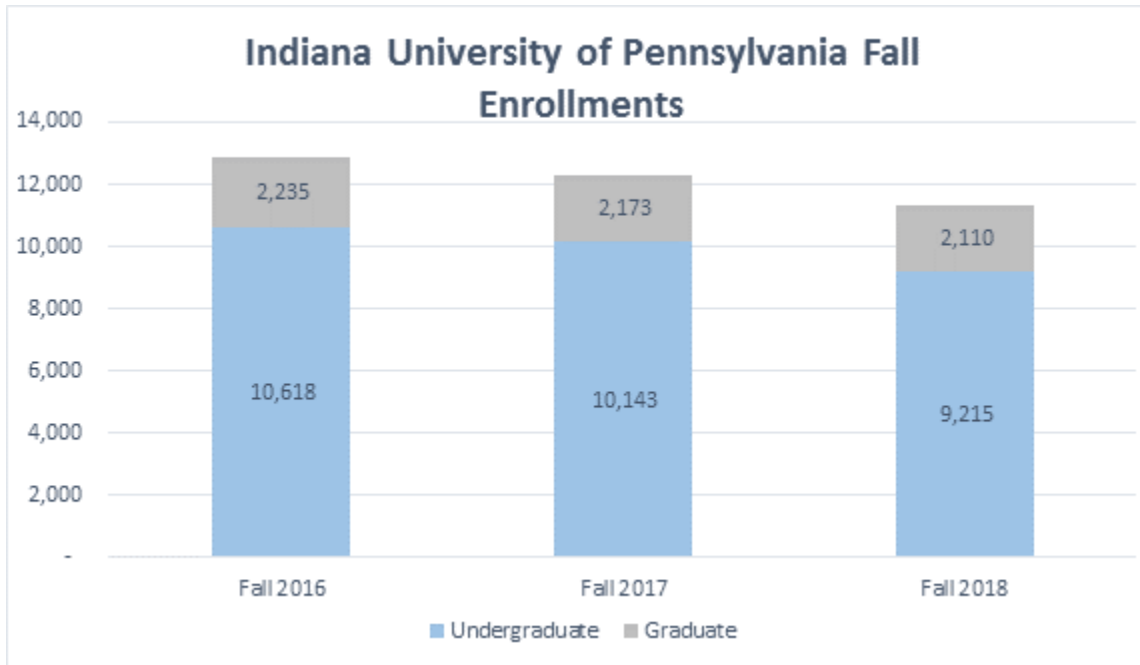
The following is an overview of the IUP's financial activities for the year ended June 30, 2019, as compared to the years ended June 30, 2018 and 2017. Note, due to rounding, certain increases or decreases may vary slightly from audited financial statements.

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 \$468.1 million statewide for the year ended June 30, 2019 and \$453.1 million and \$444.2 million for the years ended June 30, 2018 and 2017, respectively. IUP received a general state appropriation of \$54.8 million for the year ended June 30, 2019, which was a 1.75% increase over the \$53.9 million received for the year ended June 30, 2018. The appropriation for the year ended June 30, 2018 was a 1.11% increase over the \$53.3 million received for the year ended June 30, 2017.
- The State System Board annually approves tuition rate increases. The rate increase approved for academic years 2018-2019, 2017-2018, and 2016-2017 were 2.99%, 3.5%, and 2.5% respectively.
- Revenue recognized for tuition and fees net of discounts and allowances was \$106.0 million in fiscal year 2018-2019, \$111.6 million in fiscal year 2017-2018, and \$114.0 million in fiscal year 2016-2017.
- State appropriations for capital remained at steady or increasing funding levels over the three fiscal years. Capital appropriations for 2018-2019 increased 1.1% over 2017-2018 capital appropriations. 2017-2018 capital appropriations increased 10.0% over 2016-2017 levels.
- Enrollment for Fall 2018 included 9,215 undergraduate and 2,110 graduate students, for a total of 11,325 students. Fall 2017 and 2016 included 10,143 and 10,618 undergraduate and 2173 and 2235 graduate students respectively. The chart below summarizes a three-year trend of undergraduate and graduate enrollment.

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

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 from 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, 2019 increased by \$8.2 million to (\$194.3) million from fiscal year-end June 30, 2018 net position of (\$202.5) million. The net position at year-end June 30, 2018 increased \$17.5 million from the net position at the end of fiscal year-end June 30, 2017 which was (\$220.0) after being restated for GASB 75 requirements to include \$147.4 million for OPEB liability.

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

Financial Statements (Continued)

Balance Sheet (Continued)

The following is a summary of the balance sheet for fiscal years ended June 30, 2019, 2018, and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets			
Cash and Cash Equivalents	\$ 107,711,235	\$ 117,310,624	\$ 107,808,991
Other Current Assets	24,238,082	23,158,787	23,099,653
Total Current Assets	<u>131,949,317</u>	<u>140,469,411</u>	<u>130,908,644</u>
Noncurrent Assets			
Capital Assets, Net	179,973,562	172,466,852	168,952,066
Other Noncurrent Assets	10,964,580	11,459,758	10,906,136
Total Noncurrent Assets	<u>190,938,142</u>	<u>183,926,610</u>	<u>179,858,202</u>
Total Assets	322,887,459	324,396,021	310,766,846
Deferred Outflow of Resources	<u>41,229,800</u>	<u>26,693,909</u>	<u>31,831,496</u>
Total Assets and Deferred Outflow of Resources	<u><u>\$ 364,117,259</u></u>	<u><u>\$ 351,089,930</u></u>	<u><u>\$ 342,598,342</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current Liabilities			
Accounts Payable and Accrued Expenses	\$ 19,507,358	\$ 18,635,140	\$ 21,213,692
Unearned Revenue	3,632,453	3,229,179	3,265,823
Current Portion of Long Term Liabilities	14,711,633	13,865,886	6,220,899
Other Current Liabilities	3,898,521	3,981,540	3,633,983
Total Current Liabilities	<u>41,749,965</u>	<u>39,711,745</u>	<u>34,334,397</u>
Noncurrent Liabilities			
Long Term Liabilities, Net of Current Portion	64,795,146	69,540,148	67,161,021
Postretirement Benefits Obligation	230,857,962	278,067,382	157,469,944
Net Pension Liability	145,892,177	124,537,462	140,398,093
Other Noncurrent Liabilities	7,139,411	8,023,968	9,358,410
Total Noncurrent Liabilities	<u>448,684,696</u>	<u>480,168,960</u>	<u>374,387,468</u>
Total Liabilities	490,434,661	519,880,705	408,721,865
Deferred Inflow of Resources	67,942,941	33,691,410	6,424,834
Net Position			
Net Investment in Capital Assets	125,996,712	114,054,891	112,110,733
Total Restricted	18,772,333	19,144,550	8,007,923
Total Unrestricted	(339,029,388)	(335,681,626)	(192,667,013)
Total Net Position	<u>(194,260,343)</u>	<u>(202,482,185)</u>	<u>(72,548,357)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 364,117,259</u></u>	<u><u>\$ 351,089,930</u></u>	<u><u>\$ 342,598,342</u></u>

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

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

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 decreased during fiscal year 2018-2019 by \$63,054 to \$17.5 million at June 30, 2019. 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 2018-2019 by \$21.6 million to \$161.9 million at June 30, 2019. Additionally, the liability for other postemployment benefit obligations of the Retired Employee Healthcare Plan (REHP) decreased \$25.2 million to \$75.9 million and the Public School Employee's Retirement System (PSERS) plan increased \$25,565 to \$0.5 million. The total liability at June 30, 2019 for OPEB was \$238.3 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 increased during fiscal year 2018-2019 by \$21.4 million to \$145.9 million as of June 30, 2019. The combined pension liability for fiscal year 2019 is comprised of \$134.5 million for the State Employee Retirement System (SERS) and \$11.4 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.

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

Financial Statements (Continued)

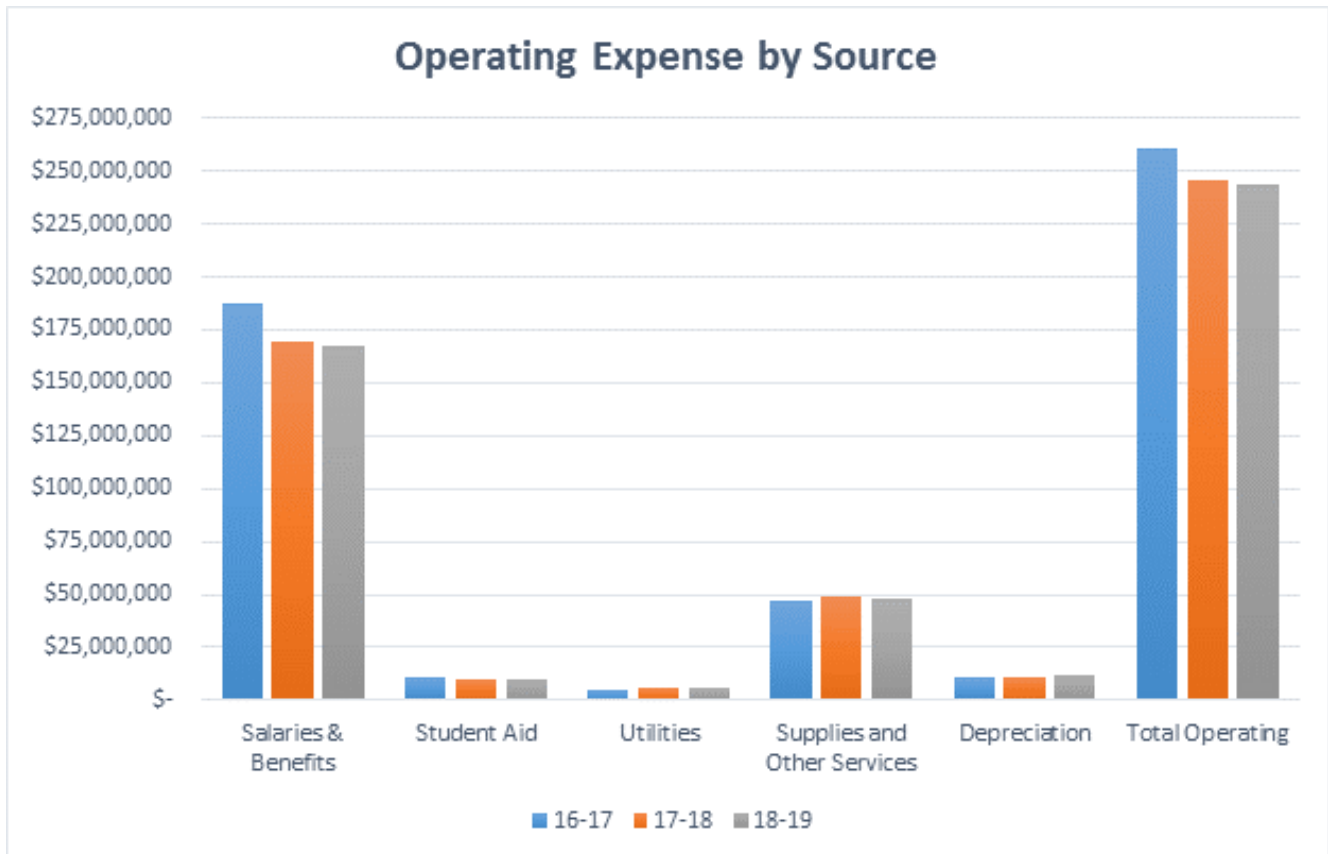
Statement of Revenues, Expenses, and Changes in Net Position (Continued)

Utilizing these definitions, operating expenses exceeded operating revenues by \$77.2 million in fiscal year 2018-2019, by \$72.7 million in 2017-2018, and by \$83.3 million in 2016-2017 when including unfunded expenses for compensated absences, other postemployment benefits, and pension costs in excess of current funding requirements.

