

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2020 AND 2019



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**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
BALANCE SHEETS – PRIMARY INSTITUTION	24
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PRIMARY INSTITUTION	26
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION	27
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS	29
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS	30
COMBINED STATEMENTS OF EXPENSES BY NATURE AND FUNCTION – COMPONENT UNITS	31
NOTES TO FINANCIAL STATEMENTS	32
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)	85
SCHEDULES OF SERS/PSERS CONTRIBUTIONS	87
SCHEDULES OF PROPORTIONATE SHARE OF SERS/PSERS NET PENSION LIABILITY	88



INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, which represent 100% of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the discretely presented component units, are 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 audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2020 and 2019, 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 3-23, and the various schedules of Proportionate Share of Net Pension Liability, OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 85-88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 11, 2020

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

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

East Stroudsburg University is a public university of the Commonwealth of Pennsylvania (Commonwealth) and a member of the Pennsylvania State System of Higher Education (State System). As such, the University is charged with providing high-quality education at the lowest possible cost to its students. The University enrolled 6,214 students for fall 2019 and the campus encompasses more than 258 acres and 59 physical plant structures.

The University functions independently, but being part of the State System enables it to share resources and benefit from economies of scale. Following is an overview of the University's financial activities for the years ended June 30, 2020 and 2019.

COVID-19

On January 31, 2020, the United States Department of Health and Human Services declared a public health emergency for the United States to aid the nation's health care community in responding to the novel coronavirus ("COVID-19"). On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic and on March 13, 2020, the President of the United States declared a national state of emergency.

On March 6, 2020, Governor Wolf declared a disaster emergency in the Commonwealth of Pennsylvania. On April 1, 2020, he issued a stay-at-home order for all counties in the Commonwealth for all activities, except as needed to access, support, or provide life sustaining business, emergency, or government services.

Beginning in March 2020, the University has followed state recommendations and restrictions that require remote working and remote education. The University continued remote education through the summer of 2020 and began the fall 2020 semester with primarily remote offerings. The University continues to monitor and modify fall activities as necessary.

While the University was anticipating a slight surplus for fiscal year 2019/20 prior to COVID-19, the System, as a whole, was anticipating negative operating results. When the pandemic began, universities were implementing multi-year plans focused on cost control, increasing efficiencies, and aggressive management of their workforce. These efforts have intensified in response to the pandemic. The System is supporting its universities in these efforts through expanding shared services and offering retirement incentive programs. The System's financial and operational planning is fluid at this time. As a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding awarded to the System, the associated costs incurred during fiscal year 2019/20 as a result of COVID-19 have had a minimal impact on the System's, and University's overall financial performance. However, the future financial impact will be dependent upon enrollment impacts, the continuing need for social distancing, ongoing response efforts to mitigate COVID-19, and any potential resurgence of the virus.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

The CARES Act was enacted March 27, 2020 and is the largest economic relief bill in U.S. history, allocating \$2.2 trillion in support to individuals and businesses affected by the Coronavirus pandemic and economic downturn. Seven main groups received support from this Act: individuals, small businesses, big corporations, hospitals and public health, federal safety net, state and local governments, and education. The State System universities have been awarded grants from the education section through the Higher Education Emergency Relief Fund (HEERF), administered through the US Department of Education (ED). Additionally, the Commonwealth was appropriated funds from the state and local governments section, administered through the US Treasury, of which a portion was appropriated by the Commonwealth to the State System. In August 2020, the Pennsylvania Department of Education also awarded a portion of the ED Governor's Education Emergency Relief Fund (GEERF) to State System universities to assist with fall 2020 reopening efforts. Below is a summary of CARES Act funds awarded to the State System and the University. All but GEERF were awarded in fiscal year 2019/20.

<i>(millions)</i>	State System	University
Emergency Aid for Students ¹	\$40.0	\$3.2
Institutional Share ¹	40.0	3.2
Strengthening Institutions Program ¹	2.6	.3
Appropriated Coronavirus Relief Funds ²	30.0	1.9
Governor's Education Emergency Relief ³	4.2	.3
Total CARES Act Funds	<u>\$116.8</u>	<u>\$8.9</u>
For University Use (less Emergency Aid)	<u>76.8</u>	<u>\$5.7</u>

¹HEERF, US Department of Education

²Title V, Assistance for State, Local and Tribal Governments, US Department of the Treasury

³GEERF, US Department of Education, as distributed by Pennsylvania Department of Education

In addition to the CARES Act funds, the University may submit expenses associated with COVID-19 mitigation to the Pennsylvania Emergency Management Agency (PEMA) for reimbursement from the Federal Emergency Management Agency (FEMA) and PEMA. No such funds were requested or received in 2019/20; the University is identifying such costs and managing the reimbursement process in fiscal year 2020/21.

In regard to the current impact of COVID-19, the largest component of the 2019/20 fiscal impact on the University is the \$3.5 million in refunds of spring semester housing, dining and other fees provided to students, excluding approximately \$3.7 million in student housing refunds provided by the University's affiliate, University Properties, Inc. ("UPI") and \$547 thousand in student activities fee refunds by the University's affiliate The East Stroudsburg University Student Activities Association, Inc. ("SAA"). The University is working closely with UPI and SAA with respect to the financial impact of housing and fee refunds and reduced housing demand during remote learning. The HEERF Institutional Funds and a portion of the appropriated Coronavirus Relief Funds have been used to offset the costs of the University refunds. The University continues to incur costs for remote learning, remote working and pandemic mitigation, as well as revenue losses due to the impact on enrollment and auxiliary functions. In response to the pandemic, the University was also able to reduce costs by \$1.7M by suspending contracts, where possible.

During the summer, counties in the Commonwealth began to phase in a lifting of the stay-at-home order on a regional basis. The State System's Board of Governors (Board) provided a framework to guide operations of the System's universities for the fall 2020 semester. The framework provides flexibility for universities to plan locally while meeting System-wide, state, and federal standards.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

The System and the University continue to monitor and assess the effects of the COVID-19 pandemic and its impact on their operations and financial position. A full assessment of the impact on the System and the University depends, in part, on the Commonwealth, federal, and student responses to COVID-19. It is not possible, at present, to project the total impact on the System's or University's revenues, expenditures or financial position. Such impact will depend heavily on future events and actions by other governmental entities.

Financial Highlights

The total **Commonwealth appropriation** to the State System for operations in fiscal year 2019/20 was \$477.5 million, a 2.00% increase from the \$468.1 million appropriated in fiscal year 2018/19.

The University's share of the **base appropriation** was \$28.5 million, an increase of 2.5%. In addition to base appropriation, the University received \$258 thousand and \$359 thousand to fund the debt service related to the Academic Facilities Renovation Program (AFRP) and the Chincoteague Bay Field Station, respectively.

The University also received an allocation of Commonwealth funding in fiscal year 2018/19 from funds set aside by the State for performance. The **performance funding** plan was part of the State System's continuing commitment to ensure the high quality of university programs. It rewarded universities for success on measures such as productivity, diversity, and student advancement. In fiscal year 2018/19, the University received \$2.2 million in performance funding. This was a decrease of 3.9% from fiscal year 2017/18 when the University received \$2.3 million in performance funding.

