PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION

Pennsylvania's
STATE SYSTEM
of Higher Education

FINANCIAL STATEMENTS
JUNE 30, 2019

Pennsylvania's State System of Higher Education
Financial Statements
June 30, 2019

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CLA (CliftonLarsonAllen LLP)
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INDEPENDENT AUDITORS' REPORT

Board of Governors
Pennsylvania State System of Higher Education
Harrisburg, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain of the discretely presented component units, which represent 80.94 percent, 85.34 percent, and 86.79 percent, respectively, of the 2019 assets, net assets, and revenues and 81.5 percent, 82.7 percent, and 79.8 percent, respectively, of the 2018 assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the State System as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-19, and the various schedules of Proportionate Share of Net Pension Liability, OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 61-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
September 27, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

As members of the Commonwealth of Pennsylvania's (Commonwealth) public four-year higher education system, the 14 universities of Pennsylvania's State System of Higher Education (State System) are charged with providing high-quality education at the lowest possible cost to the students. With over 98,000 degree-seeking students enrolled, and thousands more enrolled in certificate and other career-development programs, the State System is the largest producer of bachelor's degrees in the Commonwealth. The campuses of the 14 universities encompass more than 4,800 acres and 900 physical plant structures. The universities function independently, but being part of the State System enables them to share administrative resources and academic courses and benefit from economies of scale.

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

SYSTEM REDESIGN

In 2016, the State System undertook a strategic review of all operations, with the goal of identifying the changes that are necessary to help ensure its long-term success. As a result of that review, the Board established three priorities:
- Ensuring student success.
- Leveraging university strengths.
- Transforming the governance/leadership structure.

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

The work is being performed by a number of inclusive teams that leverage expertise across the State System and engage outside experts on an as-needed basis. The teams have been formed around three areas to move System Redesign forward: University Success, Academic Success, and Student Affairs & Enrollment Management (SA/EM).

As part of **University Success**, an Investment Team is establishing a strategy to improve overall financial sustainability for the State System, incorporating goals for a sharing system. A Budget Team is working to ensure that the State System's budget process results in consistent application of terms, guidelines, and expectations by all universities to result in reliable, consistent, and realistic projections based on audited financial data. The Budget Team will realign the State System's allocation of Commonwealth appropriations to the new budget planning and investment process.

As part of **Academic Success**, the Collaborative PASSHE Team is developing a cross-institutional delivery of academic programs that are identified as having significant capacity at individual institutions to ensure students' timely completion. A PASSHE Online Pathways Team is assessing need, readiness, and potential return on investment for an online Systemwide consortium for recruitment and student support services that will advance online degree completion and workforce development, especially for post-traditional students who have attained some college credits but not a desired degree. A Developmental Education Team is reviewing current approaches to meeting developmental education needs.

As part of **SA/EM**, a Holistic Advising Team is reviewing and researching university-specific advising approaches and national best practices. A Workforce Readiness Team is identifying discipline-specific competencies that map to career-specific competencies for students preparing to enter the workforce. A Financial Aid and Affordability Team is reviewing and researching proven successes and barriers to affordability and developing innovative strategies for awarding financial aid. A Mental Health and Wellness Team is reviewing and researching efforts on the growing mental health crisis to proactively address students' mental health needs.

Detailed information on the progress of System Redesign can be found at http://systemredesign.passhe.edu.

Financial Highlights

Following is an overview of the State System's financial activities for the year ended June 30, 2019, as compared to the year ended June 30, 2018, as well as future economic factors. The tables throughout do not include the effects of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, or Statement No. 81, *Irrevocable Split-Interest Agreements*, for information presented for fiscal year 2016/17.

Tuition and Fees

In July 2019, the Board determined that it is critical to both student and university success that the State System universities control costs and use tuition and institutional aid strategically to keep tuition as low as possible for those with the greatest financial challenges, and further concluding that growth in the net average price of attendance threatens to undermine the value of higher education, the Board voted to **freeze tuition** for the 2019/20 academic year. This action represents only the second time that tuition was frozen in the State System's 36-year history. The last time the Board held the line on tuition was in fiscal year 1998/99. This action follows the Board's decision to limit the 2018/19 tuition increase to 2.99%, which had been the second smallest increase in more than a decade. The Board's actions ensure that the State System universities will remain as the **lowest-cost option** among all four-year colleges and universities in the state, with a cost that is less than half the amount charged by most others.

The base tuition rate for most full-time Pennsylvania residents—who comprise about 90% of all State System university students—will remain at $3,858 per term, or $7,716 for the full 2019/20 academic year. **Nonresident, undergraduate tuition** also was frozen, with rates ranging from $10,032 to $19,290 for the 2019/20 academic year. The basic resident **graduate tuition** rate remained at $516 per credit, while the typical nonresident, graduate tuition rate remained at $774 per credit.

In April 2019, the Board of Governors approved unprecedented revisions to the State System's **tuition policy**, based on the concept that State System universities will serve more Pennsylvanians if their pricing strategies are flexible and student-centered, recognizing differences in each university's region, program offerings, and characteristics of the individual student—especially the student's ability to pay. Beginning in fall 2020, these changes, coupled with eliminating restrictions on institutional aid, afford the State System universities the opportunity to adopt, with Board approval, a wide variety of pricing practices used across the nation in public higher education. The new policy calls for tuition to be tentatively set two years at a time to provide students and families more time to plan and greater predictability about their cost of attendance. The policy revisions will provide greater local responsibility and require greater accountability in strategic pricing decisions.

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

The State System's typical **price of attendance** (tuition, mandatory fees, room, and board) for academic year 2019/20 is $21,912, compared to $21,682 in academic year 2018/19, with the difference caused by room, board, and other fees that are set by the universities. The average price of attendance among all four-year public universities in the United States in academic year 2018/19 was $21,370, while the average price of attendance for the Middle States region was $23,347.

Appropriations
As part of the System Redesign strategy affirmed by the Board of Governors in January 2019, the System has begun developing a new methodology for distributing resources. To this end, a **new allocation formula** will be established to distribute state appropriations, beginning with fiscal year 2020/21. In anticipation of changes to the allocation formula and to provide universities with greater stability and predictability of funding in the upcoming fiscal year, in April 2019 the Board suspended the use of the current allocation formula and performance funding program.

In fiscal year 2019/20, the State System will receive $477.5 million in **General Fund appropriations**, an increase of $9.4 million, or 2.0%, from fiscal year 2018/19. This compares to an increase of $15.0 million, or 3.3%, received in fiscal year 2018/19 over fiscal year 2017/18. Each university's fiscal year 2019/20 appropriation is set at the same amount as it received in fiscal year 2018/19, with the increase in appropriations—net of changes in the allocations for Systemwide initiatives and the Office of the Chancellor's statutory share—prorated to universities based on the fiscal year 2017/18 amount.

Over the last five years, the Commonwealth has restored about $64 million of the nearly $90 million in funding that was cut from the State System's annual appropriation at the beginning of the 2008 recession that severely impacted both the state and national economies and led to several years of funding cuts to the State System. Even with the five consecutive years of appropriation increases, however, the current year's appropriation is just slightly higher than what the System received in fiscal year 2008/09. Pennsylvania ranks 48th in the nation in per capita funding for higher education.

The State System received an $18.4 million Realty Transfer Tax allocation from the Commonwealth's **Key '93** (Keystone Recreation, Park and Conservation) Fund, an increase of $0.4 million, or 2.2%, from fiscal year 2017/18. With the exception of fiscal years 2009/10 and 2010/11, when no funding was received, Key '93 funds have provided a consistent revenue stream for university deferred maintenance projects since 1993.

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

Enrollment
Fall 2018 student headcount was 98,094, a decrease of 4,207 students, or 4.1%, from fall 2017, and a decrease of 21,419 students, or 17.9%, from fall 2010, when the State System reached its highest point of 119,513 students. This is the eighth year in a row that the State System has experienced an **enrollment decline**, following 14 years of record growth. It also is the first time in 16 years that enrollment has dropped below 100,000; enrollment first reached the 100,000 mark in fall 2002, with 101,546 students.

Following is the history of State System student headcount enrollment since 2010.

Year	Fall Enrollment	% Change from Prior Year
2018	98,094	(4.1%)
2017	102,301	(2.4%)
2016	104,779	(2.2%)
2015	107,126	(2.3%)
2014	109,606	(2.2%)
2013	112,028	(2.1%)
2012	114,471	(3.2%)
2011	118,224	(1.1%)
2010	119,513	2.2%

Following is a breakdown of selected enrollment information, with nontraditional students defined as those 25 years of age or older.

Fall Enrollment	2018/19		2017/18	
Full-time	79,694	81%	84,098	82%
Part-time	18,400	19%	18,203	18%
Total	98,094		102,301	
Undergraduate	82,805	84%	86,971	85%
Graduate	15,289	16%	15,330	15%
Total	98,094		102,301	
Traditional	79,017	81%	82,537	81%
Nontraditional	19,077	19%	19,764	19%
Total	98,094		102,301	

In academic year 2017/18, the universities awarded 25,482 degrees, a slight decrease from the 25,541 degrees awarded in academic year 2016/17, and a 2% increase over the 24,985 degrees awarded in academic year 2015/16.

Degrees Awarded (Academic Year)

	2017/18	2016/17	2015/16
Undergraduate	19,518	19,604	19,397
Master's	5,486	5,470	5,243
Associate's	478	467	345
Total	25,482	25,541	24,985

With an undergraduate population comprising approximately 90% Pennsylvania residents—and the majority of those being traditional-age students enrolling right out of high school—the State System's enrollment historically has been closely tied to the state's high school demographic trends. As the number of high school graduates in the state continues to drop, most of the universities are expecting their enrollments to continue to decline, resulting in reduced revenue. In its April 2019 Credit Opinion of the Commonwealth, Moody's Investors Service, Inc., (Moody's) notes that "Pennsylvania overall is a slowly growing but quickly aging state. Since 2000, Pennsylvania's population grew at the seventh slowest rate in the U.S. and it is the seventh oldest state in the U.S. measured by the share of residents aged 55 or older." Moody's further states that "A low birth rate and domestic out-migration are offset to some degree by immigration, but the prospects for a sustained reversal of very slow population growth and a falling prime working age population are low."

Since peaking at 131,733 students in academic year 2011/12, the number of **high school graduates** has dropped by 7.8% to 121,431 in academic year 2019/20. Following is the projected number of Pennsylvania high school graduates based on estimates from the Pennsylvania Department of Education.

Projected Pennsylvania High School Graduates

Fiscal Year	Number of Graduates	% Increase (Decrease)
2018/19	124,078	(0.6%)
2019/20	121,431	(2.1%)
2020/21	122,224	0.7%
2021/22	123,597	1.1%
2022/23	122,211	(1.1%)
2023/24	124,200	1.6%
2024/25	126,328	1.7%
2025/26	126,312	(0.0%)

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

Employee Compensation Costs

In August 2019, the American Federation of State, County and Municipal Employees (**AFSCME**) signed a four-year contract with the Commonwealth, the provisions of which apply to State System employees who are represented by AFSCME. For the State System, AFSCME represents primarily clerical, administrative, technical, and maintenance and trade employees. The terms of the agreement provide for successive base salary increases in each of the next four fiscal years, as well as for successive increases in the employer contributions to the Pennsylvania

Employees Benefit Trust Fund (PEBTF) over three fiscal years:

Fiscal Year	Base Salary Increase	Increase in PEBTF Contributions
2019/20	3.0%	-
2020/21	2.0%	3.3%
2021/22	2.5%	3.4%
2022/23	2.5%	3.3%

The total four-year cost to the State System, including the associated employee benefits, is $49.8 million, or a 23.4% increase in total costs over fiscal year 2018/19.

The collective bargaining agreements for most of the remaining State System labor unions expired in June 2019, and all are under negotiation. An agreement in principle was reached in September 2019 for the faculty contract with the Association of Pennsylvania State College & University Faculties (**APSCUF**). The terms of the prior contracts remain in effect until a successor agreement is achieved. The Board has not approved future merit increases for employees not represented by a union.

In May 2019 the Board approved a **Voluntary Phased Retirement Program** in anticipation of full retirement for employee members of APSCUF. The program allows eligible faculty members to reduce their work commitment by between 50% and 99% over a period of one to three years. The faculty member's base salary and retirement plan contributions are prorated accordingly, but employer healthcare contributions continue as if the employee is full-time. This program is expected to be beneficial to both the faculty member and the university, allowing both parties to effectively plan ahead, and providing adequate time for tenured faculty members to share their knowledge and experience with the next generation of faculty prior to retirement. In the first year of the program, 34 faculty members have elected to participate. An estimate of the cost impact of the program has not yet been calculated.