Including net nonoperating revenues (expenses) in and excluding unfunded expenses from the net operating revenues (expenses) results in an adjusted net operating loss of \$6.0 million in fiscal year 2018-2019, an adjusted net operating gain of \$0.3 million in fiscal year 2017-2018, and an adjusted net operating gain of \$3.5 million in fiscal year 2016-2017.

Operating revenues in 2018-2019 decreased 3.99% compared to 2017-2018 while operating revenues decreased 2.58% in 2017-2018 compared to 2016-2017. Operating expenses in 2018-2019 decreased 1.00% compared to 2017-2018 while operating expenses in 2017-2018 decreased 5.82% compared to 2016-2017. The decrease in both operating revenues and expenses can be attributed to reduced enrollment.

The following graph reflects operating expenditures categorized as to the nature of the expense for the years ended June 30, 2019, 2018, and 2017, as opposed to the functional classification presentation on the statement of revenues, expenses, and change in net position.



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

Financial Statements (Continued)

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

Nonoperating revenues were \$79.0 million in 2018-2019, \$77.2 million in 2017-2018, and \$76.4 million in 2016-2017. The increase of \$1.8 million in 2018-2019 and \$0.8 million in 2017-2018 were primarily the result of increased state appropriations and net investment income.

Under "Other Revenue," capital gifts and grants were \$5.9 million in 2018-2019, \$12.6 in 2017-2018, and \$0.5 million in 2016-2017.

In 2018-2019, IUP spent \$115.3 million, or 47.4%, of operating expenses on salaries as compared to \$114.5 million, or 46.6%, and \$115.6 million, or 44.3%, of operating expenses on salaries in 2017-2018 and 2016-2017 respectively. Benefit costs in 2018-2019 were \$52.2 million, or 21.4%, of operating expenses, while benefit costs were \$55.2 million, or 22.5%, and \$71.9 million, or 27.6%, of operating expenses in 2017-2018 and 2016-2017 respectively.

The following graph summarizes salaries and benefits for the years ended June 30, 2019, 2018, and 2017.



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

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, 2019, 2018, 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
OPERATING REVENUES			
Tuition and Fees, Net	\$ 106,023,686	\$ 111,612,935	\$ 113,971,752
Governmental Grants and Contracts	22,100,878	22,409,549	22,731,551
Nongovernmental Grants and Contracts	4,447,983	4,222,402	5,293,833
Sales and Services	7,974,092	9,242,847	8,506,893
Auxiliary Enterprises, Net	24,545,364	24,072,599	25,427,420
Other Revenue	876,107	1,297,148	1,496,921
Total Operating Revenue	<u>165,968,110</u>	<u>172,857,480</u>	<u>177,428,370</u>
NONOPERATING REVENUES			
State Appropriations, General and Restricted	54,846,695	53,901,743	53,308,167
Pell Grants	17,047,154	17,308,214	17,530,498
Investment Income, Net (Includes Unrealized Gains and Losses)	3,689,777	2,794,121	2,431,206
Other Nonoperating Revenues	3,456,308	3,220,802	3,155,711
Total Nonoperating Revenues	<u>79,039,934</u>	<u>77,224,880</u>	<u>76,425,582</u>
OTHER REVENUES			
State Appropriations, Capital	2,378,988	2,352,428	2,139,061
Capital Gifts and Grants	5,940,176	12,632,699	532,879
Total Other Revenues	<u>8,319,164</u>	<u>14,985,127</u>	<u>2,671,940</u>
Total Revenues	253,327,208	265,067,487	256,525,892
OPERATING EXPENSES			
Instruction	99,196,247	100,213,898	111,088,766
Research	1,334,665	1,188,173	1,237,009
Public Service	8,039,743	7,963,316	7,395,409
Academic Support	21,875,065	21,966,740	24,946,409
Student Services	19,527,047	19,558,035	21,036,164
Institutional Support	31,622,202	29,248,210	29,727,496
Operations of Maintenance and Plant	16,798,126	18,868,856	19,086,564
Depreciation	11,873,986	10,923,011	10,709,024
Student Aid	10,185,623	10,263,293	10,823,990
Auxiliary Enterprises	22,695,996	25,408,214	24,723,135
Total Operating Expenses	<u>243,148,700</u>	<u>245,601,746</u>	<u>260,773,966</u>
NONOPERATING EXPENSES			
Interest Expense on Capital Asset-Related Debt	1,956,354	1,906,236	1,626,074
Loss on Disposal of Assets	312	45,713	458,539
Total Nonoperating Expenses	<u>1,956,666</u>	<u>1,951,949</u>	<u>2,084,613</u>
Total Expenses	<u>245,105,366</u>	<u>247,553,695</u>	<u>262,858,579</u>
CHANGE IN NET POSITION	8,221,842	17,513,792	(6,332,687)
Net Position - Beginning of the Year	(202,482,185)	(72,548,357)	(66,215,670)
Restatement for July 1, 2017 GASB 75 OPEB	-	(147,447,620)	-
Net Position - Beginning of the Year, Restated	<u>(202,482,185)</u>	<u>(219,995,977)</u>	<u>(66,215,670)</u>
NET POSITION - END OF YEAR	<u>\$ (194,260,343)</u>	<u>\$ (202,482,185)</u>	<u>\$ (72,548,357)</u>

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

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 2018-2019 as \$107.7 million, an 8.2% decrease of \$9.6 million compared to cash at the end of 2017-2018. The cash balance of \$117.3 million at the end of 2017-2018 is an 8.8% increase of \$9.5 million over the 2016-2017 ending cash balance of \$107.8 million.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash Flows from Operating	\$ (69,275,675)	\$ (66,950,195)	\$ (64,710,462)
Cash Flows from Noncapital Financing Activities	74,153,292	73,184,077	72,462,478
Cash Flows from Capital Financing Activities	(17,598,631)	1,024,674	(10,897,354)
Cash Flows from Investing Activities	<u>3,121,625</u>	<u>2,243,077</u>	<u>1,770,617</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(9,599,389)	9,501,633	(1,374,721)
Cash and Cash Equivalents - Beginning of Year	<u>117,310,624</u>	<u>107,808,991</u>	<u>109,183,712</u>
Cash and Cash Equivalents - End of Year	<u>\$ 107,711,235</u>	<u>\$ 117,310,624</u>	<u>\$ 107,808,991</u>

IUP Highlights and Future Considerations

Several considerations should be noted in respect to IUP's financial outlook in upcoming fiscal years as several conditions could limit IUP's financial flexibility in fiscal year 2019-2020 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.

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

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 will receive a pay increase for fiscal year 19/20 of 1.25% via an extension of the expired contract. In September 2019, negotiators reached an agreement in principle for the APSCUF faculty contract.

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.

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, 2019 AND 2018**

	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 107,711,235	\$ 117,310,624
Accounts Receivable:		
Governmental Grants and Contracts	3,030,241	1,641,998
Students, Net of Allowance for Doubtful Accounts of \$10,156,528 in 2019 and \$7,740,763 in 2018	11,683,952	10,992,360
Sales and Service	510,800	862,020
Other	173,484	594,486
Inventories	811,839	790,198
Prepaid Expenses, Suppliers	2,660,758	2,292,274
Loans Receivable	2,957,229	3,318,059
Investment Income Receivable	201,347	200,219
Due from Component Units	1,639,549	1,918,445
Other Current Assets	568,883	548,728
Total Current Assets	131,949,317	140,469,411
NONCURRENT ASSETS		
Restricted Cash and Cash Equivalents	25,000	25,000
Endowment Investments	7,635,685	7,068,661
Loans Receivable, Net	3,303,895	4,366,097
Capital Assets, Net	179,973,562	172,466,852
Total Noncurrent Assets	190,938,142	183,926,610
 Total Assets	 322,887,459	 324,396,021
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	127,239	156,537
Defined Benefit Retirement Plans Deferred Outflows	29,538,067	19,399,536
Other Post Employment Benefit Plans Deferred Outflows	11,564,494	7,137,836
Total Deferred Outflows of Resources	41,229,800	26,693,909
 Total Assets and Deferred Outflows of Resources	 \$ 364,117,259	 \$ 351,089,930

See accompanying Notes to Financial Statements.