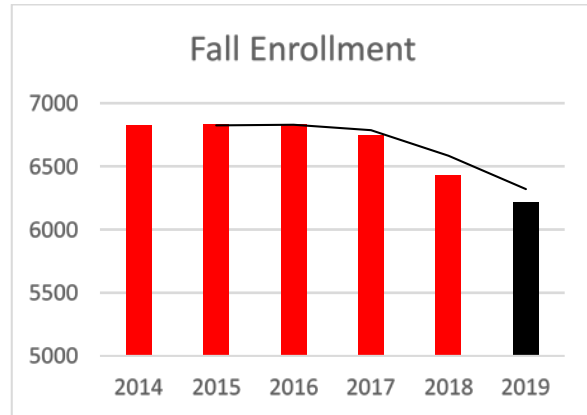
Act 50 of 1993 established the **Keystone Recreation, Park and Conservation fund** (Keystone Fund). The Keystone Fund is funded through a dedicated portion of the realty transfer tax paid by the seller and buyer during a real estate transaction. The Keystone Fund Enabling act requires 15% of the state's realty transfer tax receipts be put into the Keystone Fund for distribution to four state agencies (PA Department of Conservation & Natural Resources, PA Historic & Museum Commission, PA Department of Education, and the State System). The State System receives 18% of these funds annually (Key '93). The University received a \$1.2 million allocation from the Keystone Fund in both fiscal year 2019/20 and 2018/19. 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** for fiscal year 2019/20, primarily for the renovation or replacement of existing educational and general (E&G) buildings. This compares to the \$70 million allocated in fiscal years 2020/21 and 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, except for fiscal years 2009/10 and 2010/11, when the capital funding allocated to the State System was \$130 million each year. In recent years, the University received funds from this pool to help fund construction of the Hoeffner Science and Technology building and for renovation of Monroe Hall. Funds have also been earmarked from this pool for the University's future construction of Information Commons. Except for associated furnishings and equipment, the University does not record the value of Commonwealth-funded capital projects as revenue, since the Commonwealth retains title to any part of a capital project for which they directly provide funding.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Fall 2019 student headcount was 6,214, a decrease of 211 students, or (3.3%), from fall 2018. This is the third year in a row that the University has experienced an enrollment decline following three years of growth.

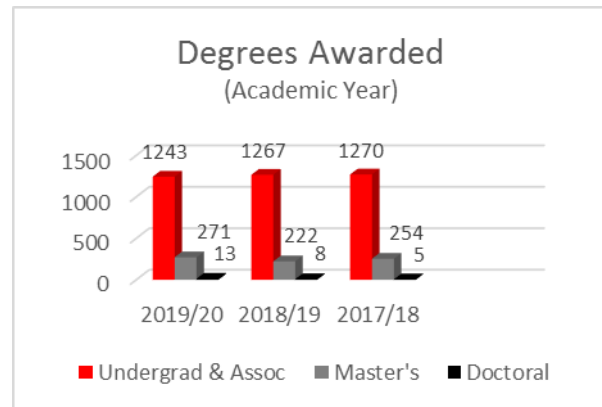
Year	Fall Enrollment	% Change from Prior Year
2019	6,214	(211)
2018	6,425	(317)
2017	6,742	(88)
2016	6,830	2
2015	6,828	8
2014	6,820	42



In academic year 2019/20, the University awarded 1,527 **degrees**, a 2.0% increase from academic year 2018/19. In the prior year, 1,497 degrees were awarded, a 2.1% decrease from the 1,529 degrees awarded in academic year 2017/18. Additionally, the University awarded 35 certificates in 2019/20.

	Degrees Awarded (Academic Year)		
	2019/20	2018/19	2017/18
Associates*	-	-	1
Undergraduate	1,243	1,267	1,269
Master's	271	222	254
Doctoral	13	8	5
Total	1,527	1,497	1,529

* Represents teach-outs



**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

There was a 0% **tuition rate** increase in 2019/20 for both **in-state and out-of-state undergraduate students**. The Board also voted to freeze basic in-state and out-of-state **tuition** for the 2020/21 academic year. This action resulted in an unprecedented two consecutive years in which tuition was frozen, even while confronting financial challenges brought on in part by the coronavirus pandemic.

Graduate students' tuition rates increased 13.8% and 10.72% for in-state and out-of-state students, respectively, for fiscal year 2019/20. These increases are due to the University billing tuition and certain fees combined in 2019/20. If billed separately, tuition rates would not have changed from the prior year. This is in comparison to fiscal year 2018/19 when rates increased 3.2% for graduate students.

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

Mandatory fees set by the University increased by 1.2% for undergraduate students while mandatory fees for graduate students decreased 37.5% in fiscal year 2019/20 due to a new graduate fee structure. **Room rates** for the most common room type, suites housing, increased by 3.9% in fiscal year 2019/20. **Food service rates** for that same year increased 5.2% for the 19-meal plan, the most common plan.

Tuition and fee revenue (net of discounts) was \$51.5 million for fiscal year 2019/20 and \$51.7 million for fiscal year 2018/19. Revenue from auxiliary enterprises (net of discounts) was \$13.6 million in fiscal year 2019/20 and \$18.8 million in fiscal year 2018/19. Auxiliary enterprise revenues are generated primarily from room and food service charges. This decrease in auxiliary revenues is directly related to the impact of COVID-19.

The University purchased \$5.7 million in **capital assets** in fiscal year 2019/20, as compared to \$12.2 million in fiscal year 2018/19. Major projects in progress or completed during the fiscal year include \$1.5 million for campus fiber optics, \$941 thousand for the fitout of the first floor of Sycamore Suites, \$156 thousand for the 2nd floor fitout of the Innovation Center, \$206 thousand for the Koehler Fieldhouse Emergency Generator, \$204 thousand for the renovation of the ground floor of Reibman, \$150 thousand for Rosenkrans HVAC, \$250 thousand for Stroud Township fields, among others.

In 2015, **the Stroudsburg Little League, Inc. and the University entered into a Memorandum of Understanding** enabling the University and/or the East Stroudsburg University Foundation, Inc. (the Foundation) to commence a capital fundraising campaign and engage in project planning for resurfacing, regrading and enlarging the R. Clinton Hughes Baseball Field and resurfacing and regrading the softball field with artificial, drainable Turf Field product and to provide new fencing, practice areas, dugouts, scoreboards and other fixtures and improvements necessary to satisfy NCAA Division II baseball and softball standards, in exchange for long-term seasonal, shared access to and use of the complex. Improvements were made to the complex and it was dedicated on April 5, 2019 making the complex ready for use with the commencement of Division II NCAA Baseball and Softball during ESU's spring semester 2019. The ESU Foundation raised and contributed, to date, \$1.7 million toward the total cost of the project.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

The University generally utilizes the State System to facilitate the issuance of **bonds** to raise capital for major projects. Given the efficiencies of the State System acting on behalf of fourteen universities, the University achieves low interest rates and administrative cost savings. The University did not obtain any additional bond funding for projects in fiscal years 2019/20 and 2018/19. However, the State System **refunds bonds** when it is determined savings will result for the entire State System and the universities. On September 10, 2019, the State System refunded a portion of Series AJ and AK bonds resulting in significant savings for the State System and, specifically, the University. The University's **Pedestrian Safety & Stormwater Management and Science and Technology projects were financed in the Series AJ bond issue**. As a result of the refinancing, the University realized total present value savings of \$217 thousand.

In June 2020, Moody's Investors Service, Inc. maintained the State System's **bond rating** of Aa3, stable outlook. In June 2020, Fitch Ratings affirmed the State System's rating of A+ with stable outlook. These rates were reaffirmed September 11, 2020. Both rating agencies acknowledged the coronavirus pandemic and related mitigation measures have created an uncertain environment for the U.S. public higher education sector, constraining enrollment and revenue and contracting operating performance.

In October 2018, the Foundation received a \$500 thousand **grant from the Commonwealth of Pennsylvania Department of Health and Human Services** to create the Tick Research Lab of Pennsylvania for testing and data analytics as part of The Dr. Jane Huffman Wildlife Genetics Institute. They received an additional \$500 thousand in May 2020 for the Commonwealth's Lyme Disease program to continue the tick testing.