Pension and OPEB Liabilities

The State System's liabilities related to **unfunded future pension and retiree healthcare costs total $3.33 billion** when combined with the respective deferred inflows of resources and deferred outflows of resources. The System has virtually no control over $1.8 billion of this amount, which represents its share of the plans administered by the Commonwealth, since the Commonwealth determines the associated benefits as well as the employer and retiree contribution rates for these plans.

The **Commonwealth's combined net pension and OPEB liabilities totaled $85.6 billion** at June 30, 2019, compared to $87.4 billion at June 30, 2018. Credit rating agencies consistently site these liabilities as significant challenges for both the State System and the Commonwealth and as factors that have contributed to credit rating downgrades. Recently enacted Commonwealth **pension legislation** will modify the pension benefits for new hires, slowing the rate of growth of the pension liability, but it will not aid in reducing the existing liability. No legislation has been enacted or proposed to either reduce or slow the growth of the OPEB liabilities administered by the Commonwealth, in which the AFSCME employees participate. The State System, however, closed the State System OPEB plan to new employees—except for employees represented by APSCUF—hired after January 2016. Although this will not reduce the existing liability, the new hires bring no additional OPEB liability, now or in the future.

Capital Investment and Debt

The State System purchased $241.0 million in **capital assets** in fiscal year 2018/19, which includes $203.9 million to build or improve academic and auxiliary facilities across all 14 universities.

During fiscal year 2018/19, the State System issued **Series AV bonds**, totaling $236.9 million. Of this amount, $36.2 million was used to current refund Series AG and a portion of Series AI bonds, and the remaining $200.7 million was used to undertake various capital projects at the universities, comprising:

- $134.6 million to acquire a student housing facility at Shippensburg University.
- $66.1 million to construct a mixed-use facility incorporating classrooms, laboratory space, office space, a new dining facility, and a parking garage at West Chester University.

Bond principal of $79.2 million and bond interest of $51.2 million were paid, bringing the total outstanding **bond debt** to $1.15 billion at June 30, 2019.
In August 2019, Moody's Investors Service, Inc. maintained the State System's **bond rating** of Aa3, stable outlook. In August 2019, Fitch Ratings affirmed the State System's rating of A+, stable outlook.

THE FINANCIAL STATEMENTS

Balance Sheet

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

- *Assets* include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation.

- *Deferred Outflows of Resources*, defined as a consumption of net position that applies to future periods, reports the deferred loss on bond defeasance and certain items associated with the pension and other postemployment benefits, or OPEB, liabilities (health and tuition benefits expected to be paid to eligible current and future retirees).

- *Liabilities* include payments due to vendors, employees, and students; revenues received but not yet earned; the balance of bonds payable; and amounts estimated to be due for items such as workers' compensation (the State System is self-insured), compensated absences (the value of sick and annual leave earned by employees), pension benefits, and OPEB.

- *Deferred Inflows of Resources*, defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance, the fair value of irrevocable split-interest agreements, and certain items associated with the pension and OPEB.

- *Net Position*, informally referred to as *Net Assets* or *Fund Balance* (as it was previously called), is the sum of Assets and Deferred Outflows of Resources less Liabilities and Deferred Inflows of Resources.

Following is a summary of the State System's balance sheet at June 30, 2019, 2018, and 2017.

(in millions)

Balance Sheet

	June 30, 2019	Change from Prior Year	June 30, 2018	Change from Prior Year	June 30, 2017	Change from Prior Year
Assets						
Cash and investments	$1,308.9	0.2%	$1,305.8	(4.4%)	$1,365.7	(0.8%)
Capital assets, net	2,016.2	5.0%	1,920.4	1.1%	1,899.4	14.9%
Other assets and deferred outflows	524.6	27.9%	410.1	(3.5%)	424.8	12.8%
Total assets and deferred outflows	$3,849.7	5.9%	$3,636.3	(1.5%)	$3,689.9	8.3%
Liabilities						
Workers' compensation	$22.7	1.3%	$22.4	9.8%	$20.4	(7.7%)
Compensated absences	127.6	1.1%	126.2	5.6%	119.5	3.6%
Net pension liability	1,108.3	18.2%	937.8	(8.3%)	1,022.5	8.9%
Net OPEB liability	1,976.6	(15.0%)	2,324.6	103.0%	1,145.1	3.5%
Bonds payable	1,154.7	11.5%	1,035.6	(3.5%)	1,072.9	27.3%
Other liabilities and deferred inflows	1,070.1	40.0%	764.3	36.9%	558.4	11.1%
Total liabilities and deferred inflows	5,460.0	4.8%	5,210.9	32.3%	3,938.8	11.6%
Net Position						
Net investment in capital assets	839.6	5.1%	798.7	10.6%	722.4	1.8%
Restricted	152.3	2.7%	148.2	22.2%	121.3	6.0%
Unrestricted	(2,602.2)	3.2%	(2,521.5)	130.8%	(1,092.6)	15.5%
Total net position	(1,610.3)	2.3%	(1,574.6)	532.6%	(248.9)	104.0%
Total liabilities, deferred inflows, and net position	$3,849.7	5.9%	$3,636.3	(1.5%)	$3,689.9	8.3%

Net Position

Overall, **net position decreased by $35.8 million** in fiscal year 2018/19. This compares to a decrease of $1.326 billion in fiscal year 2017/18 from fiscal year 2016/17, and a decrease of $126.9 million in fiscal year 2016/17 from fiscal year 2015/16. The exceptionally large decrease in fiscal year 2017/18 is primarily the result of the implementation of GASB Statement No. 75, which alone caused net position to decrease by $1.280 billion from the prior year. In accordance with GASB requirements, the State System reports three components of net position:

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

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

- *Unrestricted* net position includes funds that the Board, chancellor, or university presidents have designated for specific purposes, auxiliary funds, and all other funds not appropriately classified as restricted or invested in capital assets.

Unrestricted net position includes **three liabilities that the State System does not fund**, along with the respective deferred outflows and deferred inflows of resources. Because these liabilities will be realized gradually over future years, and because of their size, the universities are expected to fund these liabilities only on a "pay-as-you-go" basis; i.e., as they become due.

- The liability for **compensated absences** represents the dollar value, based on an employee's current salary, of annual and sick leave that employees have earned and could potentially receive in the form of cash payouts upon retirement or other termination. All full-time employees are eligible to be paid, upon termination, for their accumulated unused annual, personal, and holiday leave, with a maximum annual accumulation of 45 days. Sick leave payouts, however, are subject to vesting requirements, and the value of accumulated unused sick leave is paid only to those employees who retire and meet service and/or age requirements, and it is capped depending upon the number of days accumulated. The liability for sick leave is estimated based on historical sick leave payouts.

  As employees earn and accumulate leave, the compensated absences liability increases; as employees use leave or terminate, the liability decreases. The liability increased by $1.4 million to $127.6 million for the year ended June 30, 2019, compared to a $6.7 million increase over the prior year for the year ended June 30, 2018. Universities fund this liability only as cash payouts are made to employees upon termination. In fiscal year 2018/19, cash leave payouts to employees totaled $12.3 million, compared to $10.4 million and $9.7 million in fiscal years 2017/18 and 2016/17, respectively. At June 30, 2019, the vested value of sick leave payable to employees upon retirement was $50.8 million, and the value of annual leave payable upon any termination was $35.3 million, for a total of $86.1 million, or 67.5% of the total liability, due and payable to employees.

- The **net pension liability**, along with the related deferred outflows and inflows of resources, is the State System's allocated share of the difference between the Commonwealth's defined benefit pension obligations and the funding set aside by the Commonwealth in a qualified trust to pay the future benefits that are promised to current employees, retirees, and their beneficiaries. The annual increase in the liability is the amount that current employees earn each fiscal year as a pension benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability decreases when funding of the qualified trust increases and when employees or retirees leave the pension plans. The negative effect of this liability, along with the related deferred outflows and inflows of resources, on net position at June 30, 2019, was $910.4 million, compared to $861.4 million at June 30, 2018. Universities fund this liability on a "pay-as-you-go" basis; that is, they fund only the annual contractually required contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).

- The liability for **other postemployment benefits, or OPEB,** represents the estimated future healthcare costs for current and future retirees. The annual increase in the liability is the amount that current employees earn each fiscal year as a retiree healthcare benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability also increases as healthcare costs increase. The liability decreases when required contributions by retirees are increased, when the number of eligible employees decreases, and when retirees leave the plan. The negative effect of this liability, along with the related deferred outflows and inflows of resources, on net position at June 30, 2019, was $2.4 billion, compared to $2.5 billion at June 30, 2018. Like the pension liability, universities fund these liabilities on a "pay-as-you-go" basis: For the State System plan, universities make biweekly contributions to fund the actual claims incurred by retirees during the year; for the Retired Employees Health Program (REHP) and PSERS OPEB plans, the universities make contractually required contributions as determined by the Commonwealth.

Following is a summary of the effect of the three unfunded liabilities, including the related deferred outflows of resources (DOR) and deferred inflows of resources (DIR), on the State System's net position. The State System's Alternative Retirement Plan is a defined contribution plan and has no liability. The State System was not required to report a liability for the REHP OPEB and PSERS OPEB plans at June 30, 2017.

(in millions)

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

	June 30, 2019	**June 30, 2018**	**June 30, 2017**
Unrestricted Net Position when the effect of the unfunded liabilities is included	($2,602.3)	($2,521.5)	($1,092.6)
Pension Liabilities, including DOR and DIR			
SERS Pension	833.2	785.5	761.9
PSERS Pension	77.2	75.9	73.7
Alternative Retirement Plan	0	0	0
Total Pension Liabilities	910.4	861.4	835.6
OPEB Liabilities, including DOR and DIR			
SSHE OPEB Plan	1,529.1	1,541.7	1,145.1
REHP OPEB Plan	886.4	918.6	N/A
PSERS OPEB Plan	3.7	3.7	N/A
Total OPEB Liabilities	2,419.2	2,464.0	1,145.1
Compensated Absences Liability	127.6	126.2	119.5
Total Unfunded Liabilities, including DOR and DIR	$3,457.2	$3,451.6	$2,100.2
Unrestricted Net Position when the effect of the unfunded liabilities is excluded	$854.9	$930.1	$1,007.6

When the unfunded liabilities and related DOR and DIR are excluded, unrestricted net position decreased by $75.2 million, or 8.1%, from fiscal year 2017/18 to 2018/19, compared to a decrease of $77.5 million, or 7.7%, from fiscal year 2016/17 to 2017/18. The cumulative two-year decrease of $152.7 million, or 15.2%, is indicative of the declining revenues from enrollment losses as well as the continuing increases in employee salary and benefit costs, which together are straining university operations, draining cash, and requiring universities to draw from their reserves to balance operating budgets.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* reports the revenues earned and the expenses incurred during the fiscal year. The result is reported as an increase or decrease in net position.

In accordance with GASB requirements, the State System has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public colleges' and universities' **state appropriations are nonoperating revenues**. In addition, GASB requires classification of gifts, Pell grants, investment income and expenses, unrealized gains and losses on investments, interest expense, and gains and losses on disposals and acquisitions of assets as nonoperating. The State System classifies all of its remaining activities as operating

Revenues and Gains

Following is a summary of revenues and gains for the years ending June 30, 2019, 2018, and 2017.

(in millions)

Revenues and Gains

	June 30, 2019	Change from Prior Year	June 30, 2018	Change from Prior Year	June 30, 2017	Change from Prior Year
Operating revenues						
Tuition and fees, net	$841.4	(1.1%)	$850.5	(0.6%)	$855.7	2.0%
Grants and contracts	164.8	5.4%	156.3	(1.1%)	158.1	1.7%
Auxiliary enterprises, net	320.9	1.1%	317.4	(3.2%)	327.8	1.4%
Other	58.7	(3.8%)	61.0	2.0%	59.8	29.7%
Total operating revenues	1,385.8	0.0%	1,385.2	(1.2%)	1,401.4	2.7%
Nonoperating revenues and gains						
State appropriations	486.4	3.2%	471.1	2.3%	460.3	2.5%
Investment income, net	50.2	27.4%	39.4	12.6%	35.0	45.8%
Unrealized gain on investments	0.4	-	-	-	-	(100.0%)
Gifts, nonoperating grants, and other	181.2	(3.1%)	187.0	8.3%	172.7	(7.5%)
Total nonoperating revenues and gains	718.2	3.0%	697.5	4.4%	668.0	0.8%
Total revenues and gains	$2,104.0	1.0%	$2,082.7	0.6%	$2,069.4	2.1%

Overall, fiscal year 2018/19 **operating revenues** increased slightly over the prior fiscal year. Nonoperating revenues increased by 3.0%, for an overall increase in revenues and gains of 1.0%.