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

	2019	2018
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses:		
Supplies and Services	\$ 3,770,946	\$ 3,054,230
Employees	15,736,412	15,580,910
Unearned Revenue:		
Students	3,291,716	3,167,813
Grants	325,512	46,478
Sales and Service	337	-
Other	14,888	14,888
Accrued Interest Payable	84,497	90,426
Students' Deposits	347,345	354,600
Other Deposit Liabilities	257,339	173,384
Current Portion of Workers' Compensation Obligation	429,787	427,397
Current Portion of Compensated Absences Obligation	1,709,368	1,301,322
Current Portion of Capitalized Lease Obligations	54,178	51,229
Current Portion of Other Post Employment Benefits Obligation	7,460,975	7,110,688
Current Portion of Bonds Payable, Net	4,475,780	4,331,954
Current Portion Due to System, Academic Facilities Renovation Bond Program (AFRP)	581,545	643,296
Due to Component Units	2,062,019	1,945,951
Other Current Liabilities	1,147,321	1,417,179
Total Current Liabilities	41,749,965	39,711,745
NONCURRENT LIABILITIES		
Workers' Compensation Obligation, Net of Current Portion	667,231	554,040
Compensated Absences Obligation, Net of Current Portion	15,757,439	16,228,539
Other Postretirement Benefits Obligation	230,857,962	278,067,382
Net Pension Liability	145,892,177	124,537,462
Capitalized Lease Obligations, Net of Current Portion	83,820	132,030
Bonds Payable, Net of Current Portion	48,202,448	52,625,539
Due to System, AFRP	876,851	1,458,396
Other Noncurrent Liabilities	6,346,768	6,565,572
Total Noncurrent Liabilities	448,684,696	480,168,960
Total Liabilities	490,434,661	519,880,705
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	44,748	58,131
Defined Benefit Retirement Plans Deferred Inflows	3,536,381	9,302,499
Other Post Employment Benefit Plans Deferred Inflows	64,361,812	24,330,780
Total Deferred Inflows of Resources	67,942,941	33,691,410
NET POSITION (DEFICIT)		
Net Invested in Capital Assets	125,996,712	114,054,891
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	3,020,948	2,992,067
Student Loans	1,242,224	1,288,258
Other	798,784	798,731
Expendable:		
Scholarships and Fellowships	906,024	841,728
Research	996	997
Capital Projects	12,803,357	13,222,769
Unrestricted	(339,029,388)	(335,681,626)
Total Net Position	(194,260,343)	(202,482,185)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 364,117,259	\$ 351,089,930

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, 2019 AND 2018**

	2019	2018
OPERATING REVENUES		
Tuition and Fees	\$ 138,154,557	\$ 143,672,842
Less: Scholarship Discounts and Allowances	32,130,871	32,059,907
Net Tuition and Fees	106,023,686	111,612,935
Governmental Grants and Contracts:		
Federal	7,963,033	7,286,332
State	14,036,971	15,031,712
Local	100,874	91,505
Nongovernmental Grants and Contracts	4,447,983	4,222,402
Sales and Services of Educational Departments	7,974,092	9,242,847
Auxiliary Enterprises	24,545,364	24,072,599
Other Revenues	876,107	1,297,148
Total Operating Revenues	165,968,110	172,857,480
OPERATING EXPENSES		
Instruction	99,196,247	100,213,898
Research	1,334,665	1,188,173
Public Service	8,039,743	7,963,316
Academic Support	21,875,065	21,966,740
Student Services	19,527,047	19,558,035
Institutional Support	31,622,202	29,248,210
Operations and Maintenance of Plant	16,798,126	18,868,856
Depreciation	11,873,986	10,923,011
Student Aid	10,185,623	10,263,293
Auxiliary Enterprises	22,695,996	25,408,214
Total Operating Expenses	243,148,700	245,601,746
OPERATING LOSS	(77,180,590)	(72,744,266)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	54,846,695	53,901,743
Commonwealth on behalf Contributions to PSERS	1,280,820	1,284,091
Pell Grants	17,047,154	17,308,214
Investment Income, Net	3,248,617	2,649,771
Unrealized Gain on Investments	441,160	144,350
Gifts for Other than Capital Purposes	1,966,077	1,659,838
Interest Expense on Capital Asset-Related Debt	(1,956,354)	(1,906,236)
Loss on Disposal of Assets	(312)	(45,713)
Other Nonoperating Revenue	209,411	276,873
Nonoperating Revenues, Net	77,083,268	75,272,931
INCOME (LOSS) BEFORE OTHER REVENUES	(97,322)	2,528,665
OTHER REVENUES		
State Appropriations, Capital	2,378,988	2,352,428
Capital Gifts and Grants	5,940,176	12,632,699
Total Other Revenues	8,319,164	14,985,127
INCREASE IN NET POSITION	8,221,842	17,513,792
Net Position - Beginning of Year, as Restated	(202,482,185)	(219,995,977)
NET POSITION - END OF YEAR	\$ (194,260,343)	\$ (202,482,185)

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, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 105,818,711	\$ 111,410,074
Grants and Contracts	25,439,652	26,464,238
Payments to Suppliers for Goods and Services	(53,902,254)	(59,389,303)
Payments to Employees	(171,644,906)	(169,759,435)
Loans Issued to Students	(58,765)	(1,115,863)
Loans Collected from Students	1,481,797	1,300,465
Student Aid	(10,185,623)	(10,263,293)
Auxiliary Enterprise Charges	24,575,395	23,838,022
Sales and Services of Educational Departments	8,325,649	8,677,249
Other Receipts	874,669	1,887,651
Net Cash Used by Operating Activities	(69,275,675)	(66,950,195)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	54,846,695	53,901,743
Gifts for Other Than Capital Purposes	1,966,077	1,659,838
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	113,777,918	118,791,277
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(113,777,988)	(119,025,916)
PELL Grant	17,047,154	17,308,214
Agency Transactions, Net	84,025	272,048
Other	209,411	276,873
Net Cash Provided by Noncapital Financing Activities	74,153,292	73,184,077
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt	1,921,392	13,098,972
Capital Appropriations	2,378,988	2,352,428
Capital Grants and Gifts Received	963,991	9,759,173
Purchases of Capital Assets	(14,020,600)	(10,149,877)
Principal Paid on Capital Debt and Leases	(6,476,859)	(11,509,181)
Interest Paid on Capital Debt and Leases	(2,365,543)	(2,526,841)
Net Cash Provided (Used) by Capital Financing Activities	(17,598,631)	1,024,674
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	55,761	555,850
Interest on Investments	3,247,489	2,584,809
Purchase of Investments	(181,625)	(897,582)
Net Cash Provided by Investing Activities	3,121,625	2,243,077
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,599,389)	9,501,633
Cash and Cash Equivalents - Beginning of Year	117,310,624	107,808,991
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 107,711,235	\$ 117,310,624

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, 2019 AND 2018**

	2019	2018
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (77,180,590)	\$ (72,744,266)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	11,873,986	10,923,011
Expenses Paid by Commonwealth or Donor	1,280,820	1,284,091
Effect of Changes in Operating Assets, Liabilities, and Deferred Inflows and Outflows:		
Receivables, Net	(1,328,615)	(972,938)
Inventories	(21,641)	(8,412)
Other Assets	(88,741)	735,036
Accounts Payable	494,815	(3,965,700)
Deferred Revenue	388,385	(51,531)
Students' Deposits	(7,255)	(161,167)
Compensated Absences	(63,054)	876,940
Loans to Students and Employees	1,423,032	184,602
Post Employment Benefits Liability (OPEB)	(46,859,133)	(19,739,494)
Defined Benefit Pensions	21,354,715	(15,860,631)
Other Liabilities	(242,124)	32,179
Deferred Outflows of Resources Related to Pensions	(10,138,531)	12,375,963
Deferred Outflows of Resources Related to Other Post Employment Benefits Liability	(4,426,658)	(7,137,836)
Deferred Inflows of Resources Related to Pensions	(5,766,118)	2,949,178
Deferred Inflows of Resources Related to Other Post Employment Benefits Liability	40,031,032	24,330,780
	<u>\$ (69,275,675)</u>	<u>\$ (66,950,195)</u>
NONCASH TRANSACTIONS		
Capital Assets Included in Payables	<u>\$ 377,403</u>	<u>\$ 1,387,148</u>
Capital Assets Acquired by New Capital Leases	<u>\$ 6,820</u>	<u>\$ 72,960</u>
Capital Assets Acquired by Gift	<u>\$ 4,976,185</u>	<u>\$ 2,873,526</u>
Commonwealth on behalf contributions to PSERS	<u>\$ 1,280,820</u>	<u>\$ 1,284,091</u>

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, 2019 AND 2018**

ASSETS	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 9,734,468	\$ 13,572,607
Accounts Receivable	1,680,462	1,766,169
Contributions/Pledges Receivable	2,559,206	4,529,159
Due from University	2,062,019	1,949,151
Inventories	975,254	1,067,928
Investments	94,505,937	85,845,682
Capital Assets, Net	219,802,902	230,687,368
Funds Held by Component Unit	5,336,836	5,235,370
Note Receivable from Component Unit	18,309,898	19,704,247
Restricted Cash and Investments	34,124,578	30,707,339
Other Assets	6,713,170	6,162,993
Total Assets	\$ 395,804,730	\$ 401,228,013
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 4,789,642	\$ 5,085,371
Deferred Revenues	1,351,846	1,171,572
Annuity Liabilities	95,271	91,022
Due to University	1,639,392	1,918,445
Deposits Payable	288,039	293,550
Funds Held for Component Unit	5,494,321	5,235,370
Capital Leases	26,847,889	27,278,919
Note Payable to Component Unit	18,309,898	19,704,247
Long-Term Debt, Net	210,782,065	213,882,073
Interest Rate Swap Agreements	30,551,521	23,427,898
Other Liabilities	1,460,667	1,498,055
Total Liabilities	301,610,551	299,586,522
NET ASSETS		
Without Donor Restriction	31,471,053	40,183,934
With Donor Restriction	62,723,126	61,457,557
Total Net Assets	94,194,179	101,641,491
Total Liabilities and Net Assets	\$ 395,804,730	\$ 401,228,013