The Foundation also received **other grants in support of the University**. These funds enabled the University to continue to expand its aquaria.

The University was awarded its single largest grant ever from the National Science Foundation in fiscal year 2016/17. The **Clear Path grant**, a 5-year grant in its fourth year in fiscal year 2019/20, is a \$4 million award to help transfer students complete their education at the University. The grant provides scholarships for about 120 students who start their education at community colleges and transfer to the University for bachelor's degrees in such science fields as biochemistry, physics, computer science and mathematics.

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 over a period of one to three years. During fall 2019, the System and faculty union successfully negotiated a second retirement incentive: the **Enhanced Sick Leave Program**, which provided for increased accrued sick leave reimbursement for faculty who would retire prior to the start of the fall 2020 semester. Due to the success of this program, it was expanded to all employee groups, resulting in over 400 participants at the System level and 32 at the University.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

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 University as of the end of the fiscal year.

- Assets include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation.
- Deferred Outflows of Resources, defined as consumption of net position that applies to future periods, reports the deferred loss on bond defeasance and certain items associated with the pension and other postemployment benefits liabilities.
- 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 and the University are self-insured), compensated absences (the value of sick and annual leave earned by employees), pension benefits, and other postemployment benefits (health and tuition benefits expected to be paid to certain current and future retirees).
- Deferred Inflows of Resources, defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance and certain items associated with the pension and other postemployment benefits liabilities.
- Net Position, informally referred to as Net Assets or Fund Balance (as it was previously called), is the sum of Assets plus Deferred Outflows of Resources less Liabilities less Deferred Inflows of Resources.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

Statement of Cash Flows

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

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 University's use in ongoing operations since the underlying assets would have to be sold in order to use the balance to pay current or long-term obligations. The Commonwealth prohibits the University from selling university land and building 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 university has 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 University does not fund**. Because these liabilities will be realized gradually over future years, and because of their size, the University is expected to fund these liabilities only on a "pay-as-you-go" basis; i.e., as they become due.

The liability for **compensated absences** represents the dollar value of annual and sick leave that employees have earned and could potentially receive in the form of cash payouts upon retirement or other termination. The dollar value is based on an employee's current salary. All full-time employees are eligible to be paid, upon termination, for the dollar value of the number of days of unused annual, personal, and holiday leave that they have accumulated, with a maximum annual leave accumulation of 45 days. The liability for annual leave is the dollar value of the total number of days that employees have accumulated at June 30. Sick leave payouts, however, are subject to vesting requirements, and the dollar value of accumulated sick leave is paid only to those employees who meet certain service and/or age requirements and is capped at various levels depending upon the number of days accumulated. The associated liability is estimated base on a calculation of historical leave payouts for terminated employees compared to the dollar value of sick days that the terminated employees had accumulated, applied to employees' current leave balances.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

As employees earn and accumulate leave, the compensated absences liability is increased; as employees use leave, and as terminated employees receive payouts, the liability is decreased. The compensated absences liability increased by \$1.1 million to \$8.21 million for the year ended June 30, 2020, compared to a \$47 thousand decrease from the prior year for the year ended June 30, 2019. The University funds this liability only as cash payouts are made to employees for annual and vested sick leave balances upon termination or retirement.

- The net pension liability is the University's allocated share of the difference between the Commonwealth's defined benefit pension obligations and the funding set aside by the Commonwealth in a qualified trust to pay the future benefits that are promised to current employees, retirees, and their beneficiaries. The annual increase in the liability is the amount that current employees earn each fiscal year as a pension benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability decreases when funding of the qualified trust increases and when employees or retirees leave the pension plans. The liability decreased by \$9.1 million to \$39.8 million for the year ended June 30, 2020.
- The liability for other postemployment benefits, or OPEB, represents the estimated future healthcare costs for current and future retirees. The annual increase in the liability is the amount that current employees earn each fiscal year as a retiree healthcare benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability also increases as healthcare costs increase. The liability decreases when required contributions by retirees are increased, when the number of eligible employees decreases, and when retirees leave the plan. The liability decreased by \$16.1 million for the year ended June 30, 2020, compared to a decrease of \$23.0 million for the year ended June 30, 2019.

Like the pension liability, the University funds these liabilities on a "pay-as-you-go" basis: For the State System plan, the University makes biweekly contributions to fund the actual claims incurred by retirees during the year; for the Retired Employees Health Program (REHP) and Public School Employees Retirement System (PSERS) OPEB plans, the University makes contractually required contributions as determined by the Commonwealth.

With the implementation of GASB Statement No. 75 in fiscal year 2017/18, the State System's combined liabilities related to **unfunded future pension and retiree healthcare costs** totaled \$3.26 billion at that time. 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 employee contribution rates for these plans.

Commonwealth **pension legislation** modified 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 American Federation of State, County, and Municipal Employees (AFSCME) employees participate. The State System, however, closed the State System OPEB plan to new employees hired after January 2016, with the exception of the Association of Pennsylvania State College and University Faculties (APSCUF) employees. Although this will not reduce the existing liability, these new hires bring no additional liability, now or in the future.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

The State System's Alternative Retirement Plan (ARP) is a defined contribution plan and has no liability. The State System OPEB plan is a defined benefit plan with no assets in trust dedicated to fund the liability.

Following is a summary of the University's balance sheet at June 30, 2020, 2019, and 2018.

(thousands)						
Balance Sheet						
	June 30, 2020	Change From Prior Year	June 30, 2019	Change From Prior Year	June 30, 2018	Change From Prior Year
Assets						
Cash and investments	\$82,180	2.2%	\$80,432	(4.3%)	\$84,085	(0.6%)
Capital assets, net	103,041	(1.6%)	104,768	7.5%	97,445	9.5%
Other assets and deferred outflows	26,008	(10.1%)	28,921	28.4%	22,519	(0.2%)
Total assets and deferred outflows	<u>\$211,229</u>	(1.4%)	<u>\$214,121</u>	4.9%	<u>\$204,049</u>	4.0%
Liabilities						
Workers' compensation	\$693	13.8%	\$609	(17.5%)	\$738	46.3%
Compensated absences	8,205	15.2%	7,121	(0.7%)	7,168	4.3%
Net pension liability	39,813	(18.5%)	48,866	19.7%	40,811	(8.1)
Net OPEB liability	100,133	(13.8%)	116,225	(16.5%)	139,243	111.9%
Bonds & notes payable	29,531	(13.7%)	34,221	(11.3%)	38,583	(10.5)
Other liabilities and deferred inflows	65,459	19.1%	54,947	47.9%	37,142	73.0%
Total liabilities and deferred inflows	<u>243,834</u>	(6.9%)	<u>261,989</u>	(0.6%)	<u>263,685</u>	(36.1%)
Net Position						
Net investment in capital assets	76,544	3.3%	74,112	17.7%	62,946	25.8%
Restricted	3,015	12.5%	2,681	33.9%	2,002	(51.4%)
Unrestricted	(112,164)	(10.0%)	(124,661)	0.1%	(124,584)	210.6%
Total net position	<u>(32,605)</u>	31.9%	<u>(47,868)</u>	19.7%	<u>(59,636)</u>	(523.8%)
Total liabilities, deferred inflows, and Net position	<u>\$211,229</u>	(1.4%)	<u>\$214,121</u>	4.9%	<u>\$204,049</u>	4.0%

Overall, **net position increased by \$15.3 million** in fiscal year 2019/20. This compares to an increase of \$11.8 million in fiscal year 2018/19 when compared to fiscal year 2017/18.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Following is a summary of the effect of the three unfunded liabilities, including the related deferred outflows of resources (DOR) and deferred inflow of resources (DIR), on the University's net position.