Tuition and fee revenue is shown net of discounts and allowances and bad debt expense. Discounts and allowances represent financial aid to students in the form of grants, scholarships, and waivers. Despite a 2.99% tuition increase and an average 4.7% increase in the mandatory fees set by the universities, the decline in enrollment resulted in an overall decrease of **net tuition and fee revenue** of $9.1 million in fiscal year 2018/19, or 1.1%, from fiscal year 2017/18. This follows a decrease in net tuition and fee revenue of $5.2 million, or 0.6%, in fiscal year 2017/18 over fiscal year 2016/17.

Total **financial aid to students** in the form of grants, waivers, and scholarships was $306.8 million in fiscal year 2018/19, compared to $308.6 million in fiscal year 2017/18. Financial aid from outside sources decreased by $6.7 million, or 2.6%, in fiscal year 2018/19: Federal Pell grants and other federal aid decreased by $3.6 million, while Pennsylvania Higher Education Assistance Agency (PHEAA) grants decreased by $4.8 million, over fiscal year 2017/18. The decrease in PHEAA grants follows a decrease of $5.1 million in fiscal year 2017/18 from fiscal year 2016/17, for a cumulative two-year decrease of $9.9 million, or 10.8%. Financial aid from all other sources increased by $1.7 million over fiscal year 2017/18.

Following is the breakdown of financial aid in fiscal years 2018/19 and 2017/18.

(in millions)

Student Financial Aid

	2018/19	**2017/18**
Federal Pell grants	$136.0	$139.3
Other federal aid	5.2	5.5
State financial aid including PHEAA grants	81.5	86.3
Local government financial aid	0.4	0.3
Scholarships from endowments and restricted gifts and grants	18.1	17.7
Unrestricted scholarships and fellowships	12.9	11.7
Tuition and fee waivers and institutional scholarships	49.9	45.1
Housing and dining waivers and institutional scholarships	2.8	2.7
Total	$306.8	$308.6

Tuition, housing, and dining **waivers and institutional scholarships** granted by the universities increased $4.9 million in fiscal year 2018/19 over 2017/18, which follows an increase of $9.3 million in fiscal year 2017/18 over fiscal year 2016/17, for a cumulative two-year increase of $14.2 million, or 37.0%. Waivers and institutional scholarships represent discounts offered to students for which there is no outside funding source to replenish the lost operating revenue.

The new tuition policy approved by the Board in April 2019, however, will allow the universities to increase tuition discounting, under the theory that discounting can be used to optimize both enrollment and net tuition revenue; that is, it may result in more students choosing to attend the university, pay for most of their tuition, and possibly purchase student housing and dining services.

According to the EAB's *Current Higher Education Landscape, 2018*, approximately 48 percent of students attending public universities nationwide received institutional financial aid, resulting in an overall average tuition discount rate of 23%. By comparison, State System universities have discounted tuition by about 12% for approximately 27% of its students. It is expected that by allowing universities to craft their own tuition plans, taking into consideration regional economic differences such as household income, cost of living, regional buying power, individual program costs, and the specific needs of potential students, including the ability to pay, the new tuition policy will increase access, affordability, and completion for Pennsylvania's students.

Auxiliary enterprises revenue, which includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of student union and recreation centers, increased by $3.5 million in fiscal year 2018/19, or 1.1%, over fiscal year 2017/18. This compares to a decrease of $10.4 million in fiscal year 2017/18 from fiscal year 2016/17. The 2017/18 decrease can be attributed to declining enrollment, while the 2018/19 increase was due primarily to the additional revenue from a housing operation that has been newly acquired by Shippensburg University from its affiliate.

State appropriations include cash as well as capital appropriations that are received in the form of noncash furnishings and equipment for the Commonwealth-funded construction projects. The fiscal year 2018/19 general cash appropriation was $468.1 million, a $15.0 million increase over fiscal year 2017/18, while capital appropriations were $18.2 million, a $0.2 million increase over fiscal year 2017/18.

Investment income (net of related investment expenses) for fiscal year 2018/19 was $50.2 million. This represents an increase of $10.8 million over fiscal year 2017/18. The increase is due partly to rising interest rates during the fiscal year. Rates moved from a low of 1.46% in fiscal year 2017/18 to a high of 2.50% during fiscal year 2018/19. The overall average change in rates from fiscal year 2017/18 to fiscal year 2018/19 was an increase of 64 basis points, or 37.7%. Also contributing to the increase in investment income is $19.4 million of investment earnings in the reimbursement bond investment portfolio, which is dedicated to pay associated debt service.

Expenses and Losses

Following is a summary of expenses and losses for the years ending June 30, 2019, 2018, and 2017.

(in millions)

Expenses and Losses

	June 30, 2019	Change from Prior Year	June 30, 2018	Change from Prior Year	June 30, 2017	Change from Prior Year
Operating expenses						
Instruction	$750.5	(0.7%)	$755.6	(3.1%)	$779.8	4.1%
Research and public service	59.4	16.5%	51.0	4.3%	48.9	7.0%
Academic support	183.3	(4.1%)	191.1	3.1%	185.4	0.8%
Student services	190.2	(0.1%)	190.3	0.4%	189.6	2.7%
Institutional support	256.0	(3.7%)	265.7	5.0%	253.0	(1.7%)
Operations and maintenance of plant	145.3	(10.3%)	162.0	1.7%	159.3	(0.4%)
Depreciation	143.9	5.5%	136.4	3.1%	132.3	8.7%
Student aid	71.9	(4.6%)	75.4	(1.3%)	76.4	(3.4%)
Auxiliary enterprises	254.5	(0.2%)	255.1	(1.5%)	259.0	2.0%
Total operating expenses	2,055.0	(1.3%)	2,082.6	(0.1%)	2,083.7	2.4%
Other expenses and losses						
Interest expense on capital asset-related debt	42.0	13.2%	37.1	(2.9%)	38.2	12.7%
Loss on disposal/acquisition of assets	28.3	1130.4%	2.3	(95.8%)	54.8	167.3%
Unrealized loss on investment	-	(100%)	19.6	(0.5%)	19.7	-
Total other expenses and losses	70.3	19.2%)	59.0	(47.6%)	112.7	107.2%
Total expenses and losses	$2,125.3	(0.8%)	$2,141.6	(2.5%)	$2,196.4	5.1%

The decrease in **operating expenses** of $27.6 million, or 1.3%, in fiscal year 2018/19 compared to fiscal year 2017/18 is attributed to the $61.3 million decrease in the actuarially calculated pension and OPEB expenses in excess of pay-as-you-go contributions. Without the effect of these non-cash expenses, fiscal year 2018/19 operating expenses increased by $33.7 million, or 1.7%, over fiscal year 2017/18. Of this amount, $24.5 million is attributed to an increase in salaries and benefits.

Salaries and wages totaled $931.8 million in fiscal year 2018/19, an increase of $19.8 million, or 2.2%, over fiscal year 2017/18. The increase is the result of the salary increases granted in collective bargaining agreements, a slight increase in complement, and a $1.9 million increase in leave payouts. Total permanent salaried complement, which excludes temporary and wage employees, increased to 10,180 in fall 2018, compared to 10,101 in fall 2017 and 10,248 in fall 2016. Complement decreased to 10,075 in fall 2019.

When the effects of the non-cash pension and OPEB expenses in excess of contributions are factored out, fiscal year 2018/19 **employee benefits** totaled $442.3 million, an increase of $4.7 million, or 1.1%, over fiscal year 2017/18.

Following is a summary of salaries, wages, and benefits expenses for the years ending June 30, 2019, 2018, and 2017.

(in millions)

Salaries, Wages, and Benefits

	June 30, 2019	Change from Prior Year	June 30, 2018	Change from Prior Year	June 30, 2017	Change from Prior Year
Salaries and wages	$931.8	2.2%	$912.0	0.6%	$906.5	3.0%
Employer benefit contributions						
Employee healthcare	123.6	(3.6%)	128.2	(2.3%)	131.2	(4.3%)
Pension benefits	152.2	3.0%	147.7	8.4%	136.3	19.6%
Retiree healthcare	63.1	6.4%	59.3	(15.9%)	70.5	(12.3%)
Other benefits	103.4	1.0%	102.4	4.1%	98.4	1.2%
Total employer benefit contributions	442.3	1.1%	437.6	(0.3%)	436.4	2.3%
Noncash pension and OPEB expense						
Pension expense	58.7	(64.9%)	35.6	(40.5%)	59.8	(4.3%)
Retiree healthcare expense	(44.7)	(212.6%)	39.7	1.5%	39.1	19.6%
Total noncash pension and OPEB expense	14.0	(81.4%)	75.3	(23.9%)	98.9	(12.3%)
Total salaries, wages, and benefits	$1,388.1	(2.6%)	$1,424.9	(1.2%)	$1,441.8	2.7%

The employer share of **employee healthcare contributions** decreased by $4.6 million in fiscal year 2018/19, or 3.6%, from fiscal year 2017/18. This follows a decrease of $3.0 million, or 2.3%, in fiscal year 2017/18, and a decrease of $5.9 million, or 4.3% in fiscal year 2016/17, over the prior fiscal years. This cumulative three-year $13.5 million decrease can be attributed to design changes in the plan administered by the State System, which increased employees' share of expenses through higher employee premium contributions, copays, deductibles, and coinsurance, and limited spousal participation. These reductions were partially offset, however, by a premium increase of 2.75%, or $1.2 million, in the plan administered by the PEBTF.

The employer share of **retiree benefits contributions** increased by $8.2 million, or 4.0%, in fiscal year 2018/19 over fiscal year 2017/18. This follows an increase of $0.3 million, or 0.1%, and an increase of $11.0 million, or 5.7%, in fiscal years 2017/18 and 2016/17, respectively, over the prior fiscal years. Following is a summary of the State System's contributions for retiree pension and healthcare benefits for the years ending June 30, 2019, 2018, and 2017.

(in millions)

State System Employer Contributions for Retiree Pension and Healthcare Benefits

	June 30, 2019	Change from Prior Year	June 30, 2018	Change from Prior Year	June 30, 2017	Change from Prior Year
Pension						
SERS	$97.5	3.0%	$94.7	13.0%	$83.8	21.4%
PSERS	8.6	8.9%	8.0	11.3%	7.1	18.3%
ARP	46.1	2.2%	45.1	(0.4%)	45.3	3.2%
Retiree Healthcare						
System Plan	37.1	(1.6%)	37.7	(2.1%)	38.5	(2.8%)
REHP	25.8	20.6%	21.4	(32.9%)	31.9	(13.8%)
PSERS Healthcare	0.2	0.0%	0.2	0.0%	0.2	0.0%
Totals	$215.3	4.0%	$207.1	0.1%	$206.8	5.7%

- **Employer contributions to SERS**, a defined benefits pension plan, were 34.63% of a participating employee's salary for the majority of participants in fiscal year 2018/19. This rate has been steadily and significantly increasing since fiscal year 2010/11, when the rate was 4.11% of an employee's salary. The rate increases to 36.04% in fiscal year 2019/20 and is expected to remain at about the same rate for the near future. According to SERS, 15% of the fiscal year 2019/20 contributions will go to fund the benefits of new SERS members in the current year and 85% will go to pay down the unfunded liability. At December 31, 2018, 56.4% of the SERS liability was funded. Approximately 40% of the State System's employees are enrolled in SERS.

- **Employer contributions to PSERS**, a defined benefits pension plan, were 16.30% of a participating employee's salary in fiscal year 2018/19. This rate also has been significantly increasing, with some fluctuation, since fiscal year 2010/11, when the rate was 2.82% of an employee's salary. The rate increases to 16.725% in fiscal year 2019/20, and is expected to steadily increase over the near future. The Commonwealth makes annual pension contributions to PSERS on behalf of State System employees at the same annual rate. According to PSERS, 75% of the employer contribution rate is for past service, a debt already earned that must be paid. At June 30, 2018, 54.0% of the PSERS liability was funded. Since approximately only 7% of the State System's employees are enrolled in PSERS, the impact of contribution rate increases from PSERS is far less than the impact from SERS.

- **Employer contributions to the ARP**, a defined contribution plan, were 9.29% of a participating employee's salary in fiscal year 2018/19, the same rate since the plan's inception, and are expected to remain at the same rate for the near future. Because it is a defined contribution plan, the ARP has no unfunded liability. Approximately 49% of the State System's employees are enrolled in the ARP.

- **Employer contributions to the State System OPEB Plan**, a defined benefits retiree healthcare plan administered by the State System, are made to a third-party health insurance vendor based on claims estimates agreed to by the State System and the third-party vendor. The vendor charges an additional assessment or issues a cash refund in the following year to reconcile to the actual claims paid. Despite the increasing population of retirees and rising healthcare costs, the State System has seen flat or declining healthcare spending in this plan from retirees for the last several years. This can be attributed in part to design changes that increased retirees' share of expenses through higher retiree premium contributions, copays, deductibles, and coinsurance. The employer rate for fiscal year 2018/19 was set at $184 per active participating employee per pay and remains the same in fiscal year 2019/20. Future year changes will depend upon actual claims experience. As of June 30, 2019, no funds have been placed in a trust to fund the future liability.