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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION		
Revenues and Other Additions:		
Sales and Service	\$ 4,766,407	\$ 5,439,331
Student Fees	7,298,034	8,452,689
Grants and Contracts	3,936,129	3,497,026
Rental Income	26,545,626	31,210,722
Investment Income, Net	2,727,642	2,404,462
Unrealized Gain on Investments	636,003	1,550,754
Unrealized Gain on Interest Rate Swap Agreements	-	8,197,454
Other Revenues and Gains	4,379,336	11,464,561
Contributions	2,698,002	2,959,900
Net Assets Released Based on Satisfaction of Program Restrictions	<u>4,119,270</u>	<u>12,845,924</u>
Total Revenues and Other Additions	57,106,449	88,022,823
Expenses and Losses:		
Program Services:		
Scholarships and Grants	4,663,959	4,382,016
Student Activities and Programs	4,897,657	4,696,571
University Stores	3,602,773	3,723,605
Housing	25,884,232	26,763,660
Other Programs	14,512,611	19,275,142
Management and General	1,734,781	1,949,017
Fundraising	<u>2,834,242</u>	<u>2,632,403</u>
Total Expenses	58,130,255	63,422,414
Unrealized Loss on Interest Rate Swap Agreements	7,123,623	-
Other Expenses and Losses	<u>565,452</u>	<u>566,491</u>
Total Expenses and Losses	<u>65,819,330</u>	<u>63,988,905</u>
Change in Net Assets Without Donor Restriction	(8,712,881)	24,033,918
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	3,060,368	10,813,213
Investment Income, Net	1,918,897	4,842,396
Other Revenues and Gains	405,574	642,104
Net Assets Released Based on Satisfaction of Program Restrictions	<u>(4,119,270)</u>	<u>(12,845,924)</u>
Change in Net Assets with Donor Restrictions	<u>1,265,569</u>	<u>3,451,789</u>
CHANGE IN NET ASSETS	(7,447,312)	27,485,707
Net Assets - Beginning of Year	<u>101,641,491</u>	<u>74,155,784</u>
NET ASSETS - END OF YEAR	<u>\$ 94,194,179</u>	<u>\$ 101,641,491</u>

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, 2019 AND 2018**

2019	Program Activities						Supporting Activities			Total Expenses
	Natural Expense	Scholarships and Grants	Student Activities and Programs	University Stores	Housing	Other Programs	Total Programs	Management and General	Fundraising	
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

2018	Program Activities						Supporting Activities			Total Expenses
	Natural Expense	Scholarships and Grants	Student Activities and Programs	University Stores	Housing	Other Programs	Total Programs	Management and General	Fundraising	
Salaries and Benefits	\$ -	\$ 638,478	\$ 882,955	\$ 3,550,575	\$ 2,258,247	\$ 7,330,255	\$ 1,120,423	\$ -	\$ 1,120,423	\$ 8,450,678
Gifts and Grants	250,000	2,987,093	-	266,039	9,878,637	13,381,769	9,400	126,861	136,261	13,518,030
Supplies and Travel	-	-	2,627,510	265,620	1,126,457	4,019,587	55,915	150,574	206,489	4,226,076
Services and Professional Fees	-	105,918	120,624	597,214	1,121,922	1,945,678	144,088	2,239,892	2,383,980	4,329,658
Office and Occupancy	-	576,146	9,601	-	115,761	701,508	125,250	-	125,250	826,758
Depreciation	-	-	-	6,507,341	1,590,269	8,097,610	1,207	-	1,207	8,098,817
Interest	-	-	-	7,911,859	1,151,398	9,063,257	-	-	-	9,063,257
Other	4,132,016	388,936	82,915	7,665,012	2,032,451	14,301,330	492,734	115,076	607,810	14,909,140
Total Expenses	\$ 4,382,016	\$ 4,696,571	\$ 3,723,605	\$ 26,763,660	\$ 19,275,142	\$ 58,840,994	\$ 1,949,017	\$ 2,632,403	\$ 4,581,420	\$ 63,422,414

See accompanying Notes to Financial Statements.

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

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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 entity's net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including 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.

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

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(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, 2019 and 2018.

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, 2019 and 2018.

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, 2019 and 2018.

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. During the year ended June 30, 2018, RR Indiana purchased a segment of student housing from the Foundation. 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, 2019 and 2018.

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.

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

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(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, 2019 and 2018.

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, 2019 and 2018.

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.

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

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

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

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(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 assets with a purchase cost, or acquisition fair 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, 2019 and 2018.

Unearned Revenue

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

Compensated Absences

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

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

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

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.

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.

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

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

Use of Estimates

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

Reclassifications

Certain items in the 2018 financial statements have been reclassified to conform to the 2019 financial statement presentation. These reclassifications have no effect on previously reported net position or changes therein.

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.

New Accounting Standards

During the year ended June 30, 2018, the University implemented GASB Statement No. 75, *Accounting, and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 required the University to report its share of the liabilities, expense, deferred outflows of resources, and deferred inflows of resources allocated to it by the Retired Employees Health Program and the Public School Employees' Retirement System Health Insurance Premium Assistance Program, both of which are defined benefit retiree healthcare plans administered by the Commonwealth of Pennsylvania. Statement No. 75 also has significantly increased the liability that the University records for the defined benefit retiree healthcare and tuition benefits plan that the University administers, and requires the recording of deferred outflows of resources and deferred inflows of resources associated with the plan. The July 1, 2017, balances of these other postemployment benefit liabilities (with "other" meaning "other than pensions"), known as OPEB liabilities, and related deferred outflows of resources and deferred inflows of resources, are reported in the statement of revenues, expenses, and changes in net position as a restatement to the 2017 net position – beginning of year.

	2017
Net Position - Beginning of Year, as Previously Stated	\$ (72,548,357)
Restatement of July 1, 2017, GASB 75 OPEB Liability	(147,447,620)
Net Position - Beginning of Year, Restated	\$(219,995,977)

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

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

New Accounting Standards (Continued)

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

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

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

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. Statement No. 91 is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The provisions of Statement 91 are effective for reporting periods beginning after December 15, 2020.

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

NOTE 2 COMPONENT UNIT INFORMATION

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

	Cooperative	Student	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	<u>\$ 35,006,248</u>	<u>\$ 401,320</u>	<u>\$ 247,193,546</u>	<u>\$ 104,908,038</u>	<u>\$ 2,958,742</u>	<u>\$ 5,336,836</u>	<u>\$ 395,804,730</u>
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	<u>29,380,089</u>	<u>-</u>	<u>167,851,045</u>	<u>102,273,964</u>	<u>1,755,453</u>	<u>350,000</u>	<u>301,610,551</u>
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	<u>5,626,159</u>	<u>401,320</u>	<u>79,342,501</u>	<u>2,634,074</u>	<u>1,203,289</u>	<u>4,986,836</u>	<u>94,194,179</u>
Total Liabilities and Net Assets	<u>\$ 35,006,248</u>	<u>\$ 401,320</u>	<u>\$ 247,193,546</u>	<u>\$ 104,908,038</u>	<u>\$ 2,958,742</u>	<u>\$ 5,336,836</u>	<u>\$ 395,804,730</u>

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

NOTE 2 COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining condensed balance sheet information for the component units as of June 30, 2018:

	Cooperative	Student	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
ASSETS							
Due from University	\$ 113,346	\$ -	\$ 1,163,124	\$ 561,517	\$ 111,164	\$ -	\$ 1,949,151
Funds Held by Component Unit	-	-	-	-	-	5,235,370	5,235,370
Note Receivable From Component Unit	-	-	19,704,247	-	-	-	19,704,247
Investments	18,969	-	85,826,713	-	-	-	85,845,682
Capital Assets, Net	29,056,223	414,622	104,617,586	96,572,588	26,349	-	230,687,368
Other Assets	7,030,030	3,206	37,795,046	10,328,266	2,649,647	-	57,806,195
Total Assets	<u>\$36,218,568</u>	<u>\$417,828</u>	<u>\$249,106,716</u>	<u>\$107,462,371</u>	<u>\$2,787,160</u>	<u>\$5,235,370</u>	<u>\$401,228,013</u>
LIABILITIES AND NET ASSETS							
Liabilities:							
Due to University	\$ 144,478	\$ -	\$ 887,314	\$ 449,496	\$ 437,157	\$ -	\$ 1,918,445
Funds Held for Component Unit	-	-	5,235,370	-	-	-	5,235,370
Note Payable to Component Unit	-	-	-	19,704,247	-	-	19,704,247
Capital Leases	27,278,919	-	-	-	-	-	27,278,919
Long-Term Debt, Net	-	-	131,558,076	82,323,997	-	-	213,882,073
Other Liabilities	2,732,092	-	26,189,856	1,120,941	1,124,579	400,000	31,567,468
Total Liabilities	<u>30,155,489</u>	<u>-</u>	<u>163,870,616</u>	<u>103,598,681</u>	<u>1,561,736</u>	<u>400,000</u>	<u>299,586,522</u>
Net Assets:							
Without Donor Restrictions	6,063,079	417,828	23,778,543	3,863,690	1,225,424	4,835,370	40,183,934
With Donor Restrictions	-	-	61,457,557	-	-	-	61,457,557
Total Net Assets	<u>6,063,079</u>	<u>417,828</u>	<u>85,236,100</u>	<u>3,863,690</u>	<u>1,225,424</u>	<u>4,835,370</u>	<u>101,641,491</u>
Total Liabilities and Net Assets	<u>\$36,218,568</u>	<u>\$417,828</u>	<u>\$249,106,716</u>	<u>\$107,462,371</u>	<u>\$2,787,160</u>	<u>\$5,235,370</u>	<u>\$401,228,013</u>

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

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	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	-	-	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 Gain	-	-	1,918,897	-	-	-	1,918,897
Other Revenues and Gains	-	-	405,574	-	-	-	405,574
Net Assets Released Based on Satisfaction of Program Restrictions	-	-	(4,119,270)	-	-	-	(4,119,270)
Change 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	<u>\$5,626,159</u>	<u>\$401,320</u>	<u>\$ 79,342,504</u>	<u>\$2,634,071</u>	<u>\$1,203,289</u>	<u>\$ 4,986,836</u>	<u>\$ 94,194,179</u>

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

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, 2018:

	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	\$ 4,026,330	\$ -	\$ -	\$ -	\$ 1,413,001	\$ -	\$ 5,439,331
Student Fees	8,452,689	-	-	-	-	-	8,452,689
Grants and Contracts	-	-	-	-	3,497,026	-	3,497,026
Rental Income	-	-	20,737,646	10,473,076	-	-	31,210,722
Investment Income, Net	146,738	-	2,030,640	29,216	6,569	191,299	2,404,462
Unrealized Gain (Loss) on Investments	(3,244)	-	1,297,415	-	-	256,583	1,550,754
Unrealized Gain on Interest							
Rate Swap Agreements	-	-	8,197,454	-	-	-	8,197,454
Other Revenues and Gains	130,986	22,500	11,120,889	140,983	8,225	40,978	11,464,561
Contributions	-	-	2,957,700	-	-	2,200	2,959,900
Net Assets Released	-	-	12,845,924	-	-	-	12,845,924
Total Revenues and Other Additions	12,753,499	22,500	59,187,668	10,643,275	4,924,821	491,060	88,022,823
Expenses and Losses:							
Program Services:							
Scholarships and Grants	250,000	-	4,132,016	-	-	-	4,382,016
Student Activities and Programs	4,696,571	-	-	-	-	-	4,696,571
University Stores	3,723,605	-	-	-	-	-	3,723,605
Housing	-	-	18,907,463	7,856,197	-	-	26,763,660
Other Programs	2,578,670	38,994	12,216,325	-	4,408,757	32,396	19,275,142
Management and General	344,858	-	867,162	217,480	464,454	55,063	1,949,017
Fundraising	-	-	2,632,403	-	-	-	2,632,403
Total Expenses	11,593,704	38,994	38,755,369	8,073,677	4,873,211	87,459	63,422,414
Other Expenses and Losses	-	-	566,491	-	-	-	566,491
Total Expenses and Losses	11,593,704	38,994	39,321,860	8,073,677	4,873,211	87,459	63,988,905
Change in Net Assets Without Donor Restriction	1,159,795	(16,494)	19,865,808	2,569,598	51,610	403,601	24,033,918
Changes in Net Assets With Donor Restrictions							
Contributions	-	-	10,813,213	-	-	-	10,813,213
Investment Income, Net	-	-	4,842,396	-	-	-	4,842,396
Other Revenues and Gains	-	-	642,104	-	-	-	642,104
Net Assets Released Based on Satisfaction of Program Restrictions	-	-	(12,845,924)	-	-	-	(12,845,924)
Changes in Net Assets With Donor Restrictions	-	-	3,451,789	-	-	-	3,451,789
Increase (Decrease) in Net Assets	1,159,795	(16,494)	23,317,597	2,569,598	51,610	403,601	27,485,707
Net Assets - Beginning of Year	4,903,284	434,322	61,918,506	1,294,089	1,173,814	4,431,769	74,155,784
Net Assets - End of Year	\$ 6,063,079	\$ 417,828	\$ 85,236,103	\$ 3,863,687	\$ 1,225,424	\$ 4,835,370	\$ 101,641,491

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

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 \$104,879,925 and \$115,885,272 at June 30, 2019 and 2018, respectively.

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

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

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.

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

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.

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

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 universities have invested, and are restricted to withdrawals only on a weekly basis or the last business day of the month. All withdrawals require five days' notice. Both the Multi-Strategy Equity Fund and the 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.

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2019 and 2018, the University had the following investments which exceeded 5% of the Universities total investments:

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	

June 30, 2018			
Issuer	Type of Investment	Amount	Percentage of Total Long-Term Investments
Common Fund	Multi-Strategy Equity Fund	\$ 4,269,417	60.40%
Common Fund	High Quality Bond Fund	2,799,244	39.60%
		\$ 7,068,661	

At June 30, 2019 and 2018, the carrying amount of the University's demand and time deposits were \$2,856,310 and \$1,450,352, respectively, as compared to bank balances of \$2,600,850 and \$981,491, 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, 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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying value (fair value) of the University's local deposits and investments on June 30, 2018 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			\$ 1,450,352
Investments:				
Fixed Income Mutual Funds	NAV			2,799,244
Equity/Balanced Mutual Funds	NAV			4,269,417
Total				<u>\$ 8,519,013</u>

Of all local investments noted above, the University has no exposure to foreign currency risk for either of the years ended June 30, 2019 or 2018, respectively.

NOTE 4 CAPITAL ASSETS

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		<u>(209,416,292)</u>	<u>(11,873,986)</u>	<u>1,277,658</u>	<u>-</u>	<u>(220,012,620)</u>
Total Capital Assets being Depreciated, Net		<u>162,510,920</u>	<u>2,488,118</u>	<u>(312)</u>	<u>3,229,597</u>	<u>168,228,323</u>
Capital Assets, Net		<u>\$ 172,466,852</u>	<u>\$ 7,507,022</u>	<u>\$ (312)</u>	<u>\$ -</u>	<u>\$ 179,973,562</u>

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

NOTE 4 CAPITAL ASSETS (CONTINUED)

The classification of capital assets and related depreciation at June 30, 2018 is as follows:

	Estimated Lives (in Years)	Beginning Balance July 1, 2017	Additions	Retirements	Transfers	Ending Balance June 30, 2018
Capital Assets Not Being Depreciated						
Land		\$ 5,627,271	\$ -	\$ -	\$ -	\$ 5,627,271
Construction in Progress		<u>24,520,692</u>	<u>1,590,885</u>	<u>-</u>	<u>(21,782,916)</u>	<u>4,328,661</u>
Total Capital Assets Not Being Depreciated		30,147,963	1,590,885	-	(21,782,916)	9,955,932
Capital Assets Being Depreciated						
Buildings, including Improvements	40/20	240,440,746	6,592,967	(609,147)	20,172,233	266,596,799
Land Improvements	20	47,863,953	1,754,140	-	1,610,683	51,228,776
Furnishings and Equipment (including Cost of Capital Leases)	3-10	39,390,082	4,513,542	(284,648)	-	43,618,976
Library Books	10	<u>10,756,052</u>	<u>31,976</u>	<u>(305,367)</u>	<u>-</u>	<u>10,482,661</u>
Total Capital Assets Being Depreciated		338,450,833	12,892,625	(1,199,162)	21,782,916	371,927,212
Less: Accumulated Depreciation:						
Buildings, including Improvements		(122,216,203)	(7,648,775)	568,344	-	(129,296,634)
Land Improvements		(31,974,207)	(1,145,892)	-	-	(33,120,099)
Furnishings and Equipment		(35,416,073)	(1,939,321)	279,738	-	(37,075,656)
Library Books		<u>(10,040,247)</u>	<u>(189,023)</u>	<u>305,367</u>	<u>-</u>	<u>(9,923,903)</u>
Total Accumulated Depreciation		<u>(199,646,730)</u>	<u>(10,923,011)</u>	<u>1,153,449</u>	<u>-</u>	<u>(209,416,292)</u>
Total Capital Assets being Depreciated, Net		<u>138,804,103</u>	<u>1,969,614</u>	<u>(45,713)</u>	<u>21,782,916</u>	<u>162,510,920</u>
Capital Assets, Net		<u>\$ 168,952,066</u>	<u>\$ 3,560,499</u>	<u>\$ (45,713)</u>	<u>\$ -</u>	<u>\$ 172,466,852</u>

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:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 346,103
2021	246,280
2022	242,716
2023	239,557
2024	<u>39,747</u>
Total Minimum Lease Payments	<u>\$ 1,114,403</u>

Total rent expense for operating leases was \$2,347,583 and \$2,609,944 for the years ended June 30, 2019 and 2018, respectively.

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

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:

	<u>2019</u>	<u>2018</u>
Balance - July 1	\$ 183,259	\$ 158,102
Increases	6,820	72,960
Repayments	<u>(52,081)</u>	<u>(47,803)</u>
Balance - June 30	137,998	183,259
Less Current Portion	<u>(54,178)</u>	<u>(51,229)</u>
Noncurrent Portion	<u>\$ 83,820</u>	<u>\$ 132,030</u>

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

	<u>2019</u>	<u>2018</u>
Assets Held under Lease Agreement	\$ 217,881	\$ 211,061
Accumulated Depreciation	<u>(85,138)</u>	<u>(42,073)</u>
Total	<u>\$ 132,743</u>	<u>\$ 168,988</u>

Depreciation expense includes capital lease amortization of \$43,065 and \$35,168 for the years ended June 30, 2019 and 2018, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 58,688
2021	47,744
2022	34,376
2023	<u>5,754</u>
Total Minimum Lease Payments	146,562
Less: Amount Representing Interest on Capital Leases	<u>8,564</u>
Present Value of Net Minimum Capital Lease Payments	<u>\$ 137,998</u>

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

NOTE 5 LEASES (CONTINUED)

The component units have 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:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 2,806,002
2021	2,635,587
2022	2,629,937
2023	2,614,591
2024	2,612,261
Thereafter	<u>23,840,726</u>
Total Minimum Lease Payments	37,139,104
Less Amount Representing Interest on Capital Leases	<u>10,291,215</u>
Present Value of Net Minimum Capital Lease Payments	<u><u>\$ 26,847,889</u></u>

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT

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.

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

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

Activity for the various bond series for the year-end 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		<u>\$ 55,102,170</u>	<u>\$ 1,767,280</u>	<u>\$ (5,781,482)</u>	51,087,968
Plus: Unamortized Bond Premium					1,650,170
Less: Unamortized Bond Discount					<u>(59,910)</u>
Outstanding at End of Year					52,678,228
Less: Current Portion					<u>4,475,780</u>
Bonds Payable, Net of Current Portion					<u>\$ 48,202,448</u>

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

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

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

	Weighted Average Interest Rate	Balance July 1, 2017	Bonds Issued	Bonds Redeemed	Balance June 30, 2018
Series AH Issued in July 2008 for Various Projects Final Maturity June 2028	4.68%	\$ 7,417,498	\$ -	\$ (7,417,498)	\$ -
Series AI Issued in August 2008 for Various Projects Final Maturity June 2025	4.27%	2,213,284	-	(331,028)	1,882,256
Series AL Issued in July 2010 for Various Projects Final Maturity June 2021	5.00%	537,786	-	(124,439)	413,347
Series AM Issued in July 2011 for Various Projects Final Maturity June 2031	4.66%	6,145,866	-	(320,156)	5,825,710
Series AO Issued in July 2013 for Various Projects Final Maturity June 2033	4.44%	15,870,000	-	(725,000)	15,145,000
Series AP Issued in May 2014 for Various Projects Final Maturity June 2024	4.60%	555,857	-	(70,761)	485,096
Series AQ issued in May 2015 for Various Projects Final Maturity 2025	4.65%	2,261,354	-	(394,810)	1,866,544
Series AS issued in June 2016 for Various Projects Final Maturity 2027	3.83%	816,977	-	(34,325)	782,652
Series AT issued in September 2016 for Various Projects Final Maturity 2036	3.43%	18,460,000	-	(785,000)	17,675,000
Series AU-1 Issued In September 2017 for Various Projects Final Maturity June 2037	3.51%	-	4,858,813	(144,250)	4,714,563
Series AU-2 Issued In September 2017 for Various Projects Final Maturity June 2028	3.51%	-	6,755,861	(443,859)	6,312,002
Total Bonds Payable		<u>\$ 54,278,622</u>	<u>\$ 11,614,674</u>	<u>\$ (10,791,126)</u>	55,102,170
Plus: Unamortized Bond Premium					1,921,768
Less: Unamortized Bond Discount					<u>(66,445)</u>
Outstanding at End of Year					56,957,493
Less: Current Portion					<u>4,331,954</u>
Bonds Payable, Net of Current Portion					<u>\$ 52,625,539</u>