(millions)

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

	June 30, 2020	June 30, 2019	June 30, 2018
Unrestricted Net Position when the effect of the unfunded liabilities is included	(\$112,164)	(\$124,661)	(\$124,584)
Pension Liabilities, including DOR and DIR			
SERS Pension	\$34,863	\$36,595	\$33,897
PSERS Pension	3,875	3,748	3,547
Alternative Retirement Plan	-	-	-
Total Pension Liabilities	38,738	40,343	37,444
OPEB Liabilities, including DOR and DIR			
SSHE OPEB Plan	86,563	89,408	91,758
REHP OPEB Plan	46,409	52,890	55,733
PSERS OPEB Plan	179	142	174
Total OPEB Liabilities	133,151	142,440	147,665
Compensated Absences Liability	8,205	7,121	7,168
Total Unfunded Liabilities, including DOR and DIR	180,094	189,904	192,277
Unrestricted Net Position when the effect of the unfunded liabilities is excluded	\$67,930	\$65,243	\$67,693

When the unfunded liabilities and related DOR and DIR are excluded, unrestricted net position increased by \$2.7 million, or 4.12%, from fiscal year 2018/19 to 2019/20, as compared to a decrease of \$2.5 million, or 6.5% decrease, from fiscal year 2017/18 to 2018/19.

Statement of Revenues, Expenses, and Changes in Net Position

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

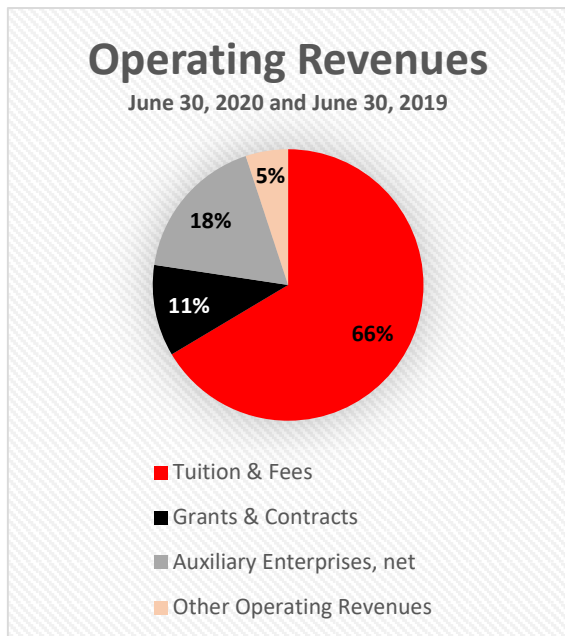
Revenues and Gains

Following is a summary of revenues and gains for the years ending June 30, 2020, 2019, 2018.

(thousands)

	Revenues and Gains					
	June 30, 2020	Change From Prior Year	June 30, 2019	Change From Prior Year	June 30, 2018	Change From Prior Year
Operating Revenues						
Tuition and fees, net	\$51,543	(0.3%)	\$51,675	(2.4%)	\$52,970	(0.7%)
Grants and contracts	8,460	(2.2%)	8,650	0.4%	8,615	7.9%
Auxiliary enterprises, net	13,623	(27.5%)	18,799	(4.3%)	19,641	(5.5%)
Other	3,927	3.6%	3,791	0.6%	3,768	(15.3%)
Total operating revenues	<u>77,553</u>	(6.5%)	<u>82,915</u>	(2.4%)	<u>84,994</u>	(1.8%)
Nonoperating revenues and gains						
State appropriations	30,290	1.9%	29,719	5.2%	28,248	3.9%
Federal appropriations-COVID relief	672	-	-	-	-	-
Federal grants-CARES Act COVID relief	2,424	-	-	-	-	-
Investment income, net	1,410	(21.4%)	1,794	7.9%	1,663	56.3%
Gifts, nonoperating grants, and other	12,887	(12.4%)	14,712	19.3%	12,332	7.8%
Total nonoperating revenues and gains	<u>47,683</u>	3.2%	<u>46,225</u>	9.4%	<u>42,243</u>	6.47%
Total revenues and gains	<u>\$125,236</u>	(3.0%)	<u>\$129,140</u>	1.5%	<u>\$127,237</u>	0.8%

For fiscal year 2019/20, **operating revenues** decreased by 6.5% from the prior fiscal year as a result of a decline in enrollment and the impact of the coronavirus while **Nonoperating revenues** increased by 3.2% due to the CARES Act funding. Overall, the University experienced a decrease in revenues and gains of 3.0%. With auxiliary revenues most impacted by the move to remote instruction due to COVID-19, the mix of revenue changed slightly from fiscal year 2018/19 to fiscal year 2019/20 with tuition and fees comprising 66% of revenue whereas it was 62% in the prior year.



**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Tuition and fees are shown net of scholarship discounts and allowances and bad debt expense. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the University allocates the cost of scholarships, waivers, and other student financial aid between scholarship discounts and allowances and student aid expense. Scholarships and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense. **Bad debt expense** is an estimate of the amount owed by students that will not be collected.

With the decline in enrollment, overall net tuition and fee revenue decreased by \$132 thousand, or 0.3%, from fiscal year 2018/19, compared to a decrease of \$1.3 million, or 2.4%, in fiscal year 2018/19 when compared to fiscal year 2017/18. The fiscal year 2019/20 and 2018/19 decreases were attributed to the drop in enrollment.

Auxiliary enterprises revenue, which includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of the university center and recreation center, decreased by \$5.2 million, or 27.5%, from fiscal year 2018/19. This compares to a decrease of \$842 thousand in fiscal year 2018/19 when compared to fiscal year 2017/18. While the 2019/20 decrease is largely attributed to the reduction of student fees in Spring 2020 due to the move to online instruction in response to the pandemic, the 2018/19 decrease can be attributed to declining enrollment.

State appropriations include cash as well as capital appropriations that are received in the form of noncash furnishings and equipment for Commonwealth-funded construction projects. The fiscal year 2019/20 general cash appropriation was \$28.5 million, a \$685 thousand increase over fiscal year 2018/19 when including \$2.2 million of performance funding received in 2018/19, while capital appropriations were \$1.2 million in both fiscal years 2019/20 and 2018/19. In fiscal year 2019/20, the University also received special appropriations of \$258 thousand and \$359 thousand to be used to fund the debt service on the AFRP and Chincoteague Bay Field Station, respectively.

Other Revenue includes CARES Act funds that have been provided to the University for emergency aid to students whose lives have been disrupted by the pandemic, as well as funds that can be used by the University to help cover costs associated with providing a safe campus and work environment throughout the pandemic. An overview of these funds is provided under "COVID-19" at the beginning of this analysis. A total of \$8.9 million in federal CARES Act funds have been awarded to the University to date, of which \$3.1 million were recorded as revenue in 2019/20, the remaining will be recorded in 2020/21, when expended.

Investment income (net of related investment expenses) for fiscal year 2019/20 was \$1.4 million. This represents a decrease of \$384 thousand from fiscal year 2018/19. The decrease is due to declining interest rates during the fiscal year. Rates moved from a high of 2.50% in fiscal year 2018/19 to a low of 1.60% during fiscal year 2019/20.