- **Employer contributions to the REHP**, a defined benefits retiree healthcare plan administered by the PEBTF, were $300 per active participating employee in fiscal year 2018/19, dropping to $230 in fiscal year 2019/20. The contribution rate is set at the discretion of the Commonwealth and periodically fluctuates, ranging from $200 in fiscal year 2010/11 to $418 in fiscal year 2015/16. The rate is projected to be $239.20 in fiscal year 2020/21. At June 30, 2019, only 2.2% of the REHP liability was funded.

- **Employer contributions to the PSERS Health Insurance** Premium Assistance Program, a defined benefits retiree healthcare plan administered by PSERS, were 0.415% of a participating employee's salary in fiscal year 2018/19. The rate has been and is expected to remain at approximately the same amount. Any State System retiree who is a member of PSERS is eligible for this additional healthcare benefit, which offers up to $100 per month of reimbursements for healthcare costs, including insurance premiums.

The cost for **all other employee benefits**, such as Social Security and workers' compensation, increased in fiscal year 2018/19 by a total of $1.0 million, or 1.0%, over fiscal year 2017/18, compared to a fiscal year 2017/18 increase of $4.0 million, or 1.7%, over fiscal year 2016/17. The increases can be attributed to the increase in salaries and wages, since these benefits are based on a percentage of salaries and wages.

Other Expenses and Losses

Interest expense on capital asset-related debt was $42.0 million, an increase of $4.9 million over fiscal year 2017/18, which can be attributed to a $119.1 million increase in debt at June 30, 2019. Offsetting the increase is the State System's annual practice of refunding existing debt with debt that carries lower interest rates. Also offsetting debt increases is the faster amortization of the State System's older, more expensive, debt, as a higher ratio of debt service is applied to principal rather than interest in the later years of the payment schedules.

Privatized Housing Acquisition

In fiscal year 2018/19, Shippensburg University acquired all six of the student residence halls on campus property that had been constructed by their affiliate, Shippensburg University Student Services, Inc. The book value of the housing at the time of acquisition was $105.0 million, but the debt issued on the housing was $132.1 million, resulting in a **loss on acquisition of $27.1 million**. Despite the negative effect on its balance sheet, over the 27-year debt term the university expects to reduce debt service payments by about $31.8 million and avoid an estimated $18.5 million in operating costs such as ground lease payments, management fees, insurance, and payments in lieu of taxes.

Statement of Cash Flows

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

The universities record their share of the State System pooled deposits and investments account at cost; that is, without regard to the fair value of the underlying investments. The associated markup or markdown for the fair value, as well as the annual unrealized gains or losses on investments, are recorded only at the consolidated level. In fiscal year 2018/19, the unrealized loss on the State System pooled deposits and investments account was $3.7 million, while the accumulated fair value markup at June 30, 2019, was $65.1 million. This compares to an unrealized loss on investments in fiscal year 2017/18 of $23.6 million and an accumulated fair value markup of $68.8 million at June 30, 2018. The unrealized losses are a result of rising interest rates, which cause the prices of fixed-income securities to decline from the prior fiscal year. It is important to note that the strategy of the investment portfolio is to buy quality investments and hold to maturity; therefore, unrealized gains and losses will not be realized.

The combination of factors such as years of relatively low appropriations, declining enrollment, low interest rates, increasing personnel costs, and high long-term debt continues to cause **cash flow pressures** for some State System universities. Total unrestricted operating cash (combined Educational & General and Auxiliary) decreased by $9.6 million, or 1.0%, in fiscal year 2018/19, to $979.6 million, compared to a balance of $989.1 million at June 30, 2018. Cash flow weaknesses, which can seriously challenge financial viability, have begun to significantly affect most universities, with West Chester University being a notable exception: West Chester increased cash by $44.4 million, to a balance of $261.2 million at June 30, 2019, although $65.3 million of this total represents bond project cash held by a trustee and $53.8 million represents cash that is pledged for capital projects and held by the Office of the Chancellor. When West Chester is excluded, the remaining universities saw a decrease in unrestricted operating cash of $53.9 million in fiscal year 2018/19.

Despite the sharp decline, most universities still have relatively strong cash balances, but the cash balances at some universities are rapidly being depleted, presenting cash flow challenges, especially during the summer months between spring and fall tuition collections. The Office of the Chancellor is monitoring universities whose cash, revenue, expenditure, and enrollment trends may be an indication of future cash flow weaknesses.

- **Cheyney University's** unrestricted operating cash and investments were $5.6 million at June 30, 2019, but the university has required interest-free short-term appropriation anticipation notes issued by the Office of the Chancellor to maintain a positive cash balance and meet biweekly payroll cash needs. The appropriation anticipation notes are paid back as the monthly appropriations are received.

  A further challenge to its cash flows is that Cheyney has been on the Department of Education's (ED) Heightened Cash Monitoring 2 (HCM2) status since September 2015, which means that the university does not receive federal student financial aid funds in advance, but must use its own cash to grant federal financial aid to its students and then request reimbursement from the ED. At June 30, 2019, the receivable from ED was $15.9 million. As a result, the Office of the Chancellor has issued federal financial aid anticipation loans to Cheyney, which totaled $6.6 million at June 30, 2019.

In addition, Cheyney borrowed more than $34 million from the State System's pooled deposits and investments account, which it owes to the other 13 universities and the Office of the Chancellor. In August 2017 the Board approved a plan to forgive this debt provided that Cheyney meets certain fiscal conditions over the next several years, but while Cheyney would benefit from this action, the other 13 universities and the Office of the Chancellor would record a $34 million reduction in cash and a corresponding expense. This would cause additional cash flow stress to the other universities, especially to those that have relatively low cash balances.

To ensure the security of the cash inflows to Cheyney that have been restricted as to purpose by the donor or grantor, separate bank and investment accounts have been established for these funds, and access to them requires the approval of the Office of the Chancellor. The university continues to reduce expenditures and is seeking alternative sources of revenue in an effort to stabilize its cash flow. Additional details on the status of Cheyney University can be found in note 15 of this document.

- After a fiscal year 2017/18 increase of $0.8 million, **Clarion University's** unrestricted operating cash and investments dropped $3.2 million in fiscal year 2018/19. Since June 30, 2014, Clarion's unrestricted cash and investments have decreased by 69.4%, or $24.9 million, from $35.9 million at June 30, 2014, to $11.0 million at June 30, 2019. Clarion's monthly payroll approximates $5.2 million and its annual debt service is about $0.9 million. Clarion's bond debt at June 30, 2019, was $6.6 million.

- **Mansfield University's** unrestricted operating cash and investments decreased by $5.6 million in fiscal year 2018/19. Since June 30, 2014, Mansfield's unrestricted cash and investments have decreased by 62.4%, or $14.6 million, from $23.4 million at June 30, 2014, to $8.8 million at June 30, 2019. With a monthly payroll approximating $2.6 million, and annual debt service approximating $6.7 million, Mansfield is projecting that its unrestricted cash reserves will be depleted by spring of 2020. Mansfield's bond debt at June 30, 2019, was $90.8 million.

- Among the universities with stronger cash balances, those with sharp decreases in fiscal year 2018/19 unrestricted operating cash and investments included **Bloomsburg University**, with a decrease of $8.5 million, to $89.5 million at June 30, 2019; **Edinboro University**, with a decrease of $10.6 million, to $33.4 million at June 30, 2019, and **Indiana University**, with a decrease of $10.1 million, to $94.7 million at June 30, 2019.

OTHER ECONOMIC FACTORS

The **Commonwealth** ended fiscal year 2018/19 with $34.9 billion in General Fund collections, just slightly higher than the previous year and 2.6% above estimate. Combined with reductions in budgeted expenditures, the Commonwealth ended the year with a projected $316.9 million surplus, which was transferred into the Commonwealth's Rainy Day Fund, the largest such transfer in nearly two decades. In June 2019, Governor Tom Wolf signed a fiscal year 2019/20 Commonwealth budget with a $34 billion spending plan that contains no new taxes. The spending plan provides more than $300 million for education, which the governor states is his top priority, and includes a funding increase of 2 percent for higher education.

Moody's Investors Service, Inc., stated the following in its April 2019 Credit Opinion of the Commonwealth:

> *The Commonwealth of Pennsylvania's (Aa3 stable) below average state rating reflects its high leverage and fixed costs, and its very slim budget reserves. Over the past several years, the state steadily increased its pension contributions to address rising unfunded liabilities and these higher costs have been a source of fiscal pressure. The state has also relied on nonrecurring solutions to address budget gaps, most recently in 2018 when it issued $1.5 billion of debt to eliminate an underlying deficit in its budget reserve account. Since eliminating the deficit, the state's rainy day fund has remained very limited and budgetary spending is often supported by cash flow support from the state treasurer. At the same time, the treasury's pool of liquidity is a credit strength that obviates the need to borrow externally for cash flow.*

Cheyney Accreditation

As detailed in note 15 of this document, the Middle States Commission on Higher Education (Middle States) accreditation organization placed Cheyney University on probation in November 2015 "because of insufficient evidence that the institution is currently in compliance with Standard 3 (Institutional Resources)." Standard 3 requires, among other things, that an institution demonstrate that it has sufficient resources to support both its programs of study and students' academic progress.

With the help of a $2.5 million unrestricted grant from the Commonwealth, and two separate gifts of $500,000 from corporate donors, Cheyney ended fiscal year 2018/19 with a $1.96 million surplus in unrestricted operations, net of the effect of the unfunded pension and OPEB liabilities. In August 2019, however, the ED notified Cheyney that it was assessing a repayment liability of $14.3 million to Cheyney for the federal student financial aid improperly administered during fiscal years 2011/12, 2012/13, and 2013/14. Recording this assessment resulted in an overall unrestricted loss of $12.3 million for fiscal year 2018/19. As of the date of this document, no action has been taken on the ED's assessment.

At June 30, 2019, Cheyney's unrestricted net position deficit was $42.0 million. This is a result of the current year loss, plus unrestricted losses of $4.6 million in fiscal year 2017/18 and $7.4 million in fiscal year 2016/17, and five previous years of annual losses totaling $18.9 million. The university has made significant cuts to administration and staff, reorganized business and campus operations, and placed some academic programs into moratorium to help balance the budget and better align academic programs with the future of the university. Cheyney's fall 2018 headcount enrollment was 469, significantly lower than its fall 2017 enrollment of 755. Due to an aggressive recruitment process, however, fall 2019 enrollment is projected to exceed 600 students.

The State System, through the Office of the Chancellor, continues to provide oversight to Cheyney's leadership in an attempt to stabilize its financial condition and implement a comprehensive plan that includes timely and accurate financial aid processing, increasing student enrollment, revitalizing its academic program array, and right-sizing personnel and facilities. Additional information on Cheyney University can be found in note 15 of this document.

Rating Agencies

In August 2019, **Fitch Ratings, Inc.**, assigned an A+ rating to the State System's Series AW bonds, and affirmed the A+ rating on the State System's remaining portfolio of outstanding bonds, with an outlook of stable. Fitch notes that the State System's position as the largest provider of public higher education in the state has garnered consistent state support, but that it remains challenged by market factors that have materially pressured demand in recent years, with a primarily in-state draw and constrained pricing flexibility against declining enrollment. Although Fitch's expectation is that the State System will have limited ability to generate increasing tuition revenue going forward, it notes that the State System has a track record of "largely managing its expense base to revenue pressures as necessary." Fitch further states that "The ongoing strategic efforts being undertaken by the new chancellor have focused in part on 'system-ness' and should yield sustainable efficiencies and support more robust strategic financial planning efforts going forward."

In its August 8, 2019, *Credit Opinion*, **Moody's Investors Service, Inc.**, reaffirmed the State System's bond rating of Aa3, with a stable outlook. Moody's notes:

> *The State System of Higher Education, PA's (PASSHE, Aa3/stable) credit profile is supported by its substantial operating scale, its essentiality as a distributed public university system for the Commonwealth of Pennsylvania (Aa3 stable), and maintenance of favorable wealth and liquidity relative to peers despite the pressured fiscal environment. New leadership is progressing on its aggressive system redesign goals that include rationalizing decision making authority, creating greater coordination and alignment among the diverse campuses, and developing strategies to ensure sufficient resources to sustain its academic and social missions. The leverage profile is elevated compared to peer systems, though debt retires rapidly and PASSHE maintains sufficient capacity to absorb the moderate level of additional borrowing planned.*

Moody's notes as the State System's challenges: operating in a highly competitive student market while challenged by weak demographics; well above average reliance on student-derived revenues, exacerbated by the impact of a tuition freeze approved for fall 2019; high overall leverage, with $2.4 billion of debt, inclusive of affiliates, and $1.8 billion of unfunded pension liabilities; and a challenging labor and collective bargaining environment that affects cost containment efforts. Moody's notes as the State System's strengths: its sizable balance sheet reserves, albeit at declining levels; its significant scale as one of the nation's largest higher education systems; strong fiscal oversight that maintains operating performance; a rapidly amortizing debt structure; and a highly engaged leadership team, with comprehensive strategic plans, working with its many constituent groups.