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

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:

		2020	2021	2022	2023	2024	2025-2029	2030-2034	2035-2039	Total
Series										
AL	Principal	\$ 137,710	\$ 144,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 282,165
	Interest	14,108	7,222	-	-	-	-	-	-	21,330
	Total	151,818	151,677	-	-	-	-	-	-	303,495
AM	Principal	349,622	367,188	385,321	404,587	426,119	2,429,221	1,130,463	-	5,492,521
	Interest	255,398	237,917	219,558	200,292	179,051	596,114	79,688	-	1,768,017
	Total	605,020	605,105	604,879	604,879	605,170	3,025,335	1,210,151	-	7,260,538
AO	Principal	770,000	800,000	835,000	865,000	900,000	5,135,000	5,090,000	-	14,395,000
	Interest	667,975	637,175	605,175	571,775	537,175	2,061,870	670,760	-	5,751,905
	Total	1,437,975	1,437,175	1,440,175	1,436,775	1,437,175	7,196,870	5,760,760	-	20,146,905
AP	Principal	75,732	78,656	81,873	85,966	90,060	-	-	-	412,287
	Interest	19,070	16,041	12,895	8,802	4,503	-	-	-	61,311
	Total	94,802	94,697	94,768	94,768	94,563	-	-	-	473,598
AQ	Principal	436,426	184,000	192,762	202,619	212,842	223,428	-	-	1,452,077
	Interest	72,603	50,783	41,583	31,945	21,814	11,171	-	-	229,899
	Total	509,029	234,783	234,345	234,564	234,656	234,599	-	-	1,681,976
AS	Principal	77,583	78,994	80,875	84,872	89,103	295,052	-	-	706,479
	Interest	30,627	29,075	27,495	23,451	19,208	29,987	-	-	159,843
	Total	108,210	108,069	108,370	108,323	108,311	325,039	-	-	866,322
AT	Principal	810,000	825,000	845,000	860,000	880,000	4,740,000	5,480,000	2,440,000	16,880,000
	Interest	469,208	453,007	436,508	419,185	400,265	1,655,469	917,856	117,760	4,869,258
	Total	1,279,208	1,278,007	1,281,508	1,279,185	1,280,265	6,395,469	6,397,856	2,557,760	21,749,258
AU-1	Principal	208,188	219,687	229,625	242,688	254,187	1,466,063	1,365,437	530,250	4,516,125
	Interest	185,169	174,759	163,775	152,294	140,159	500,679	191,395	32,812	1,541,042
	Total	393,357	394,446	393,400	394,982	394,346	1,966,742	1,556,832	563,062	6,057,167
AU-2	Principal	965,091	1,015,518	1,063,918	1,119,562	236,822	1,072,973	-	-	5,473,884
	Interest	273,694	225,440	174,664	121,467	65,490	137,380	-	-	998,135
	Total	1,238,785	1,240,958	1,238,582	1,241,029	302,312	1,210,353	-	-	6,472,019
AV-1	Principal	278,896	293,711	482,541	227,228	162,470	32,584	-	-	1,477,430
	Interest	73,872	59,927	45,241	21,114	9,753	1,629	-	-	211,535
	Total	352,768	353,638	527,782	248,342	172,223	34,213	-	-	1,688,965
Total	Principal	4,109,248	4,007,209	4,196,915	4,092,522	3,251,603	15,394,321	13,065,900	2,970,250	51,087,968
	Interest	2,061,724	1,891,346	1,726,894	1,550,325	1,377,418	4,994,299	1,859,699	150,572	15,612,276
	Total	\$ 6,170,972	\$ 5,898,555	\$ 5,923,809	\$ 5,642,847	\$ 4,629,021	\$ 20,388,620	\$ 14,925,599	\$ 3,120,822	\$ 66,700,244

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

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 (\$9,228,259 and \$13,298,828 was outstanding as of June 30, 2019 and 2018, respectively). Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance owed by the University to the AFRP pool of funding were as follows:

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

	Beginning Balance July 1, 2017	Additions	Retirements	Ending Balance June 30, 2018	Current Portion
PASSHE Bond - AFRP	<u>\$ 2,771,944</u>	<u>\$ -</u>	<u>\$ (670,252)</u>	<u>\$ 2,101,692</u>	<u>\$ 643,296</u>

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.

The component units have entered into long-term debt agreements for the financing of buildings and building improvements. Future minimum payments by year and in the aggregate are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 5,511,882	\$ 7,266,192	\$ 12,778,074
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
Thereafter	144,703,378	57,034,636	201,738,014
Total	214,238,559	<u>\$ 89,217,633</u>	<u>\$ 303,456,192</u>
Plus Unamortized Bond Premium	-		
Less Unamortized Bond Issue Costs	(3,456,494)		
Total		<u>\$ 210,782,065</u>	

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

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, 2019 and June 30, 2018 is \$4,325,085 and \$5,180,092, 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, 2019 and 2018 is \$13,984,813 and \$14,524,155, respectively.

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

<u>Year Ending June 30.</u>	<u>Amount</u>
2020	\$ 66,666
2021	66,666
2022	66,666
2023	66,666
2024	66,666
Thereafter	17,976,568
	<u>\$ 18,309,898</u>

NOTE 7 COMPENSATED ABSENCES

Changes in the compensated absences liability in fiscal years 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Balance - July 1	\$ 17,529,861	\$ 16,652,921
Current Changes in Estimate	1,712,404	2,179,999
Payouts	(1,775,458)	(1,303,059)
Balance - June 30	<u>\$ 17,466,807</u>	<u>\$ 17,529,861</u>
Current	\$ 1,709,368	\$ 1,301,322
Noncurrent	15,757,439	16,228,539
Balance - June 30	<u>\$ 17,466,807</u>	<u>\$ 17,529,861</u>

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

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, 2019 and 2018.

	System Plan		REHP		Premium Assistance		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Net OPEB liabilities	<u>\$161,883,866</u>	<u>\$183,519,604</u>	<u>\$ 75,935,228</u>	<u>\$ 101,184,188</u>	<u>\$ 499,843</u>	<u>\$ 474,278</u>	<u>\$238,318,937</u>	<u>\$285,178,070</u>
Deferred outflows of resources:								
Difference between expected and actual experience	\$ -	\$ -	\$ -	\$ -	\$ 3,134	\$ -	\$ 3,134	\$ -
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	-	-	783	-	783	-
Change in assumptions	-	-	-	-	7,835	-	7,835	-
Changes in proportion	-	-	4,057,407	-	6,007	-	4,063,414	-
Contributions after the measurement date	4,453,727	4,637,129	3,007,248	2,473,559	28,353	26,634	7,489,328	7,137,322
Total deferred outflows of resources	<u>\$ 4,453,727</u>	<u>\$ 4,637,129</u>	<u>\$ 7,064,655</u>	<u>\$ 2,473,559</u>	<u>\$ 46,112</u>	<u>\$ 26,634</u>	<u>\$ 11,564,494</u>	<u>\$ 7,137,322</u>
Deferred inflows of resources:								
Difference between expected and actual experience	\$ 18,042,307	\$ -	\$ 23,257,236	\$ -	\$ -	\$ -	\$ 41,299,543	\$ -
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	116,058	84,508	-	-	116,058	84,508
Change in assumptions	12,940,487	14,999,636	9,982,351	9,219,259	18,933	22,107	22,941,771	24,241,002
Changes in proportion	N/A	N/A	-	-	4,440	5,270	4,440	5,270
Total deferred inflows of resources	<u>\$ 30,982,794</u>	<u>\$ 14,999,636</u>	<u>\$ 33,355,645</u>	<u>\$ 9,303,767</u>	<u>\$ 23,373</u>	<u>\$ 27,377</u>	<u>\$ 64,361,812</u>	<u>\$ 24,330,780</u>
OPEB expense	<u>\$ 1,015,451</u>	<u>\$ 7,379,356</u>	<u>\$ 2,780,930</u>	<u>\$ 4,697,249</u>	<u>\$ (54,192)</u>	<u>\$ 39,046</u>	<u>\$ 3,742,189</u>	<u>\$ 12,115,651</u>
Contributions recognized by OPEB plans	N/A	N/A	<u>\$ 3,007,248</u>	<u>\$ 2,473,559</u>	<u>\$ 28,353</u>	<u>\$ 26,634</u>	<u>\$ 3,035,601</u>	<u>\$ 2,500,193</u>

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling \$4,453,727 for the System Plan, \$3,007,248 for the REHP plan, and \$28,353 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

<u>Year Ending June 30,</u>	Amortization		
	System Plan	REHP	Premium Assistance
2020	\$ 6,784,361	\$ 7,463,114	\$ 1,567
2021	6,784,361	7,463,114	1,697
2022	6,784,361	7,463,114	1,697
2023	6,784,361	6,869,558	1,697
2024	3,845,350	4,047,485	1,828
Thereafter	-	(4,008,147)	(2,872)
Totals	<u>\$ 30,982,794</u>	<u>\$ 29,298,238</u>	<u>\$ 5,614</u>

System Plan

Plan Description

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

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

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.

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

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, 2019.

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

Actuarial Assumptions and Other Inputs

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

- Healthcare cost trend rate of 6.0% in 2018 and 5.5% in 2019 through 2021, with rates gradually decreasing from 5.4% in 2022 to 3.8% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Annual salary increase of 4%.
- 90% of employees eligible for a subsidy and 15% of employees not eligible for a subsidy are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- The cost due to the excise tax under the Patient Protection and Affordable Care Act beginning in 2022 is 40% of the projected premiums in excess of the annual limits, calculated using an inflation rate of 2%.