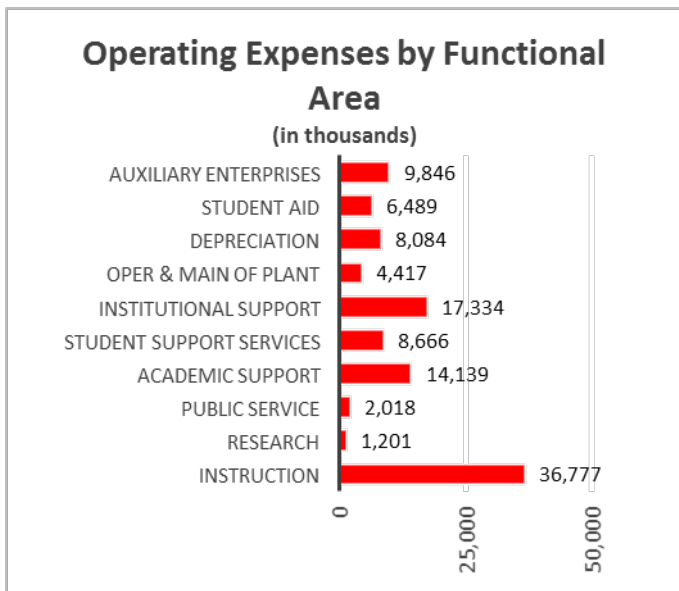
**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Expenses and Losses

Following is a summary of expenses and losses for the years ending June 30, 2020, 2019, and 2018.

Expenses and Losses						
(thousands)	June 30, 2020	Change From Prior Year	June 30, 2019	Change From Prior Year	June 30, 2018	Change From Prior Year
Operating Expenses						
Instruction	\$36,777	(4.6%)	\$38,540	(2.1%)	\$39,366	(2.7%)
Research	1,201	31.4%	914	21.9%	750	11.2%
Public Service	2,018	2.1%	1,976	7.5%	1,838	(12.1%)
Academic Support	14,139	(2.4%)	14,483	(4.9%)	15,223	6.5%
Student Services	8,666	(6.3%)	9,252	1.8%	9,086	(5.4%)
Institutional Support	17,334	(4.0%)	18,062	(7.1%)	19,446	6.4%
Operations and maintenance of plant	4,417	(44.3%)	7,933	(7.4%)	8,569	17.7%
Depreciation	8,084	10.8%	7,298	20.3%	6,069	1.7%
Student aid	6,489	78.2%	3,641	1.4%	3,589	(2.8%)
Auxiliary enterprises	9,846	(31.1%)	14,282	(3.0%)	14,720	(11.1%)
Total operating expenses	<u>108,971</u>	(6.4%)	<u>116,381</u>	(1.9%)	<u>118,656</u>	(0.2%)
Other expenses and losses						
Interest expense on capital asset-related debt	831	(16.2%)	992	0.7%	985	(24.0%)
Loss on disposal/acquisition of assets	170	-	-	-	-	-
Total other expenses and losses	<u>1,001</u>	0.9%	<u>992</u>	0.7%	<u>985</u>	(24.0%)
Total expenses and losses	<u>\$109,972</u>	(6.3%)	<u>\$117,373</u>	(1.9%)	<u>\$119,641</u>	(0.5%)

The University spent \$36.8 million on **instruction**, or 33.7% of total operating expenses, in fiscal year 2019/20. This is slightly greater than the percentage of the prior year when instruction was 33.1% of total operating expenses.

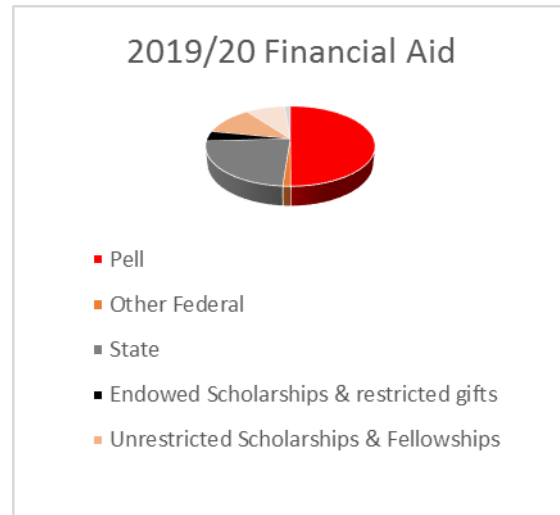


**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Financial aid to students in the form of grants, waivers, and scholarships was \$22.1 million in fiscal year 2019/20. In accordance with a formula prescribed by **the National Association of College and University Business Officers (NACUBO)**, in fiscal year 2019/20 the University reported \$16.6 million of financial aid as discounts, which are netted against tuition and fees, and \$5.5 million as student aid, which is reported as an expense. Of these amounts, \$193 thousand of discounts and \$64 thousand of student aid expense were reported in Auxiliary enterprises.

When including the financial aid that is recorded as a discount against tuition and fees, financial aid decreased in fiscal year 2019/20 by \$270 thousand from the previous year. This is primarily because, despite the University granting an additional \$659 thousand in **tuition, housing, and dining waivers** in fiscal year 2019/20, **Federal Pell grants** and **Pennsylvania Higher Education Assistance Agency (PHEAA) grants** decreased by \$766 thousand and \$298 thousand, respectively, when compared to fiscal year 2018/19. **Financial aid from other sources** increased by \$135 thousand. Following is a breakdown of financial aid.

<i>(thousands)</i>	Student Financial Aid	
	2019/20	2018/19
Federal Pell grants	\$11,013	\$11,779
Other federal aid	275	287
State financial aid including PHEAA grants	5,053	5,351
Local government financial aid	-	-
Scholarships from endowments and restricted gifts and grants	883	736
Unrestricted scholarships and fellowships	2,587	1,927
Tuition and fee waivers	1,946	1,875
Housing and dining waivers	297	369
Total	<u>\$22,054</u>	<u>\$22,324</u>



**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Interest expense on capital asset-related debt was \$831 thousand, a decrease of \$161 thousand from fiscal year 2018/19 and a loss on disposal/acquisition of assets of \$170 thousand was recorded in fiscal year 2020.

Salaries and benefits totaled \$68.1 million in fiscal year 2019/20. **Salary and wage expenses** increased by \$778 thousand, or 1.4%, while **benefits expenses** decreased by \$8.0 million, or (37.7%), from fiscal year 2018/19, for an overall decrease of \$7.3 million. The \$778 thousand increase in salaries and wages in fiscal year 2019/20 is due to the impact of the new collective bargaining agreements. Seven of nine collective bargaining agreements were renegotiated during the past fiscal year; most were effective through fiscal year 2022/23. The only exceptions are two minor unions: the agreement for police supervisors with the International Union, Security, Policy, & Fire Professionals of America (SPFPA), which expired on August 31, 2020 and for which a tentative agreement has been reached, and the Professional Doctors Association (PDA). The terms of the prior contracts remain in effect until a successor agreement is ratified.

The **decrease in benefits expenses** is attributed to the University's share of an \$86.9 million decrease in the actuarially calculated pension and OPEB expenses in excess of pay-as-you go contributions at the System level. Following is a summary of salaries, wages, and benefits expenses for the years ending June 30, 2020, 2019, and 2018.