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

Pennsylvania's State System of Higher Education

Balance Sheet

(dollars in thousands)

Assets and Deferred Outflows of Resources

	June 30, 2019	June 30, 2018
Current Assets		
Cash and cash equivalents	$ 33,626	$ 44,017
Short-term investments	686,442	588,029
Accounts receivable, students, net	45,996	45,413
Accounts receivable, other	26,435	29,324
Governmental grants and contracts receivable	30,511	19,095
Prepaid expenses	14,443	13,599
Current portion of loans receivable	7,158	8,969
Due from component units	11,445	15,058
Other current assets	7,274	7,266
Total Current Assets	863,330	770,770
Noncurrent Assets		
Restricted cash and cash equivalents	25	25
Long-term investments, including endowments	588,807	673,748
Beneficial interests	23,917	23,493
Loans receivable	25,250	31,145
Due from component units	1,072	946
Capital assets, net of accumulated depreciation	2,016,155	1,920,448
Other noncurrent assets	704	1,300
Total Noncurrent Assets	2,655,930	2,651,105
Total Assets	3,519,260	3,421,875
Deferred Outflows of Resources	330,493	214,403
Total Assets and Deferred Outflows of Resources	$ 3,849,753	$ 3,636,278

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Balance Sheet *(continued)*
(dollars in thousands)

Liabilities, Deferred Inflows of Resources, and Net Position

	June 30, 2019	June 30, 2018
Current Liabilities		
Accounts payable and accrued expenses	$ 243,007	$ 233,030
Unearned revenue	48,076	49,959
Deposits	6,381	5,717
Current portion of workers' compensation liability	4,779	4,630
Current portion of compensated absences liability	12,894	11,401
Current portion of OPEB liability	62,924	59,098
Current portion of capitalized lease obligations	3,899	4,075
Current portion of bonds payable	86,590	74,270
Due to component units	12,569	11,894
Other current liabilities	54,160	54,033
Total Current Liabilities	535,279	508,107
Noncurrent Liabilities		
Unearned revenue	899	2,030
Workers' compensation liability, net of current portion	17,948	17,818
Compensated absences liability, net of current portion	114,738	114,800
Net pension liability	1,108,260	937,757
OPEB liability, net of current portion	1,913,725	2,265,515
Capitalized lease obligations, net of current portion	26,958	39,173
Bonds payable, net of current portion	1,068,070	961,300
Other noncurrent liabilities	105,628	94,998
Total Noncurrent Liabilities	4,356,226	4,433,391
Total Liabilities	4,891,505	4,941,498
Deferred Inflows of Resources	568,447	269,383
Net Position		
Net investment in capital assets	839,644	798,665
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	57,339	55,200
Student loans	4,749	5,050
Other	3,228	3,249
Expendable:		
Scholarships and fellowships	30,602	29,599
Capital projects	38,265	37,405
Other	18,164	17,765
Unrestricted	(2,602,190)	(2,521,536)
Total Net Position	(1,610,199)	(1,574,603)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 3,849,753	$ 3,636,278

See accompanying notes to financial statements.

Pennsylvania’s State System of Higher Education

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2019 and 2018
(dollars in thousands)

	2019	2018
Operating Revenues		
Tuition and fees, net	$ 841,415	$ 850,495
Grants and contracts	164,883	156,285
Sales and services	42,077	41,717
Auxiliary enterprises, net	320,884	317,398
Other revenues, net	16,615	19,322
Total Operating Revenues	1,385,874	1,385,217
Operating Expenses		
Instruction	750,456	755,638
Research and Public Service	59,301	50,983
Academic support	183,312	191,062
Student services	190,256	190,322
Institutional support	255,983	265,714
Operations and maintenance of plant	145,333	162,005
Depreciation	143,899	136,422
Student aid	71,911	75,369
Auxiliary enterprises	254,518	255,111
Total Operating Expenses	2,054,969	2,082,626
Operating Loss	(669,095)	(697,409)
Nonoperating Revenues (Expenses)		
State appropriations, general and restricted	468,108	453,108
Pell grants	136,010	139,304
Investment income, net	50,198	39,367
Unrealized gain (loss) on investments	402	(19,595)
Gifts for other than capital purposes	22,852	21,300
Interest expense on capital asset-related debt	(42,025)	(37,105)
Loss on disposal/acquisition of assets	(28,322)	(2,267)
Other nonoperating revenue	11,410	11,279
Net Nonoperating Revenues	618,633	605,391
Loss before other revenues and special item	(50,462)	(92,018)
State appropriations, capital	18,244	18,023
Capital gifts and grants	10,930	15,121
Loss before special item	(21,288)	(58,874)
Special item - regulatory matter	(14,308)	-
Decrease in Net Position	(35,596)	(58,874)
Net position—beginning of year, as restated	(1,574,603)	(1,515,729)
Net position—end of year	$ (1,610,199)	$ (1,574,603)

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

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

	2019	2018
Cash Flows from Operating Activities		
Tuition and fees	$ 841,039	$ 848,577
Grants and contracts	152,805	160,206
Payments to suppliers for goods and services	(486,118)	(486,334)
Payments to employees	(1,367,042)	(1,339,840)
Loans issued to students	(169)	(5,328)
Loans collected from students	6,684	6,054
Student aid	(72,519)	(75,935)
Auxiliary enterprise charges	320,334	315,836
Sales and services	41,036	41,119
Other receipts	58,048	39,268
Net cash used in operating activities	(505,902)	(496,377)
Cash Flows from Noncapital Financing Activities		
State appropriations	468,108	453,108
Gifts and nonoperating grants for other than capital purposes	158,868	160,327
PLUS, Stafford, and other loans receipts (non-Perkins)	884,992	908,840
PLUS, Stafford, and other loans disbursements (non-Perkins)	(884,992)	(909,075)
Agency transactions, net	202	4,190
Other	1,527	1,279
Net cash provided by noncapital financing activities	628,705	618,669
Cash Flows from Capital Financing Activities		
Proceeds from capital debt and leases	111,333	140,916
Capital appropriations	18,244	18,023
Capital grants and gifts received	5,635	11,840
Proceeds from sales of capital assets	151	61
Purchases of capital assets	(120,204)	(149,390)
Principal paid on capital debt and leases	(138,287)	(169,461)
Interest paid on capital debt and leases	(46,585)	(49,851)
Net cash used in capital financing activities	(169,713)	(197,862)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	41,026,530	31,642,468
Interest on investments	50,013	38,549
Purchase of investments	(41,040,024)	(31,579,257)
Net cash provided by investing activities	36,519	101,760
Net Increase (Decrease) in Cash and Cash Equivalents	(10,391)	26,188
Cash and cash equivalents—beginning of year	44,042	17,854
Cash and cash equivalents—end of year	$ 33,651	$ 44,042

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

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

	2019	2018
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (669,095)	$ (697,409)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	143,899	136,422
Expenses paid by Commonwealth or donor	6,344	7,251
Effect of changes in operating assets, liabilities, deferred outflows of resources, and deferred inflows of resources:		
Receivables, net	(12,471)	2,212
Other assets	6,706	3,060
Accounts payable	(426)	(6,502)
Unearned revenue	(2,930)	(2,222)
Student deposits	664	(854)
Compensated absences	1,431	6,675
Loans to students and employees	6,514	726
Defined benefit pensions	(347,964)	(84,702)
Other postemployment benefits liability (OPEB)	170,503	(100,775)
Other liabilities	9,337	(10,153)
Deferred outflows of resources related to pensions	(78,473)	86,962
Deferred outflows of resources related to OPEB	(39,141)	(59,306)
Deferred inflows of resources related to pensions	(43,006)	23,534
Deferred inflows of resources related to OPEB	342,206	198,704
Net cash used in operating activities	$ (505,902)	$ (496,377)
Noncash Activities		
Capital assets included in payables	$ 6,467	$ 6,166
Capital assets acquired by new capital leases	4,116	797
Capital assets acquired by gift or appropriation	5,220	3,464
Student housing capital assets acquired	104,984	-
Like-kind exchanges	52	1
Debt acquired for student housing acquisition	132,074	-
Commonwealth on-behalf contributions to PSERS	9,883	9,995

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

	June 30, 2019	*(Restated)* June 30, 2018
Assets		
Cash and cash equivalents	$ 145,435	$ 160,402
Accounts and interest receivable	20,340	21,071
Contributions/pledges receivable	16,452	18,370
Due from universities	12,466	11,704
Inventories and prepaid expenses	7,243	7,353
Restricted cash and cash equivalents	59,526	57,110
Short-term investments	71,698	64,690
Long-term investments	495,448	471,272
Land, buildings, and equipment, net	942,063	1,063,319
Other assets	76,867	82,852
Total Assets	$ 1,847,538	$ 1,958,143
Liabilities		
Accounts and interest payable	$ 31,137	$ 36,680
Deferred revenue	22,159	22,744
Annuity liabilities	6,310	6,662
Due to universities	12,413	15,445
Deposits payable	37,516	36,068
Interest rate swap agreements	58,115	42,910
Capitalized leases	27,123	27,554
Bonds and notes payable	1,076,920	1,220,408
Other liabilities	16,687	14,182
Total Liabilities	1,288,380	1,422,653
Net Assets		
Without donor restrictions	110,665	106,878
With donor restrictions	448,493	428,612
Total Net Assets	559,158	535,490
Total Liabilities and Net Assets	$ 1,847,538	$ 1,958,143

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Activities
For the Years Ended June 30, 2019 and 2018
(dollars in thousands)

	2019	(Restated) 2018
Changes in net assets without donor restrictions		
Contributions	$ 17,523	$ 12,818
Sales and services	36,464	39,386
Student fees	31,991	33,902
Grants and contracts	9,419	8,813
Rental income	134,331	151,647
Investment return, net	17,338	11,822
Other revenues and gains	19,622	42,775
Net assets released from restrictions	31,524	35,560
Total Revenues and Gains	298,212	336,723
Expenses and Losses		
Program services:		
Scholarships and grants	21,810	20,059
Student activities and programs	31,026	27,980
University stores	22,542	24,059
Housing	120,324	134,594
Other programs	44,268	46,523
Management and general	28,059	28,021
Fundraising	11,639	11,527
Total Expenses	279,668	292,763
Other expenses and losses	12,219	3,388
Total Expenses and Losses	291,887	296,151
Change in net assets without donor restrictions	6,325	40,572
Changes in net assets with donor restrictions		
Contributions	$ 28,542	$ 35,746
Investment return, net	18,331	22,547
Other revenue and gains	2,595	3,403
Other expenses and losses	(601)	(2,020)
Net assets released from restrictions	(31,524)	(35,560)
Change in net assets with donor restrictions	17,343	24,116
Change in total net assets	23,668	64,688
Net assets—beginning of year	535,490	451,858
Restatement for change in reporting entity		18,944
Net assets—beginning of year, restated		470,802
Net assets—end of year	$ 559,158	$ 535,490

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Expenses by Nature and Function
For the Years Ended June 30, 2019 and 2018
(dollars in thousands)

2019

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

2018

	Program Activities						**Supporting Activities**			
Natural Expense	Scholarships and grants	Student activities and programs	University stores	Housing	Other programs	Total Programs	Management and general	Fundraising	Total Supporting	**Total Expenses**
Salaries and benefits	$372	$4,623	$5,894	$14,282	$5,213	$30,384	$13,930	$5,056	$18,986	$49,370
Gifts and grants	13,022	4,068	0	526	14,981	32,597	1,569	174	1,743	34,340
Supplies and travel	18	7,093	5,593	946	3,276	16,926	732	981	1,713	18,639
Services and professional fees	17	2,584	484	10,550	3,645	17,280	2,888	2,825	5,713	22,993
Office and occupancy	8	1,283	1,458	19,366	882	22,997	2,036	322	2,358	25,355
Depreciation	0	517	365	33,779	2,666	37,327	1,620	7	1,627	38,954
Interest	0	0	2	43,019	5,325	48,346	1,528	0	1,528	49,874
Other	6,622	7,812	10,263	12,126	10,535	47,358	3,718	2,162	5,880	53,238
Total Expenses	$20,059	$27,980	$24,059	$134,594	$46,523	$253,215	$28,021	$11,527	$39,548	$292,763

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Pennsylvania's State System of Higher Education (State System) is a body corporate and politic, created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (Commonwealth) and is governed by a Board of Governors (Board), as provided for in Act 188. The State System comprises the 14 universities and the Office of the Chancellor.