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- The annual cost of living increase beginning in 2018 is assumed to be 2.2% per year.
- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates based on the RP-2014 Total Mortality Tables, which incorporate rates based on a generational projection using Scale MP-2018 to reflect mortality improvement, updated from Scale MP-2017.
- The discount rate decreased from 3.13% to 2.98%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2018.
- Participant data is based on census information as of July 1, 2018.
- Experience assumptions for withdrawal and retirement, expected vs. actual, and election percentages were reviewed in 2019, and it was determined that the results were reasonable and did not warrant a further formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all eligible retirees, regardless of employee bargaining unit when active, and including those not represented when active, who meet years of service and/or age criteria.

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (4.5% decreasing to 2.8%)	Healthcare Cost Trend Rates 5.5% decreasing to 3.8%	1% Increase (6.5% decreasing to 4.8%)
2019	\$ 135,531,244	\$ 161,883,866	\$ 195,985,861

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

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, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the healthcare cost trend rates used (6.0% decreasing to 3.9%).

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 151,951,332	\$ 183,519,604	\$ 224,721,547

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
2019	\$ 190,000,922	\$ 161,883,866	\$ 139,578,677

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 216,299,086	\$ 183,519,604	\$ 157,643,597

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

University OPEB Liability

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.

The University's Portion of the System Plan's total OPEB liability as of June 30, 2018 of \$183,519,604 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016, that was rolled forward to July 1, 2017.

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

Note to Schedule:

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

REHP

Plan Description

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

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

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, 2019.

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

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

Actuarial Assumptions and Other Inputs

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

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

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase. Projected benefits based on estimates of future years of service and projected health benefit costs.
- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates based on the RP-2000 Male and Female Combined Healthy Mortality Tables or the RP-2000 Male and Female Disabled Retiree Mortality Tables, as appropriate, adjusted to ensure sufficient margin improvement in certain age ranges. Participant data based on census information as of December 31, 2017.

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

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

- Discount rate of 3.87% as of June 30, 2018, and 3.58% as of June 30, 2017.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the index rate for the 20-year tax-exempt general obligation municipal bond index with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.
- The long-term expected rate of return on REHP plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class.
- Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized as follows at June 30, 2019:

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

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

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, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	47.0%	7.5%
International Equity	20.0%	8.5%
Fixed Income	25.0%	3.0%
Real Estate	8.0%	3.0%
Cash	0.0%	1.0%
Total	<u>100.0%</u>	

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

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

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

<u>Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate</u>			
	<u>1% Decrease (5.2% decreasing to 3.1%)</u>	<u>Healthcare Cost Trend Rates 6.2% decreasing to 4.1%</u>	<u>1% Increase (7.2% decreasing to 5.1%)</u>
2019	\$ 65,184,196	\$ 75,935,228	\$ 89,298,597

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

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, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the healthcare cost trend rates used (6.0% decreasing to 3.9%).

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 87,812,160	\$ 101,184,188	\$ 121,201,681

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

Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.87%	Current Rate 3.87%	1% Increase 4.87%
2019	\$ 86,996,016	\$ 75,935,228	\$ 66,822,502

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

Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
2018	\$ 118,555,014	\$ 101,184,188	\$ 89,662,876

REHP Fiduciary Net Position

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

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

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

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.

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

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

Actuarial Assumptions and Other Inputs

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

- Actuarial cost method was entry-age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016, determined the employer contribution rate for fiscal year 2017/18.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.
- Participation rate assumed that 63% of eligible retirees will elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

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

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, 2018.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
U.S. Core Fixed Income	23.6%	1.5%
Total	<u>100.0%</u>	

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

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

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 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, 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, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4% and 7%) or one percentage point higher (between 6% and 9%) than the current healthcare cost trend rates (between 5% and 8%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	Healthcare Cost Trend Rates Between 4% and 7%	Healthcare Cost Trend Rates Between 5% and 8%	Healthcare Cost Trend Rates Between 6% and 9%
2018	\$ 474,149	\$ 474,278	\$ 474,406

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

Sensitivity of the Premium Assistance Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
2019	\$ 568,395	\$ 499,843	\$ 442,912

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

Sensitivity of the Premium Assistance Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 539,057	\$ 474,278	\$ 420,424

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Premium Assistance Fiduciary Net Position

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

NOTE 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, 2019 and 2018.

	SERS		PSERS		ARP		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Net Pension Liabilities	<u>\$ 134,471,346</u>	<u>\$ 113,046,623</u>	<u>\$ 11,420,831</u>	<u>\$ 11,490,839</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,892,177</u>	<u>\$ 124,537,462</u>
Deferred Outflows of Resources								
Difference Between Expected and Actual Experience	\$ 2,017,952	\$ 1,911,385	\$ 91,872	\$ 119,865	\$ -	\$ -	\$ 2,109,824	\$ 2,031,250
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	13,083,269	-	55,979	266,324	-	-	13,139,248	266,324
Changes in Assumptions	3,582,646	5,659,778	212,901	312,188	-	-	3,795,547	5,971,966
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	45,086	65,051	-	-	45,086	65,051
Changes in Proportion	1,928,682	2,702,631	194,889	205,813	-	-	2,123,571	2,908,444
Contributions After the Measurement Date	7,211,069	7,135,457	1,113,722	1,021,044	-	-	8,324,791	8,156,501
Total Deferred Outflows of Resources	<u>\$ 27,823,618</u>	<u>\$ 17,409,251</u>	<u>\$ 1,714,449</u>	<u>\$ 1,990,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,538,067</u>	<u>\$ 19,399,536</u>
Deferred Inflows of Resources								
Difference Between Expected and Actual Experience	\$ 1,457,132	\$ 2,146,479	\$ 176,747	\$ 69,375	\$ -	\$ -	\$ 1,633,879	\$ 2,215,854
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	4,494,673	-	-	-	-	-	4,494,673
Difference Between Employer Contributions and Proportionate Share of Contributions	718,294	652,879	-	-	-	-	718,294	652,879
Changes in Proportion	1,063,569	1,772,464	120,639	166,629	-	-	1,184,208	1,939,093
Total Deferred Inflows of Resources	<u>\$ 3,238,995</u>	<u>\$ 9,066,495</u>	<u>\$ 297,386</u>	<u>\$ 236,004</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,536,381</u>	<u>\$ 9,302,499</u>
Pension Expense	<u>\$ 17,682,917</u>	<u>\$ 12,658,227</u>	<u>\$ 2,638,511</u>	<u>\$ 1,578,827</u>	<u>\$ 5,446,621</u>	<u>\$ 5,421,977</u>	<u>\$ 25,768,049</u>	<u>\$ 19,659,031</u>
Contributions Recognized by Pension Plans	<u>\$ 12,500,062</u>	<u>\$ 12,486,818</u>	<u>\$ 1,113,722</u>	<u>\$ 1,021,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,613,784</u>	<u>\$ 13,507,862</u>

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

NOTE 9 PENSION BENEFITS (CONTINUED)

The University will recognize the \$7,211,069 reported as 2019 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$1,113,722 reported as 2019 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	Amortization	
	SERS	PSERS
2020	\$ 6,536,590	\$ 328,175
2021	3,656,728	123,593
2022	2,407,792	(107,058)
2023	4,743,277	(41,369)
2024	29,167	-
Totals	\$ 17,373,554	\$ 303,341

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.

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

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 34.63% of active members' annual covered payroll at June 30, 2019, with less common rates ranging between 23.94% and 27.71%, depending upon the defined benefit plan chosen by the employee. For the SERS defined benefit/defined contribution hybrid plan, the State System's actuarially determined contribution rate was either 16.17% or 16.42% of annual covered payroll, depending upon the hybrid plan chosen by the employee.

In addition, the State System was required to contribute to the defined benefit plan 14.89% of the annual covered payroll of employees who selected the straight 401(a) defined contribution plan.

The University's contributions to SERS for the years ended June 30, 2019, 2018, and 2017, were \$12,500,062, \$12,486,818, and \$11,161,254, respectively, equal to the required contractual contribution.

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

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, 2019, depending on the plan chosen by the employee. The University recognized \$4,856 in SERS defined contribution pension expense for the year ended June 30, 2019, the first year of the plan's implementation. The vesting period for employer contributions to the defined contribution plan, both for members who participate in the straight 410(a) defined contribution plan and those who participate in one of the defined benefit/defined contribution hybrid plans, is three years. Once money is contributed to the plan, it cannot be removed from the plan, except for making distribution payments to participants. Forfeitures of unvested employer contributions and earnings are invested in the PA Treasury short-term investment fund. The funds are forfeited to the employee's most recent employer and used to offset future contributions to the plan and correct funding discrepancies. Forfeitures seized under the Pension Forfeiture Act are used for administrative expenses of the plan.

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

Actuarial Methods and Assumptions

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 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).

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

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 April 2017 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.5% to 7.25%. The next SERS review occurred in summer 2019 and will be used for its 2019 annual valuation.

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

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

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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.

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

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, 2018 and 2017, are summarized below.

<u>Asset Class</u>	<u>December 31, 2018</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
	<u>100.0%</u>	

<u>Asset Class</u>	<u>December 31, 2017</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Private Equity	16.0%	8.00%
Global Public Equity	43.0%	5.30%
Real Assets	12.0%	5.44%
Hedge Funds	12.0%	4.75%
Fixed Income	14.0%	1.63%
Cash	3.0%	-0.25%
	<u>100.0%</u>	

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

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

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, 2019 and 2018, calculated using the discount rate of 7.25%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the rate used for 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	Current Rate	1% Increase
	6.25%	7.25%	8.25%
2019	\$ 165,120	\$ 134,471	\$ 108,207
2018	143,491	113,047	86,967

Fiduciary Net Position

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

Proportionate Share

At June 30, 2019, the amount recognized as the University's proportionate share of the SERS net pension liability, measure at December 31, 2018 was \$134,471,346.

At June 30, 2018, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2017, was \$113,046,623.

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

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

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

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

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. 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.

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.

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

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

Member Contributions

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2019 was 32.32% 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 16.16% of covered payroll. The University's contributions to PSERS for the years ended June 30, 2019, 2018, and 2017 was \$1,113,722, \$1,021,044, and \$913,116 respectively, equal to the required contractual contribution.