(thousands)

Salaries, Wages, and Benefits						
	June 30, 2020	Change From Prior Year	June 30, 2019	Change From Prior Year	June 30, 2018	Change From Prior Year
Salaries and wages	\$54,844	\$778	\$54,066	\$(379)	\$54,445	\$426
Benefits						
Employee healthcare	6,921	424	6,497	(410)	6,907	(356)
Pension benefits	6,637	(4,320)	10,957	1,624	9,333	733
Retiree healthcare	(6,002)	(4,412)	(1,590)	(5,743)	4,153	(2,295)
Other benefits	5,697	280	5,417	(430)	5,847	659
Total benefits	<u>13,253</u>	<u>(8,028)</u>	<u>21,281</u>	<u>(4,959)</u>	<u>26,240</u>	<u>(1,259)</u>
Total salaries, wages, and benefits	<u>\$68,097</u>	<u>(7,250)</u>	<u>\$75,347</u>	<u>(5,338)</u>	<u>\$80,685</u>	<u>(833)</u>

The **employer share of employee healthcare contributions** increased 6.5% from fiscal year 2018/19, for a total increase of \$424 thousand. This follows a decrease of 5.9% (\$410 thousand) in fiscal year 2018/19, and a decrease of 4.9% (\$356 thousand) in fiscal year 2017/18, when compared to the prior fiscal year. This cumulative three-year decrease of \$342 thousand 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.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

(thousands)

University Employer Contributions for Retiree Pension and Healthcare Benefits						
	June 30, 2020	Increase (Decrease) From Prior Year	June 30, 2019	Increase (Decrease) From Prior Year	June 30, 2018	Increase (Decrease) From Prior Year
Pension						
SERS	\$2,332	\$(4,357)	\$6,689	\$1,144	\$5,545	\$1,116
PSERS	1,071	(19)	1,090	472	618	(401)
ARP	3,234	56	3,178	8	3,170	17
Healthcare						
System Plan	2,119	(29)	2,148	(53)	2,201	(87)
REHP	1,147	(322)	1,469	191	1,278	(655)
PSERS Healthcare	10	(1)	11	3	8	(1)
Totals	<u>\$9,913</u>	\$(4,672)	<u>\$14,585</u>	\$1,765	<u>\$12,820</u>	\$(11)

Employer contributions to SERS, a defined benefits pension plan, were 36.04% of a participating employee's salary for the vast majority of participants in fiscal year 2019/20. 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 36.84% in fiscal year 2020/21 and is expected to continue to increase to 40.25% in 2022/23 and then remain at about the same rate for the near future.

Employer contributions to PSERS, a defined benefits pension plan, were 16.725% of a participating employee's salary in fiscal year 2019/20. 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 16.968% in fiscal year 2020/21, and is expected to continue to increase to 17.87% in 2022/23 and then remain at or about the same rate for the near future.

Employer contributions to the ARP, a defined contribution plan, were 9.29% of a participating employee's salary in fiscal year 2019/20, the same rate since the plan's inception, and is expected to remain at the same rate for the near future.

Employer contributions to the 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 health costs, the State System has seen flat or declining health care 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 employee premium contributions, copays, deductibles, and coinsurance. However, increases are anticipated in the coming years. The rate for fiscal year 2019/20 was set at \$184 per active participating employee per pay, compared to a rate of \$175.25 in fiscal year 2010/11. The rate increases slightly to \$191.36 in fiscal year 2020/21, and may be increased in future years, depending upon actual claims experience.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Employer contributions to the REHP, a defined benefits retiree healthcare plan administered by the PEBTF, were \$300 per active participating employee. 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 reduced to \$288 per active participating employee through July 5, 2019 and then further reduced to \$230 from July 6, 2019 forward. For 2021/22, the rate will increase to \$239.20.

Employer contributions to the PSERS Health Insurance Premium Assistance Program, a defined benefits retiree healthcare plan administered by PSERS, were 0.42% of a participating employee's salary in fiscal year 2019/20. The rate has been and is expected to remain at approximately the same amount, moving to 0.41% for fiscal year 2020/21. 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 by \$280 thousand, or 5.2%, when compared to fiscal year 2018/19. Fiscal year 2018/19 saw a decrease of \$431 thousand, or 7.4%, when compared to fiscal year 2017/18. The change in benefits is attributed to the change in salaries and wages, since these benefits are based on a percentage of salaries and wages.

Other Economic Factors

In April 2020, the Board, for the first time, set a tentative **tuition increase** of 1% for the 2021/22 academic year. This action provides assurances and financial relief to current and potential students and ensure that the State System will maintain its place as the affordable higher education option for students of the Commonwealth.

Mandatory student fees set by the University will increase .88% and 1.2% in 2020/21 for undergraduate students and graduate students, respectively. **Room rates** will increase 3.9% for the most common room type, the suites. **Food service plans** will increase 5.2% for the 19-meal plan, the most common of the five meal plans offered. However, due to COVID-19, this plan and the other standard meal plans were replaced with two all access plans and a 75 block plan; the All Access 7 plan being the most common.

East Stroudsburg University is one of the more fiscally stable universities in the State System in spite of declining enrollment. However, there are several conditions which could limit the University's financial flexibility in fiscal year 2020/21 and beyond:

Enrollment

The University has experienced **declining enrollment** over the past three fiscal years and that trend has continued into fall 2020 when another decline was noted. With tuition and fees comprising 66% of the University's total revenue, if no action is taken to temper this decline, it will further erode the financial stability of the University.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Cash Flow

The University has a **relatively strong cash balance**. Although it experienced a \$3.7M decrease during fiscal year 2019 largely due to the use of reserves for the renovation of the University's housing facilities, cash increased \$1.7M during fiscal year 2020. E&G cash and investments and auxiliary cash increased by \$3.1 million and \$792 thousand, respectively, while restricted funds decreased \$2.2 million during 2019/20.

State Appropriations

As part of the System Redesign strategy affirmed by the Board of Governors in January 2019, the System is developing a new methodology for distributing resources. In anticipation of changes to the appropriation allocation formula and to provide universities with greater stability and predictability of funding in the upcoming fiscal year, the Board suspended the use of the current allocation formula for fiscal years 2019/20 and 2020/21. The impact of this effort on the University's allocation is unknown at this time.

On May 29, 2020, Governor Tom Wolf signed a fiscal year 2020/21 Commonwealth General Fund budget of \$25.7 billion that provided for 12 months of sustained public education funding at 2019/20 levels, while supporting most other state agencies through five months of the fiscal year. The spending plan appropriated to the State System \$477.5 million in General Funds and \$30 million in **CARES Act Title V federal appropriations**.

Compensation Costs

Approximately 86% of PASSHE's FTE employees are covered by nine collective bargaining agreements. Seven of nine collective bargaining agreements were renegotiated during the past fiscal year; most were effective through fiscal year 2022/23. The only exceptions are two minor unions: the agreement for police supervisors with the International Union, Security, Police, and Fire Professionals of America (SPFPA), which expired on August 31, 2020 and for which a tentative agreement has been reached, and the Professional Doctors Association (PDA). The terms of the prior contracts remain in effect until a successor agreement is ratified.

Acquisition of Hemlock and Hawthorn Suites

In July 2020, the University and UPI entered into a Ground Lease Termination Agreement which cancelled and terminated the ground lease between them and released UPI from its obligation to pay rent to the University. Upon termination of the ground lease, UPI's interest in the Hemlock and Hawthorn student housing facilities and any improvements were surrendered to and became the property of the University.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

COVID-19 and Fall 2021

The University, in consultation with a wide array of administrators, faculty, students, community leaders, and other university stakeholders, made the decision to continue providing the majority of classes remotely for spring 2021, with in-person instruction offered for a limited number of select courses that are necessary for a student's academic progression. Plans also include various potential impacts on enrollment, changing expectations for learning and living environments, and the requirements for health monitoring and social distancing.

System Redesign

The State System is undertaking a **System Redesign**, which began last year with a top-to-bottom review of the universities and the Office of the Chancellor. As a result of that review, the Board established three priorities:

- Ensuring student success;
- Leveraging university strengths; and
- Transforming the governance/leadership structure

The Board also affirmed its commitment to ensuring the long-term sustainability of all 14 institutions within the System so that each may continue to serve students, its region, and the Commonwealth.