Reporting Entity

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

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

During fiscal year 2018/19, Mansfield University of Pennsylvania reaffiliated with Mansfield University Foundation, Inc., a component unit that it had disaffiliated in fiscal year 2015/16. The combined component unit financial statements for fiscal year 2017/18 have been restated accordingly and result in an increase of $20.0 million of component unit assets and an increase of $0.3 million in component unit liabilities, which, when combined with the fiscal year 2017/18 respective change in net assets of $0.8 million, result in a restatement of beginning net assets of $18.9 million.

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, an amendment of FASB Codification Topic 958, *Not-for-Profit-Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the component units' financial information presented herein.

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

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

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

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

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

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

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

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

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

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

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

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

Cash Equivalents and Investments
The State System considers all demand and time deposits and money market funds to be cash equivalents. Investments purchased are stated at fair value. Investments received as gifts are recorded at their fair value or appraised value as of the date of the gift. The State System classifies

investments as short-term when they are readily marketable and intended to be converted to cash within one year.

Accounts and Loans Receivable

Accounts and loans receivable consist of tuition and fees charged to current and former students and amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants, contracts, and other miscellaneous sources. Accounts and loans receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the universities' historical losses and periodic review of individual accounts.

Capital Assets

Land and buildings at the 14 university campuses acquired or constructed prior to its creation on July 1, 1983, are owned by the Commonwealth and made available to the universities of the State System. Since the State System neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed using capital funds appropriated by the Commonwealth after June 30, 1983, and made available to the universities.

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

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

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

Impairment of Capital Assets

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

Pension Plans and OPEB Plans

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

Scholarships and Waivers

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

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

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

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

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

(in thousands)	**2017**
Net position—beginning of year, as previously stated	($248,925)
Restatement for July 1, 2017, OPEB liabilities and related expenses	(1,280,301)
Restatement for July 1, 2017, beneficial interests	13,497
Net position—beginning of year, restated	($1,515,729)

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

In June 2017, GASB issued Statement No. 87, *Leases.* Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in a similar manner as capital leases, with assets and liabilities recorded at lease inception. The State System has determined that the effect on net position and results of operations will be immaterial. The provisions in Statement No. 87 are effective for reporting periods beginning after 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 State System has determined that the effect of Statement No. 89 on its financial statements will vary from year to year, depending upon the amount of new debt incurred for capital assets. The provisions of Statement No. 89 are effective for reporting periods beginning after December 15, 2019.

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

(2) Deposits and Investments

On June 30, 2019 and 2018, the carrying amount of the State System's demand and time deposits and certificates of deposit for all funds was $33,831,000 and $44,056,000, respectively, compared to bank balances of $33,064,000 and $43,469,000, respectively. The difference is caused primarily by items in transit. Of the bank balances, $3,418,000 and $5,389,000, respectively, were covered by federal government depository insurance or collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve banks in the name of the banking institutions; $1,279,000 and $1,164,000, respectively, were uninsured and uncollateralized; and $28,367,000 and $36,916,000, respectively, were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State System Pooled Deposits and Investments
The carrying values (fair values) of deposits and investments for the State System’s pooled funds in M&T Bank on June 30, 2019 and 2018, follow.

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

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

State System Pooled Deposits and Investments
June 30, 2018
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				$3
Money market funds				29,931
Total deposits				29,934
Investments				
Commercial paper	2	Aaa	0.09	147,471
Government money market mutual fund	2	Aaa	0.00	57,489
	2	Aa3	1.41	5,158
U.S. government and agency obligations	2	Aaa	1.31	432,013
Asset-backed securities	2	Aaa	0.59	112,737
	2	Aa1	0.75	28,079
Collateralized mortgage obligations (CMOs)	2	Aaa	2.23	158,433
Corporate bonds and notes	2	Aa1	0.01	2,001
	2	Aa2	1.17	4,509
	2	Aa3	0.74	7,984
	2	A1	1.91	57,849
	2	A2	1.38	50,449
	2	A3	1.31	75,863
	2	Baa1	1.85	42,985
	2	Baa2	1.29	15,625
	2	Baa3	0.00	726
Total investments				1,199,371
Total deposits and investments				$1,229,305

Of the investments noted above at June 30, 2019 and 2018, $69,720,000 and $22,312,000, respectively, were held by a trustee to be used for projects funded under the Pennsylvania Higher Educational Facilities Authority/State System of Higher Education bond issues (note 11). Such investments are made subject to the restrictions of the bond indenture and may be liquidated only for the payment of costs associated with the projects described in the bond indenture.

University Local Deposits and Investments

The carrying values (fair values) of local university deposits and investments on June 30, 2019 and 2018, follow.

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

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

University Local Deposits and Investments
June 30, 2018
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				$14,108
Certificates of deposit				14
Total deposits				14,122
Investments				
U.S. government and agency obligations	2		0.51	78
Bond mutual funds	1		5.07	2,434
	NAV		5.11	12,690
Debt securities	2	Aa1	7.70	19
	2	Aaa	3.35	375
Equity/balanced mutual funds	1			13,558
	2			5,853
	3			1,665
	NAV			22,997
Common stock	1			2,723
Total investments				62,392
Total deposits and investments				$76,514

Investment revenue is reported net of related investment expenses. Gross investment revenue totaled $50,796,000 and $39,737,000 at June 30, 2019, and June 30, 2018, respectively. Of this amount, $598,000 and $370,000 at June 30, 2019, and June 30, 2018, respectively, represent the amount of related investment expenses.

(3) Student Revenue and Accounts Receivable

Accounts receivable for tuition and fees charged to current and former students totaled $88,398,000 and $82,715,000 at June 30, 2019, and June 30, 2018, respectively. Of this amount, $42,402,000 and $37,302,000 at June 30, 2019, and June 30, 2018, respectively, are estimated to be uncollectible based upon the universities' historical losses and periodic review of individual accounts. Other receivables are reported at net realizable value. Accounts will be written off when they are determined to be uncollectible based upon management's assessment of individual accounts.

Tuition and fee revenue is reported net of scholarship discounts and allowances. Gross tuition and fee revenue totaled $1,081,192,000 and $1,089,509,000 at June 30, 2019, and June 30, 2018, respectively. Of this amount, $239,777,000 and $239,014,000 at June 30, 2019, and June 30, 2018, respectively, represent the amount of student grants, waivers, and scholarships calculated to be a discount against tuition and fees.

Revenue from auxiliary enterprises, which primarily comprises fees from student room and board, student recreation centers, and parking, is reported net of discounts. Gross auxiliary revenue totaled $324,292,000 and $318,914,000 at June 30, 2019, and June 30, 2018, respectively. Of this amount, $3,408,000 and $1,516,000 at June 30, 2019, and June 30, 2018, respectively, represent the amount of student grants, waivers, and scholarships calculated to be a discount.

(4) Beneficial Interests

At June 30, 2019, the fair value of beneficial interests totaled $23,917,000, compared to $23,493,000 at June 30, 2018. Of this amount, $23,912,000 at June 30, 2019, and $23,483,000 at June 30, 2018, represent gifts that donors placed in trust in perpetuity with third parties, with the respective universities receiving a restricted revenue stream in accordance with the donors' wishes; and $5,255 at June 30, 2019, and $10,000 at June 30, 2018, represent a split-interest agreement that a donor placed in trust with a third party, and to which the university will take title upon the death of the donor.

(5) Capital Assets

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

(in thousands)

	Balance June 30, 2017	2017/18 Additions	2017/18 Retirements/ Adjustments	Balance June 30, 2018	2018/19 Additions	2018/19 Retirements/ Adjustments	Balance June 30, 2019
Land	$32,360	$153	-	$32,513	$1,354	$143	$34,010
Construction in progress	183,303	91,004	($168,125)	106,182	60,936	(85,266)	81,852
Total capital assets not being depreciated	215,663	91,157	(168,125)	138,695	62,290	(85,123)	115,862
Buildings, including improvements	2,432,715	40,696	144,644	2,618,055	142,968	64,681	2,825,704
Improvements other than buildings	298,197	6,814	2,976	307,987	7,115	6,740	321,842
Equipment and furnishings	487,973	20,487	(5,230)	503,230	28,022	(8,774)	522,478
Library books	80,734	663	(1,895)	79,502	648	(4,709)	75,441
Total capital assets being depreciated	3,299,619	68,660	140,495	3,508,774	178,753	57,938	3,745,465
Less accumulated depreciation:							
Buildings and improvements	(996,044)	(95,205)	12,274	(1,078,975)	(102,784)	10,356	(1,171,403)
Land improvements	(149,712)	(10,904)	2,047	(158,569)	(11,208)	194	(169,583)
Equipment and furnishings	(395,696)	(28,775)	9,085	(415,386)	(28,598)	10,489	(433,495)
Library books	(74,448)	(1,538)	1,895	(74,091)	(1,309)	4,709	(70,691)
Total accumulated depreciation	(1,615,900)	(136,422)	25,301	(1,727,021)	(143,899)	25,748	(1,845,172)
Total capital assets being depreciated, net	1,683,719	(67,762)	165,796	1,781,753	34,854	83,686	1,900,293
Capital assets, net	$1,899,382	$23,395	($2,329)	$1,920,448	$97,144	($1,437)	$2,016,155

(6) Workers' Compensation

The State System is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, State System universities must pay up to $100,000; for claims occurring on or after July 1, 1995, State System universities must pay up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the universities contributed $690,000, $1,633,000, and $372,000 to the Reserve Fund during the years ended June 30, 2019, 2018, and 2017, respectively.

For the years ended June 30, 2019, 2018, and 2017, the aggregate liability for claims under the self-insurance limit was $9,338,000, $9,327,000, and $8,554,000, respectively. The Reserve Fund assets of $13,389,000, $13,121,000, and $11,813,000 were equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2019, 2018, and 2017, respectively. Changes in the workers' compensation claims liability in fiscal years 2017, 2018, and 2019 follow.

(in thousands)

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2017	$22,091	$2,313	$4,037	$20,367
2018	$20,367	$6,049	$3,968	$22,448
2019	$22,448	$4,336	$4,057	$22,727

(7) Compensated Absences

Compensated absences are absences for vacation, holiday, and sick leave for which employees will be paid in cash at termination or retirement. Changes in the compensated absences liability in fiscal years 2019 and 2018 are as follows.

(in thousands)

Year	Beginning Balance	Current Changes in Estimates	Less Payouts	Ending Balance
2018	$119,526	$17,061	$10,386	$126,201
2019	$126,201	$13,741	$12,310	$127,632

(8) Pension Benefits

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

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

(in thousands)

	SERS		PSERS		ARP		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Net pension liabilities	**$1,020,123**	**$848,315**	**$88,137**	**$89,442**	**$0**	**$0**	**$1,108,260**	**$937,757**
Deferred outflows of resources:								
Difference between expected and actual experience	$15,309	$14,343	$709	$933	–	–	$16,018	$15,276
Net difference between projected and actual investment earnings on pension plan investments	99,252	–	432	2,073	–	–	99,684	2,073
Changes in assumptions	27,179	42,472	1,643	2,430	–	–	28,822	44,902
Difference between employer contributions and proportionate share of contributions	–	–	348	506	–	–	348	506
Changes in proportion	14,631	20,281	1,504	1,602	–	–	16,135	21,883
Contributions after the measurement date	55,177	53,756	8,565	7,880	–	–	63,742	61,636
Total deferred outflows of resources	**$211,548**	**$130,852**	**$13,201**	**$15,424**	**$0**	**$0**	**$224,749**	**$146,276**
Deferred inflows of resources:								
Difference between expected and actual experience	$11,054	$16,107	$1,364	$540	–	–	$12,418	$16,647
Net difference between projected and actual investment earnings on pension plan investments	–	33,729	–	–	–	–	–	33,729
Difference between employer contributions and proportionate share of contributions	5,449	4,899	–	–	–	–	5,449	4,899
Changes in proportion	8,068	13,301	931	1,297	–	–	8,999	14,598
Total deferred inflows of resources	**$24,571**	**$68,036**	**$2,295**	**$1,837**	**$0**	**$0**	**$26,866**	**$69,873**
Pension expense	**$145,114**	**$118,342**	**$19,646**	**$19,902**	**$46,085**	**$45,118**	**$210,845**	**$183,362**
Contributions recognized by pension plans	**$97,467**	**$94,727**	**$8,565**	**$7,880**	**N/A**	**N/A**	**$106,032**	**$102,607**

The State System will recognize the $55,177,000 reported as 2019 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $8,565,000 reported as 2019 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

(in thousands)

	Amortization	
Fiscal Year Ended	**SERS**	**PSERS**
June 30, 2020	$49,588	$2,532
June 30, 2021	27,741	954
June 30, 2022	18,266	(826)
June 30, 2022	35,984	(319)
June 30, 2023	221	0
Totals	$131,800	$2,341

SERS

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

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

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

Contributions
The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions on behalf of all active members and annuitants to fund the liabilities and provide the annuity reserves required to pay benefits. The SERS funding policy, as set by the

SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. In fiscal year 2017/18, the Commonwealth paid the full actuarially required rate after being collared in previous years due to Act 120.