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

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions

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

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

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

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018 and 2017:

<u>Asset Class</u>	<u>June 30, 2018</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
	<u>100.0%</u>	

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

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

Asset Class	June 30, 2017	
	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0%	5.1%
Fixed Income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute Return	10.0%	3.4%
Risk Parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real Estate	10.0%	3.6%
Alternative Investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	100.0%	

The discount rate used to measure the total PSERS pension liability was 7.25% as of June 30, 2018 and 2017. 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, 2019 and June 30, 2018, 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 2019 and 2018) or one percentage point higher (8.25% in 2019 and 2018) 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%
2019	\$ 14,157	\$ 11,421	\$ 9,107
2018	14,144	11,491	9,251

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

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Fiduciary Net Position

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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

	<u>Fiscal Year Ended June 30, 2019</u>	<u>Fiscal Year Ended June 30, 2018</u>
Total PSERS Net Pension Liability Associated with the University	\$ 22,841,662	\$ 22,981,678
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	<u>(11,420,831)</u>	<u>(11,490,839)</u>
University's Proportionate Share of the PSERS Net Pension Liability	<u>\$ 11,420,831</u>	<u>\$ 11,490,839</u>

At June 30, 2019 and 2018, PSERS measured the net pension liability as of June 30, 2018 and June 30, 2017, respectively. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll.

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

At June 30, 2017, the State System's proportion was .1811%, a decrease of .0022% from its proportion calculated as of June 30, 2016.

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

NOTE 9 PENSION BENEFITS (CONTINUED)

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2019 and 2018 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2019 and 2018, were \$5,446,621 and \$5,421,977, respectively, from the University; and \$2,931,443 and \$2,917,017, 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 \$58,076 and \$150,753 to the Reserve Fund for the years ended June 30, 2019 and 2018, respectively, and received a refund of \$54,066 from the Reserve Fund for the year ended June 30, 2017.

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

	2019	2018	2017
Balance - July 1	\$ 981,437	\$ 751,149	\$ 957,800
Projected Retained Losses	419,013	417,529	393,369
Retirements and Changes in Estimates	<u>(303,432)</u>	<u>(187,241)</u>	<u>(600,020)</u>
Balance - June 30	<u>\$ 1,097,018</u>	<u>\$ 981,437</u>	<u>\$ 751,149</u>

NOTE 11 COMMITMENTS AND 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.

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

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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

Cheyney University Loan Forgiveness

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

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

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

NOTE 11 COMMITMENTS CONTINGENCIES (CONTINUED)

Cheyney University Loan Forgiveness (Continued)

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

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2019 and 2018, were approximately \$10,501,527 and \$4,074,124, respectively.

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, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Designated Amounts for Educational and General Activities	\$ 45,506,699	\$ 48,813,730
Designated Amounts for Healthcare Reserve	678,219	721,528
Designated Amounts for Auxiliary Enterprises (Operations, Plant Activities, and Debt Retirement)	9,409,022	13,605,120
Designated Amounts for Plant Activities and Debt Retirement	33,850,225	35,519,296
Compensated Absences Deficit - Non-Auxiliary	(17,128,868)	(17,136,842)
Postretirement Benefit Deficit - Non-Auxiliary	(273,687,418)	(283,719,323)
Pension Benefit Deficit - Non-Auxiliary	(113,848,385)	(108,480,487)
Compensated Absences Deficit - Auxiliary	(337,939)	(393,019)
Postretirement Benefit Deficit - Auxiliary	(17,428,837)	(18,651,691)
Pension Benefit Deficit - Auxiliary	(6,042,106)	(5,959,938)
Total Unrestricted Net Position	<u>\$ (339,029,388)</u>	<u>\$ (335,681,626)</u>

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

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

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP

Ground Lease Agreements

The University leases land to the Foundation for the Foundation's Student Housing Facilities under separate ground lease agreements for each phase of the Facilities construction. During the year ended June 30, 2018, the Foundation sold Phase IV of its student housing facilities to a related-party (the RR Indiana). The Foundation's ground lease for Phase IV was terminated upon the closing of the sale. A new ground lease between RR Indiana and the University became effective September 28, 2017.

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 Community 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	
	2019	2018	2019	2018	2019	2018
Phase II	\$ 44,616	\$ 43,741	\$ 41,986	\$ 44,232	\$ 143,786	\$ 225,630

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 Community 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	
	2019	2018	2019	2018	2019	2018
Phase III	\$ 45,070	\$ 44,186	\$ 40,966	\$ 42,596	\$ 207,474	\$ 179,000

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

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

Ground Lease Agreement – Phase IV

The University entered into the Phase IV ground lease agreement as of May 29, 2009. The Foundation began paying annual base rent in the amount of \$18,315 during the fiscal year ended June 30, 2011. This base rent increases by 2% each subsequent year through the lease expiration date of September 27, 2051. Effective September 28, 2017, the University and Foundation amended and restated the Phase IV Ground Lease to identify RR Indiana as the successor to the interest of the Foundation. Additional rents equaling .5% of actual room rental charges are being paid, beginning in fiscal year ended June 30, 2011. The Foundation also provides room fee waivers for Community 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	
	2019	2018	2019	2018	2019	2018
Phase IV	\$ -	\$ 5,260	\$ -	\$ 6,286	\$ -	\$ 15,383

Ground Lease Agreement – All Phases

Total ground lease base rent revenues from all Phases received from the Foundation for the years ended June 30, 2019 and 2018 were \$89,686 and \$93,187, respectively. Total additional rents from all Phases received from the Foundation for the years ended June 30, 2019 and 2018 were \$85,952 and \$93,114, respectively. Total room waivers from all Phases received from the Foundation for the years ended June 30, 2019 and 2018 were \$351,260 and \$420,013, respectively.

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

Year Ending June 30,	Amount
2020	\$ 91,479
2021	93,308
2022	95,174
2023	97,078
2024	99,020
2025-2029	525,605
2030-2034	580,306
2035-2039	640,696
2040-2044	707,369
2045-2049	780,990
2050	83,267
Total	\$ 3,794,292

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

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, 2019 and 2018 were \$110,002 and \$881,347, 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, 2019 and 2018 was \$1,157,715 and \$1,148,323, 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 and 2018 was \$68,000 and \$408,000, respectively.

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 \$759,723 and \$746,081 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments by fiscal year are estimated at:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 745,029
2021	759,929
2022	775,128
2023	790,630
2024	806,443
2025-2029	4,280,697
2030-2034	4,726,235
2035-2038	3,600,737
Total	<u>\$ 16,484,828</u>

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

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 \$11,376 and \$11,648 for the years ended June 30, 2019 and 2018, respectively. Future minimum lease payments by fiscal year are estimated at:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 12,940
2021	13,639
2022	14,376
2023	15,152
2024	15,970
2025-2029	93,754
2030-2034	121,951
2035-2038	106,807
Total	<u>\$ 394,589</u>

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 \$14,355 for year ended June 30, 2019. Future minimum lease payments by fiscal year are estimated at:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 12,312
2021	12,558
2022	12,809
2023	13,065
2024	13,327
2025-2027	41,601
Total	<u>\$ 105,672</u>

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.

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

NOTE 14 INTEREST RATE SWAP AGREEMENTS – FOUNDATION FOR IUP (CONTINUED)

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 \$30,551,521 and \$23,427,898 at June 30, 2019 and 2018, respectively. Additionally, the change in the cumulative unrealized loss is included in the net gain (loss) on interest rate swap agreement in the accompanying statement of activities, and amounted to a loss of \$7,123,623 and a gain of \$8,197,454 for the years ended June 30, 2019 and 2018, 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. During the year ended June 30, 2018, the RR Indiana purchased the Foundation’s (a related party) Phase IV student housing facilities. The Foundation’s ground lease for Phase IV was amended and restated assigning RR Indiana as successor to the interest of the Foundation effective September 28, 2017.

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 community 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	
	2019	2018	2019	2018	2019	2018
Phase I	\$ 31,085	\$ 30,475	\$ 21,030	\$ 29,165	\$ 78,214	\$ 106,191

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.

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

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

Ground Lease Agreement – Phase IV (Continued)

The RR Indiana provides room fee waivers for community 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	
	2019	2018	2019	2018	2019	2018
Phase IV	\$ 21,460	\$ 15,779	\$ 16,093	\$ 17,302	\$ 65,717	\$ 83,067

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, 2019 and 2018 were \$52,545 and \$46,254, respectively. Total additional rents from Phases I and IV received from the RR Indiana for the years ended June 30, 2019 and 2018 were \$37,123 and \$46,467, respectively. Total room waivers from Phases I and IV received from the RR Indiana for the year ended June 30, 2019 and 2018 were \$143,931 and \$189,258, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 53,596
2021	54,668
2022	55,762
2023	56,877
2024	58,015
2025-2029	307,946
2030-2034	339,993
2035-2039	375,377
2040-2044	414,451
2045-2047	174,183
Total	<u>\$ 1,890,868</u>

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 continues through April 4, 2022, and the agreement regarding Phase IV continues through September 28, 2022. Automatic renewal terms exist associated with these agreements. Total management fees charged to the RR Indiana for the years ended June 30, 2019 and 2018 were \$423,072 and \$421,814, 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, 2019 and 2018 was \$509,584 and \$558,512, respectively.

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

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

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, which terminates on April 4, 2046. Total rent expense for this space was \$313,803 and \$310,843 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments by fiscal year are estimated at:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 277,111
2021	282,653
2022	288,306
2023	294,072
2024	299,954
2025-2029	1,592,190
2030-2034	1,757,907
2035-2039	1,940,871
2040-2044	2,142,879
2045-2046	806,905
Total	<u>\$ 9,682,848</u>

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, 2019 and 2018, the Research Institute paid IUP \$1,427,0148 and \$1,278,961, respectively, for contracted services. The Research Institute owed the University \$392,386 as of June 30, 2019, and \$437,157, as of June 30, 2018, 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, 2019 and 2018, total amounts paid by the University to the Research Institute were \$1,197,989 and \$1,213,007, respectively. The University owed the Research Institute \$120,000 as of June 30, 2019, and \$111,164 as of June 30, 2018, which are included in Due to Component Units.

NOTE 17 RATING ACTIONS

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

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 AND 2018
(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%

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%

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)**

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

Fiscal Year	PSERS Net Pension Liability				University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered- Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total			
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	200%	50.1%
2017/18	0.1811%	\$ 11,491	\$ 11,491	\$ 22,982	\$ 6,197	200%	51.8%
2018/19	0.1836%	\$ 11,421	\$ 11,421	\$ 22,842	\$ 6,406	200%	54.0%

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%

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)**

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%

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%

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

Fiscal Year	PSERS Net OPEB Liability				University' 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
	State System's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total			
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%

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%

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)**

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

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

Note to Schedule:

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