In support of the System Redesign priorities, on July 1, 2020, the Governor of Pennsylvania signed into law Act 50 of 2020 – legislation that passed the General Assembly with overwhelming bipartisan support. It requires the State System's Board of Governors to develop policies and procedures by which the Board may create, expand, consolidate, transfer or affiliate an institution or college; provides that before such may occur, the Board must call upon the chancellor to conduct a review and analysis of the relevant institutions using certain metrics, including consultation with stakeholders and public hearings; makes changes to the appointment process of students to the Board and councils of trustees; and makes various changes to the sections relating to the powers and duties of councils of trustees and to the powers and duties of institution presidents, among other things. By updating and modernizing the Act 188 of 1982, Act 50 enables the State System to better manage and optimize the System, address affordability for students and financial sustainability for its universities, as well as be flexible and responsive to the changing landscape of higher education.

On July 16, 2020, the Board entered into the next phase of System Redesign and authorized the chancellor to review the financial impacts of integrating operations at selected System universities. A financial review is the first step towards integrating universities as outlined in Act 50, which requires a detailed, transparent, and broadly consultative review, planning and implementation process – one that will be undertaken over the next two years. For the purposes of this review process the System is using an approach that could identify combinations of certain universities that, when integrated, would operate under a unified leadership team reporting through the chancellor to the Board of Governors, have a single faculty and staff, a single academic program array, a unified enrollment strategy, and a single budget – all while honoring the local identity of the original institutions. East Stroudsburg University is not being considered for integration at this time.

Updated information on the System Redesign can be found at <http://systemredesign.passhe.edu>.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Requests for information

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

(Ms.) Ginger Coleman
Interim Vice President for Administration & Finance
Reibman Administration Building
East Stroudsburg University
East Stroudsburg PA 18301

Complete financial statements of the individual component units can be requested from their respective administrative offices, as follows:

East Stroudsburg University Foundation, Inc.
(Mr.) Richard Santoro
Henry A. Ahnert, Jr. Alumni Center
200 Prospect Street
East Stroudsburg, PA 18301-2999

University Properties, Inc.
(Mr.) Jeffrey Snyder
200 Prospect Street
East Stroudsburg, PA 18301

East Stroudsburg University Student Activities Association, Inc.
(Mr.) Joseph Akob
200 Prospect Street
University Center Room 223
East Stroudsburg, PA 18301

East Stroudsburg University Center for Research & Economic Development, Inc.
(Mr.) Frank Revitt
Innovation Center
562 Independence Road
East Stroudsburg, PA 18301

The Rose Mekeel Child Care Center
(Ms.) Michelle Hoffman
Center Street
East Stroudsburg, PA 18301

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

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 82,166,139	\$ 80,417,343
Short-Term Investments	14,342	14,332
Accounts Receivable:		
Governmental Grants and Contracts	722,769	2,112,198
Students, Net of Allowance for Doubtful Accounts of \$3,479,651 in 2020 and \$3,329,847 in 2019	1,310,871	1,783,541
Other	2,058,301	1,824,732
Inventories	168,546	214,698
Prepaid Expenses	884,535	592,062
Due from Component Units	6,026,810	2,370,763
Loans Receivable	133,477	132,841
Investment Income Receivable	119,915	254,120
Other Current Assets	110,282	106,949
Total Current Assets	93,715,987	89,823,579
NONCURRENT ASSETS		
Loans Receivable	1,463,228	1,609,518
Capital Assets, Net	103,041,328	104,768,309
Other Assets	1,920,455	2,053,531
Total Noncurrent Assets	106,425,011	108,431,358
 Total Assets	 200,140,998	 198,254,937
DEFERRED OUTFLOWS OF RESOURCES		
	11,088,400	15,866,120
 Total Assets and Deferred Outflows of Resources	 \$ 211,229,398	 \$ 214,121,057

See accompanying Notes to Financial Statements.

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2020	2019
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 9,626,341	\$ 10,377,851
Unearned Revenue	6,021,620	3,583,157
Students' Deposits	132,529	10,900
Workers' Compensation	409,021	406,318
Compensated Absences	1,954,767	623,271
Postemployment Benefits	3,266,418	3,617,810
Bonds Payable	4,505,816	4,516,913
Due to System, AFRP	109,846	243,476
Due to Component Units	565,565	1,709,822
Other Current Liabilities	281,280	331,539
Total Current Liabilities	26,873,203	25,421,057
NONCURRENT LIABILITIES		
Unearned Revenue	41,188	51,486
Workers' Compensation	283,938	202,600
Compensated Absences	6,250,369	6,497,584
Postemployment Benefits	96,866,836	112,606,954
Bonds Payable, Net	24,480,331	28,916,305
Due to System, AFRP	257,266	367,111
Net Pension Liability	39,812,538	48,866,043
Other Noncurrent Liabilities	6,246,719	5,915,340
Total Noncurrent Liabilities	174,239,185	203,423,423
Total Liabilities	201,112,388	228,844,480
DEFERRED INFLOWS OF RESOURCES	42,722,273	33,144,589
NET POSITION		
Net Investment in Capital Assets	76,544,226	74,112,318
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	10,000	10,000
Student Loans	26,628	170,681
Expendable:		
Scholarships and Fellowships	796,034	844,894
Capital Projects	2,181,119	1,655,825
Other	632	(102)
Unrestricted Net Position	(112,163,902)	(124,661,628)
Total Net Position	(32,605,263)	(47,868,012)
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 211,229,398	\$ 214,121,057

See accompanying Notes to Financial Statements.

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

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Tuition and Fees	\$ 68,961,763	\$ 71,304,201
Less: Scholarship Discounts and Allowances	17,419,211	19,628,812
Net Tuition and Fees	<u>51,542,552</u>	<u>51,675,389</u>
Governmental Grants and Contracts:		
Federal	2,638,307	2,332,650
State	5,486,668	5,966,185
Nongovernment Grants and Contracts	334,938	350,739
Sales and Services of Educational Departments	3,575,364	3,111,622
Auxiliary Enterprises (Net of Scholarship Discounts and Allowances of \$407,442 in 2020 and \$539,658 in 2019)	13,622,695	18,799,185
Other Revenues	352,451	679,678
Total Operating Revenues	<u>77,552,975</u>	<u>82,915,448</u>
OPERATING EXPENSES		
Instruction	36,777,308	38,539,799
Research	1,201,294	913,714
Public Service	2,018,326	1,975,515
Academic Support	14,139,305	14,483,018
Student Services	8,665,704	9,252,391
Institutional Support	17,334,250	18,061,506
Operations and Maintenance of Plant	4,416,866	7,932,663
Depreciation	8,084,361	7,298,496
Student Aid	6,489,322	3,641,447
Auxiliary Enterprises	9,845,872	14,282,234
Total Operating Expenses	<u>108,972,608</u>	<u>116,380,783</u>
NET OPERATING LOSS	(31,419,633)	(33,465,335)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	29,102,386	28,479,974
Federal Appropriations, CARES Act COVID Relief	672,200	-
Federal Grants, CARES Act COVID Relief	2,423,714	-
Commonwealth on-behalf Contributions to PSERS	527,529	478,211
Pell Grants	11,013,336	11,779,030
Investment Income, Net of Related Investment Expense of \$11,801 in 2020 and \$12,826 in 2019	1,410,361	1,794,058
Gifts for Other than Capital Purposes	466,951	1,096,043
Interest Expense on Capital Asset-Related Debt	(830,708)	(992,173)
Loss on Disposal of Assets	(170,140)	-
Other Nonoperating Revenue	80,866	181,370
Net Nonoperating Revenues	<u>44,696,495</u>	<u>42,816,513</u>
INCOME BEFORE OTHER REVENUES	13,276,862	9,351,178
OTHER REVENUES		
State Appropriations, Capital	1,187,357	1,238,809
Capital Gifts and Grants	798,530	1,177,564
Total Other Revenues	<u>1,985,887</u>	<u>2,416,373</u>
INCREASE IN NET POSITION	15,262,749	11,767,551
Net Position - Beginning of Year	<u>(47,868,012)</u>	<u>(59,635,563)</u>
NET POSITION - END OF YEAR	<u>\$ (32,605,263)</u>	<u>\$ (47,868,012)</u>

See accompanying Notes to Financial Statements.