For the SERS defined benefit plan, the State System's actuarially determined contribution rate for most active members was 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 State System's contributions to the SERS defined benefit plan for the years ended June 30, 2019, 2018, and 2017, were $97,467,000, $94,727,000, and $83,754,000, respectively, equal to the required contractual contribution.

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

For the SERS defined contribution plan, the State System contributed at actuarially determined rates of between 2.0% and 3.5% of active members' annual covered payroll at June 30, 2019, depending upon the plan chosen by the employee. The State System recognized $21,000 in SERS defined contribution pension expense for the year ended June 30, 2019, the first year of the plan's implementation. The vesting period for employer contributions to the defined contribution plan, both for members who participate in the straight 401(a) defined contribution plan and those who participate in one of the defined benefit/defined contribution hybrid plans, is three years. Once money is contributed to the plan, it cannot be removed from the plan, except for making distribution payments to participants. Forfeitures of unvested employer contributions and earnings are invested in the PA Treasury short-term investment fund. The funds are forfeited to the employee's most recent employer and used to offset future contributions to the plan and correct funding discrepancies. Forfeitures seized under the Pension Forfeiture Act are used for administrative expenses of the plan.

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

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

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

- Entry age actuarial cost method.
- Investments amortized on a straight-line, closed-period basis over five years; assumption changes 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. Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2018, are summarized below.

Asset Class	Target Allocation	Long-Term Real Rate of Return
Private equity	16.00%	7.25%
Global public equity	48.00%	5.15%
Real estate	12.00%	5.26%
Multi-strategy	10.00%	4.44%
Fixed income	11.00%	1.26%
Cash	3.00%	-
	100.00%	

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

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

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

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$1,252,627	$1,020,123	$820,879

The following presents what the State System's proportionate share of the SERS net pension liability was at June 30, 2018, calculated using the discount rate of 7.25%, as well as what the SERS net pension liability would have been if it had been calculated using a discount rate that was one percentage point lower (6.25%) or one percentage point higher (8.25%) than the rate used.

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

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$1,076,776	$848,315	$652,611

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 State System's proportionate share of the SERS net pension liability, measured at December 31, 2018, was $1,020,123,000. At June 30, 2018, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2017, was $848,315,000.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the December 2018 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2019/20, from the December 31, 2018, funding valuation, to the expected funding payroll. For the allocation of the December 2017 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2018/19, from the December 31, 2017, funding valuation, to the expected funding payroll. At the December 31, 2018, measurement date, the State System's proportion was 4.897%, an decrease of 0.009% from its proportion calculated as of the December 31, 2017, measurement date.

PSERS
Plan Description
PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–8535) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established. The Commonwealth's General Assembly has the authority to amend the benefit terms by passing bills in the Senate and House of Representatives and sending them to the Governor for approval. The Code requires contributions by active members, the employer (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.

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

Member Contributions
Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Class T-C members) or at 6.50% (Class T-D members) of the member's

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

Employer Contributions
The State System's contractually required contribution rate for PSERS for fiscal year ended June 30, 2019, was 32.60% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 16.30% of covered payroll. The State System's contribution to PSERS for the year ending June 30, 2019, June 30, 2018, and June 30, 2017, was $8,565,000, $7,880,000, and $7,107,000, respectively, equal to the required contractual contribution.

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

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

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

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

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Global public equity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute return	10.0%	3.5%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real estate	10.0%	4.2%
Alternative investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	(20.0%)	0.9%
	100.0%	

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

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

Sensitivity of the State System's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate
(in thousands)

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$109,252	$88,137	$70,283

The following presents what the State System's proportionate share of the PSERS net pension liability was at June 30, 2018, calculated using the discount rate of 7.25%, as well as what the PSERS net pension liability would have been if it had been calculated using a discount rate that was one percentage point lower (6.25%) or one percentage point higher (8.25%) than the rate used.

Sensitivity of the State System's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate
(in thousands)

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$110,096	$89,442	$72,005

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' fiduciary net position have been determined on the same basis as they are reported in the PSERS' financial statements. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Detailed information about PSERS' fiduciary net position is available in the PSERS Comprehensive Annual Financial Report, which can be found at www.psers.state.pa.us.

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

(in thousands)	2019	2018
Total PSERS net pension liability associated with the State System	$176,274	$178,884
Commonwealth's proportionate share of the PSERS net pension liability associated with the State System	(88,137)	(89,442)
State System's proportionate share of the PSERS net pension liability	$88,137	$89,442

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

ARP
The ARP is a defined contribution pension plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2019 and 2018, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2019 and 2018, were $46,085,000 and $45,118,000, respectively, from the State System; and $24,803,000 and $23,535,000, respectively, from active members. No liability is recognized for the ARP.

(9) Other Postemployment Benefits (OPEB)

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

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

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

(in thousands)

	System Plan		REHP		Premium Assistance		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Net OPEB liabilities	**$1,314,607**	**$1,460,042**	**$658,214**	**$860,881**	**$3,828**	**$3,690**	**$1,976,649**	**$2,324,613**
Deferred outflows of resources:								
Differences between actual and expected experience	–	–	–	–	$24	–	$24	–
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	–	–	6	$4	6	$4
Changes in assumptions	–	–	–	–	60	–	60	–
Changes in proportion	–	–	$35,170	–	46		35,216	–
Contributions after the measurement date	$37,137	$37,657	25,787	$21,441	217	204	63,141	59,302
Total deferred outflows of resources	**$37,137**	**$37,657**	**$60,957**	**$21,441**	**$353**	**$208**	**$98,447**	**$59,306**
Deferred inflows of resources:								
Differences between actual and expected experience	$146,516	–	$201,596	–	–	–	$348,112	–
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	1,006	$719	–	–	1,006	$719
Changes in assumptions	105,085	$119,334	86,528	78,438	$145	$172	191,758	197,944
Changes in proportion	N/A	N/A	–	–	34	41	34	41
Total deferred inflows of resources	**$251,601**	**$119,334**	**$289,130**	**$79,157**	**$179**	**$213**	**$540,910**	**$198,704**
OPEB expense	**$24,488**	**$58,709**	**($6,423)**	**$39,964**	**$354**	**$303**	**$18,419**	**$98,976**
Contributions recognized by OPEB plans	N/A	N/A	**$25,787**	**$21,441**	**$217**	**$204**	**$26,004**	**$21,645**

The State System will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $37,137,000 for the System Plan, $25,787,000 for the REHP plan, and $217,000 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

(in thousands)

	Amortization		
Fiscal Year Ended	**System Plan**	**REHP**	**Premium Assistance**
June 30, 2020	$55,094	$64,691	$12
June 30, 2021	55,094	64,691	13
June 30, 2022	55,093	64,691	13
June 30, 2023	55,093	59,546	13
June 30, 2024	31,227	35,084	14
Thereafter	0	(34,743)	(22)
Totals	$251,601	$253,960	$43

System Plan

Plan Description

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

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

A total of 12,122 individuals are covered by the benefit terms (down from 12,511 in the prior year), including 7,235 active employees that may be entitled to receive benefit payments upon retirement, 47 retired participants entitled to but not yet receiving benefits, and 4,840 retired participants receiving benefits. Effective January 16, 2016, the State System OPEB plan became closed to newly hired SCUPA, SPFPA, OPEIU, and nonrepresented employees, while newly hired APSCUF employees (faculty and coaches) continue to be eligible to participate in the plan.

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

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

Actuarial Assumptions and Other Inputs

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

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

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

The following presents 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 Net OPEB Liability to Changes in the Healthcare Cost Trend Rate
(in thousands)

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%)
$1,100,605	$1,314,607	$1,591,538

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

Sensitivity of the System Plan's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate
(in thousands)

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%)
$1,208,892	$1,460,042	$1,787,836

The following presents the State System'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 Net OPEB Liability to Changes in the Discount Rate
(in thousands)

1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
$1,542,936	$1,314,607	$1,133,474

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

Sensitivity of the System Plan's Net OPEB Liability to Changes in the Discount Rate
(in thousands)

1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
$1,720,829	$1,460,042	$1,254,178

System Plan OPEB Liability
The System Plan's total OPEB liability of $1,314,607,000 was measured as of July 1, 2018, and was determined by an actuarial valuation as of July 1, 2018. The System Plan's total OPEB liability of $1,460,042,000 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016, that was rolled forward to July 1, 2017.

Changes in the System Plan Total OPEB Liability
(in thousands)

	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018
Balance beginning of year	$1,460,042	$1,559,134
Service cost	42,364	48,636
Interest	46,251	39,441
Changes of benefit terms	(1,018)	-
Differences between expected and actual experience	(175,819)	-
Changes of assumptions	(11,542)	(143,201)
Benefit payments	(45,671)	(43,968)
Net Changes	(145,435)	(99,092)
Balance end of year	$1,314,607	$1,460,042

REHP

Plan Description

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

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

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, and their salary at retirement. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 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, 2018. The rate during the period July 1, 2017, through January 18, 2018, was $300, and the rate from January 19, 2018, though June 30, 2018, was $188.

Actuarial Assumptions and Other Inputs

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

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

- 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	47.00%	6.6%
International equity	20.00%	8.6%
Fixed income	25.00%	3.0%
Real estate	8.00%	6.9%
Cash and cash equivalents	0.00%	1.0%
	100.00%	

The actuarial valuation on which the total REHP OPEB liability is based was dated June 30, 2018. The Commonwealth calculated an allocated share of the REHP OPEB liability for each participating employer based upon their actual contributions made to the REHP. The State System's proportion of the collective net OPEB liability was 4.573% for the measurement date of June 30, 2018.

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

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

1% Decrease (5.2% decreasing to 3.1%)	Healthcare Cost Trend Rates (6.2% decreasing to 4.1%)	1% Increase (7.2% decreasing to 5.1%)
$565,023	$658,214	$774,049

The following presents what the State System's share of the REHP net OPEB liability was at June 30, 2018, as well as what the liability would have been if it had been calculated using healthcare cost trend rates that were one percentage point lower (5.0% 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
(in thousands)

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%)
$747,111	$860,881	$1,031,191

The following presents the State System'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 Liability to Changes in the Discount Rate
(in thousands)

1% Decrease 2.87%	Current Rate 3.87%	1% Increase 4.87%
$754,090	$658,214	$579,224

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

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

1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
$1,008,673	$860,881	$762,857

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.

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

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

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

Actuarial Assumptions and Other Inputs
The total OPEB liability as of June 30, 2018, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2017, to June 30, 2018, using

the following actuarial assumptions, applied to all periods included in the measurement:

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

The following assumptions were used to determine the contribution rate:

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

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

- The discount rate used to measure the total OPEB liability was 2.98% at June 30, 2018, and 3.13% at June 30, 2017.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 2.98%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.
- Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2018.

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

The actuarial valuation on which the total Premium Assistance OPEB liability 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 0.1836% for the measurement date of June 30, 2018.

The following presents the State System'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
(in thousands)

1% Decrease (between 4% and 6.75%)	Healthcare Cost Trend Rates (between 5% and 7.75%)	1% Increase (between 6% and 8.75%)
$3,827	$3,828	$3,829

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

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

1% Decrease (between 4% and 7%)	Healthcare Cost Trend Rates (between 5% and 8%)	1% Increase (between 6% and 9%)
$3,689	$3,690	$3,691

The following presents the State System'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 healthcare cost trend rates (2.98%).

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

1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
$4,353	$3,828	$3,392

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

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

1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
$4,194	$3,690	$3,271

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 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.

(10) LEASES

Total rent expense for the State System operating leases amounted to $13,488,000 and $15,033,000 for the years ended June 30, 2019 and 2018, respectively.

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

(in thousands)	June 30, 2019	June 30, 2018
Cost:		
Buildings	$54,336	$76,133
Equipment	7,726	3,826
Total	$62,062	$79,959
Accumulated Depreciation:		
Buildings	$42,490	$46,246
Equipment	1,210	1,800
Total	$43,700	$48,046

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

(in thousands)

	Operating Leases	Capital Leases
2020	$5,993	$5,332
2021	4,070	5,173
2022	3,092	4,919
2023	2,287	4,610
2024	1,867	4,543
Thereafter	43,701	13,667
Total minimum lease payments	$61,010	38,244
Amount representing interest on capital leases		7,387
Present value of net minimum capital lease payments		$30,857

Changes in the liability for capital leases in fiscal years 2018 and 2019 follow.

(in thousands)

Year	Beginning Balance	Capital Lease Additions	Capital Lease Payments	Ending Balance
2018	$46,306	$798	$3,856	$43,248
2019	$43,248	$4,116	$16,507	$30,857

(11) BONDS PAYABLE

Bonds payable on June 30, 2019 and 2018, consisted of several outstanding tax-exempt revenue bond series issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The bonds were issued to provide funds to undertake various capital projects at the universities or to advance refund certain previously issued bonds.

Activity for the various bond series for the years ended June 30, 2019 and 2018, was as follows.

Bonds Payable
June 30, 2019 and 2018
(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2017	2018 Bonds Issued	2018 Bonds Redeemed/ Refunded	Balance June 30, 2018	2019 Bonds Issued	2019 Bonds Redeemed/ Refunded	Balance June 30, 2019	Current Portion
Series AG issued March 2008, final maturity June 2024	$101,335	4.52%	$36,070	-	$11,105	$24,965	-	$24,965	-	-
Series AH issued July 2008, final maturity June 2038	140,760	4.66%	105,695	-	97,535	8,160	-	390	$7,770	$410
Series AI issued August 2008, final maturity June 2025	32,115	4.36%	15,980	-	2,070	13,910	-	13,720	190	30
Series AJ issued July 2009, final maturity June 2039	123,985	4.85%	89,520	-	6,080	83,440	-	6,570	76,870	6,995
Series AK issued Sept. 2009, final maturity June 2024	47,310	4.00%	20,455	-	4,220	16,235	-	4,405	11,830	3,255
Series AL issued July 2010, final maturity June 2035	135,410	5.00%	66,420	-	5,955	60,465	-	6,525	53,940	6,845
Series AM issued July 2011, final maturity June 2036	119,085	4.64%	94,895	-	4,900	89,995	-	4,955	85,040	5,215
Series AN issued March 2012, final maturity June 2023	76,810	5.00%	53,700	-	9,705	43,995	-	14,400	29,595	21,530
Series AO issued July 2013, final maturity June 2038	30,915	4.49%	26,775	-	1,130	25,645	-	1,170	24,475	1,210
Series AP issued May 2014, final maturity June 2024	46,110	4.62%	39,285	-	1,240	38,045	-	1,275	36,770	6,775
Series AQ issued May 2015, final maturity June 2036	94,975	4.61%	86,410	-	7,480	78,930	-	7,855	71,075	8,250
Series AR issued Sept. 2015, final maturity June 2040	102,365	3.92%	98,070	-	2,595	95,475	-	2,725	92,750	2,860
Series AS issued June 2016, final maturity June 2037	47,280	3.97%	46,430	-	2,135	44,295	-	3,060	41,235	3,115
Series AT issued Sept. 2016, final maturity June 2055	298,110	3.44%	293,210	-	7,100	286,110	-	7,425	278,685	7,765
Series AU issued Sept. 2017, final maturity June 2042	128,260	3.51%	-	$128,260	2,355	125,905	-	5,200	120,705	6,165
Series AV issued Sept. 2018, final maturity June 2045	236,945	4.22%	-	-	-	-	$236,945	13,215	223,730	6,170
Total	**$1,761,770**		**$1,072,915**	**$128,260**	**$165,605**	**$1,035,570**	**$236,945**	**$117,855**	**$1,154,660**	**$86,590**

Principal and interest requirements to maturity are as follows.

(in thousands)	Principal	Interest	Total
2020	$86,590	$49,467	$136,057
2021	71,685	45,469	117,154
2022	72,390	42,189	114,579
2023	73,735	38,704	112,439
2024	80,575	35,135	115,710
2025–2029	264,300	131,926	396,226
2030–2034	213,695	78,752	292,447
2035–2039	171,725	40,214	211,989
2040–2044	107,225	13,292	120,517
2045–2049	8,580	1,721	10,301
2050–2054	3,680	690	4,370
2055	480	24	504
Total	**$1,154,660**	**$477,583**	**$1,632,243**

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

(12) DEBT REFUNDING

In September 2018, $36.2 million of the net proceeds from the Series AV-1 tax-exempt revenue bonds were used to current refund Series AG and a portion of Series AI bonds. The refunding resulted in an accounting gain of approximately $144,000 and was performed to reduce debt service by approximately $2,700,000, resulting in an economic gain (difference between the present values of the old and new debt service payments) of approximately $2,400,000. The accounting gain, or deferred gain on refunding, is reported as a deferred inflow of resources that will be amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

(13) RATING ACTIONS

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

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

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2019 and 2018, follow.

(in thousands)	**June 30, 2019**	**June 30, 2018**
Deferred Outflows of Resources		
Pension related (see note 8)	$224,749	$146,276
OPEB related (see note 9)	98,447	59,306
Unamortized loss on refunding of debt	7,297	8,821
Total Deferred Outflows of Resources	$330,493	$214,403
Deferred Inflows of Resources		
Pension related (see note 8)	$26,866	$69,873
OPEB related (see note 9)	540,910	198,704
Unamortized gain on refunding of debt	661	796
Split-interest agreements	10	10
Total Deferred Inflows of Resources	$568,447	$269,383

(15) CONTINGENCIES AND COMMITMENTS

Contingencies

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

The State System receives support from federal and Commonwealth grant programs, primarily for student financial assistance. 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 State System estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements, with the exception of potential adjustments related to Cheyney University of Pennsylvania, as detailed in the following section.

Cheyney University of Pennsylvania
In July 2014, Cheyney University voluntarily self-reported to the U.S. Department of Education (ED) that $29.6 million of federal student financial aid was improperly administered and delivered in fiscal years 2011/12, 2012/13, and 2013/14, covering almost 4,400 student records. The State System has been engaged with the ED since reporting these findings. The ED required the university to take specified corrective actions, including submitting file reviews, reconciliations, and updated policies and procedures, and further requiring that Cheyney engage an independent Certified Public Accountant to attest to the file reviews and reconciliations. Although the university made every effort to comply with the ED's requirements, on August 8, 2019, in a letter to Cheyney President Aaron Walton, the ED stated that:

> As Cheyney's overall response to the program review report did not fully address the findings nor document accurately the federal student aid funds that were disbursed, the Department under normal circumstances would assess full Federal Pell Grant and Federal Direct Loan liabilities for the financial aid award years reviewed in the amount of $57,531,566.

The letter continued, however, that in recognition of Cheyney's significant efforts to accurately document its administration of federal student aid funds, and the limitations of its ability to do so given the deficiencies in the records, the ED would be willing to establish Cheyney's repayment liability in the amount of $14,308,377, in conjunction with a waiver of any administrative appeal and an acceptable repayment agreement. The letter also stated that the ED would "not entertain further reductions to this amount." As a result, the university has recorded the liability and associated expense as a special item in fiscal year 2018/19 in the amount of $14,308,377. As of the date of this document, no additional actions have been taken on the ED's settlement proposal.

In September 2015, the ED placed the university on Heightened Cash Monitoring 2 (HCM2) status, meaning that the university does not receive federal student financial aid funds in advance, but must use its own cash to grant federal financial aid to its students and then request reimbursement from the ED. After demonstrating compliance with HCM2 requirements, the university has begun to slowly receive its funds, but only after providing extensive detailed documentation for every student's financial aid account. At June 30, 2018, Cheyney was awaiting receipt of $12.38 million in federal student financial aid funds. Funds were not received from ED until March 2019, when Cheyney received $1.39 million for fiscal year 2017/18. An additional $126,000 was received in June 2019 for fiscal year 2018/19 activity. At June 30, 2019, the receivable from ED was $15.93 million, comprising $5.27 million due for fiscal year 2018/19; $10.15 million due for fiscal year 2017/18; $0.49 million due for fiscal year 2016/17, and $14,000 due for fiscal year 2015/16. Subsequently, in July 2019, Cheyney has received $1.98 million for fiscal year 2017/18, and an additional $135,000 was received in August 2019 for FY 2018/19.

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

In November 2015, the Middle States Commission on Higher Education (Middle States) accreditation organization placed Cheyney University on probation "because of insufficient evidence that the institution is currently in compliance with Standard 3 (Institutional Resources)." Standard 3 requires, among other things, that an institution demonstrate that it has sufficient resources to support both its programs of study and students' academic progress. The university was given two years to address the deficiencies noted by Middle States. In November 2017, Middle States extended Cheyney's accreditation for an additional year, noting that Cheyney had made "significant progress toward the resolution of its non-compliance issues" and is "making a good-faith effort to remedy existing deficiencies." In November 2018, Middle States informed Cheyney of the following actions:

> To require the institution to continue to show cause, by August 15, 2019, to demonstrate why its accreditation should not be withdrawn because of insufficient evidence that the institution is in compliance with Standard VI (Planning, Resources, and Institutional Improvement) and Requirement of Affiliation 11. To grant a final, second extension for good cause to extend the period to demonstrate compliance by one year, to November 21, 2019,

because the institution has provided written and compelling evidence that the quality of student learning has not been compromised, demonstrated significant progress towards the resolution of its noncompliance issues, is making a good faith effort to remedy existing deficiencies, and a reasonable expectation exists that such deficiencies will be remedied within the period of the extension. To note that the institution remains accredited while on show cause. To require a show cause report, due August 15, 2019, documenting evidence that the institution has achieved and can sustain ongoing compliance with the Commission's standards, requirements, policies and procedures, and federal compliance requirements.

On August 15, 2019, Cheyney submitted a report to Middle States documenting evidence of its current and future compliance with the above standards, requirements, policies and procedures, and federal requirements. A response from Middle States as to whether or not Cheyney's accreditation will be further extended is expected in November 2019.

In August 2017, to help the university secure continued accreditation, the Board approved a motion that, if over the subsequent four years the university demonstrates fiscal stability, the more than $34 million in loans made to Cheyney from the 13 other universities and the Office of the Chancellor would be forgiven. The motion states that one-third would be forgiven when Cheyney demonstrates a $7.5 million annual expense reduction from fiscal year 2017/18 operations and maintains a balanced budget of revenues greater than or equal to annual expenses for fiscal year 2018/19. The next two-thirds would be forgiven when Cheyney maintains a balanced budget in each of the subsequent two fiscal years. Failure to meet the requirements during the four fiscal year term will render any and all outstanding amounts due and payable. 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.

The delay in receipt of ED funds exacerbates the university's severe cash shortage. To enable Cheyney to meet its cash needs, the Office of the Chancellor issued interest-free short-term appropriation anticipation loans to Cheyney through January 2019, which were paid back as monthly appropriations were received. In August 2019, the Office of the Chancellor again began issuing to Cheyney appropriation anticipation loans by advancing the next three months of appropriations. In addition, at June 30, 2019, $6.6 million of federal financial aid anticipation loans previously issued to Cheyney by the Office of the Chancellor remained outstanding; these loans are to be repaid when the funds are received from the ED. The Office of the Chancellor also has advanced $.7 million to Cheyney in anticipation of insurance proceeds.

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

Insurance
The State System is self-insured for workers' compensation up to stated limits (note 6). For all other risks of loss, the State System pays annual premiums to the Commonwealth to participate in its Risk Management Program. The State System does not participate in any public entity risk pools, and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant. The State System has not significantly reduced any of its insurance coverage from the prior year. Settled claims have not significantly exceeded the State System's insurance coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

Construction Commitments
Authorized expenditures for construction projects unexpended as of June 30, 2019 and 2018, were approximately $151,248,000 and $57,531,000, respectively.

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

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

(16) Subsequent Events

In September 2019, PHEFA issued Series AW tax-exempt revenue bonds in the amount of $84,980,000. The net proceeds from the Series AW revenue bonds were used to finance replacement of HVAC equipment at Bloomsburg University and to reimburse the acquisition of parking garages at West Chester University, as well as to current refund portions of Series AJ and Series AK revenue bonds. The refunding was performed to reduce debt service by approximately $14,000,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $1,500,000. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended June 30, 2019 and 2018
(Unaudited)

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

Determined as of SERS' December 31 measurement dates
(in thousands)

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

SERS Schedule of Contributions

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

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

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

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

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

PSERS Pension Schedule of Contributions

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

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

State System Plan OPEB Liability

Determined as of the July 1 measurement dates
(in thousands)

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

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

Schedule of Proportionate Share of the REHP Net OPEB Liability

Determined as of REHP's June 30 measurement dates
(in thousands)

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

REHP Schedule of Contributions

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

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

Schedule of Proportionate Share of PSERS Net OPEB Liability

Determined as of PSERS' June 30 measurement dates

(in thousands)

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

PSERS OPEB Schedule of Contributions

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

(in thousands)

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

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