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 51,471,547	\$ 52,016,501
Grants and Contracts	12,007,960	8,371,710
Payments to Suppliers for Goods and Services	(27,741,435)	(31,568,740)
Payments to Employees	(77,452,402)	(77,070,380)
Loans Collected from Students	145,653	143,804
Student Aid	(6,553,466)	(3,684,415)
Auxiliary Enterprise Charges	13,575,415	18,886,263
Sales and Services of Educational Departments	3,290,927	3,233,648
Other Receipts	(3,619,491)	182,041
Net Cash Used by Operating Activities	(34,875,292)	(29,489,568)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	31,048,274	28,479,974
Gifts and Nonoperating Grants for Other than Capital Purposes	13,904,001	12,875,073
PLUS, Stafford, and Other Loan Receipts (Non-Perkins)	56,444,991	58,403,896
PLUS, Stafford, and Other Loan Disbursements (Non-Perkins)	(56,444,991)	(58,403,896)
Agency Transactions, Net	10,666	3,145
Other	80,866	181,370
Net Cash Provided by Noncapital Financing Activities	45,043,807	41,539,562
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	1,267,222	1,466,317
Capital Appropriations	1,187,357	1,238,809
Capital Grants and Gifts Received	798,530	1,177,564
Proceeds from Sales of Capital Assets	1,759	-
Purchases of Capital Assets	(6,529,277)	(14,447,214)
Principal Paid on Capital and Other Debt	(5,409,650)	(5,443,192)
Interest Paid on Capital Debt	(1,280,216)	(1,477,521)
Net Cash Used by Capital Financing Activities	(9,964,275)	(17,485,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Endowment Investments	(11)	(6)
Interest on Investments	1,544,567	1,782,370
Net Cash Provided by Investing Activities	1,544,556	1,782,364
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,748,796	(3,652,879)
Cash and Cash Equivalents - Beginning of Year	80,417,343	84,070,222
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 82,166,139	\$ 80,417,343

See accompanying Notes to Financial Statements.

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

	2020	2019
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Net Operating Loss	\$ (31,419,633)	\$ (33,465,335)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	8,084,361	7,298,496
Expenses paid by Commonwealth or Donor	527,529	480,771
Changes in Assets and Liabilities:		
Accounts Receivable, Net	1,862,099	(219,396)
Inventories	46,152	43,047
Other Assets	(4,052,345)	(881,375)
Accounts Payable and Accrued Expenses	(751,510)	(2,213,797)
Unearned Revenue	1,154,477	(100,915)
Students' Deposits	121,629	5,200
Compensated Absences	1,084,281	(46,866)
Loans Receivable	145,653	143,804
Other Liabilities	(11,677,985)	(533,202)
Net Cash Used by Operating Activities	\$ (34,875,292)	\$ (29,489,568)
 SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Capital Assets Acquired by New Capital Lease	\$ -	\$ 177,282
Commonwealth On-Behalf Contributions to PSERS	527,529	478,211
	\$ 527,529	\$ 655,493

See accompanying Notes to Financial Statements.

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

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 26,144,985	\$ 23,699,473
Accounts Receivable	230,967	285,830
Pledges Receivable	435,576	268,920
Due from University	564,298	1,716,327
Assets Held for Sale	2,610,066	1,930,914
Other Current Assets	216,794	210,911
Total Current Assets	30,202,686	28,112,375
NONCURRENT ASSETS		
Capital Assets, Net	100,388,336	103,951,523
Investments	34,823,638	34,023,911
Pledges Receivable	2,093,075	304,123
Total Noncurrent Assets	137,305,049	138,279,557
Total Assets	\$ 167,507,735	\$ 166,391,932
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 2,867,897	\$ 3,980,597
Note Payable	186,300	-
Annuity Liabilities	281,127	250,294
Due to University	5,957,165	1,920,798
Deposit Liabilities	7,058	-
Current Portion of Long-Term Debt	3,108,124	2,767,239
Other Liabilities	29,722	41,131
Total Current Liabilities	12,437,393	8,960,059
LONG-TERM DEBT		
Total Liabilities	122,036,603	124,942,015
NET ASSETS		
Without Donor Restrictions	7,990,055	10,029,075
With Donor Restrictions	25,043,684	22,460,783
Total Net Assets	33,033,739	32,489,858
Total Liabilities and Net Assets	\$ 167,507,735	\$ 166,391,932

See accompanying Notes to Financial Statements.

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

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND OTHER ADDITIONS		
Contributions	\$ 708,637	\$ 1,943,867
Sales and Services	254,810	321,035
Student Fees	2,112,151	2,771,304
Grants and Contracts	89,104	86,444
Rental Income	12,759,053	15,926,357
Investment Income	921,507	872,523
Service Fee Income - University	1,125,000	1,125,000
Other Revenues and Gains	1,323,753	1,435,489
Net Assets Released from Restrictions	2,480,736	3,094,625
Total Revenues and Other Additions	21,774,751	27,576,644
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses:		
Scholarships and Grants	1,017,436	943,649
Student Activities and Programs	2,860,538	3,856,854
Housing	14,629,347	15,652,587
Other University Support	186,282	222,048
Other Programs	319,864	406,023
Management and General	3,962,174	3,756,459
Fundraising	838,130	688,235
Total Expenses and Other Deductions	23,813,771	25,525,855
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(2,039,020)	2,050,789
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	5,178,420	2,660,804
Investment Income	325,270	1,213,735
Gains and (Losses)	(440,053)	(404,740)
Net Assets Released from Restrictions	(2,480,736)	(3,094,625)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	2,582,901	375,174
CHANGE IN TOTAL NET ASSETS	543,881	2,425,963
Net Assets - Beginning of Year	32,489,858	30,063,895
NET ASSETS - END OF YEAR	\$ 33,033,739	\$ 32,489,858

See accompanying Notes to Financial Statements.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF EXPENSES BY NATURE AND FUNCTION – COMPONENT UNITS
YEARS ENDED JUNE 30, 2020 AND 2019**

2020									
Natural Expense	Program Activities					Supporting Activities			
	Student					Management and General	Fundraising	Total Supporting	Total Expenses
	Scholarship and Grants	Activities and Programs	Housing	Other Programs	Total Programs				
Salaries and benefits	\$ -	\$ 379,897	\$ 2,516,018	\$ 228,079	\$ 3,123,994	\$ 1,661,855	\$ -	\$ 1,661,855	\$ 4,785,849
Gifts and grants	-	379,965	-	-	379,965	508,209	19,530	527,739	907,704
Supplies and travel	-	411,797	5,664	14,016	431,477	59,177	28,378	87,555	519,032
Services and professional fees	-	164,503	984,418	30,396	1,179,317	148,939	90,841	239,780	1,419,097
Office and occupancy	-	-	321,176	76,559	397,735	49,679	-	49,679	447,414
Depreciation	-	59,995	3,753,102	-	3,813,097	17,587	-	17,587	3,830,684
Interest	-	-	5,154,199	-	5,154,199	-	-	-	5,154,199
Other	1,017,436	1,464,381	1,894,770	157,096	4,533,683	1,516,728	699,381	2,216,109	6,749,792
Total Expenses	\$ 1,017,436	\$ 2,860,538	\$ 14,629,347	\$ 506,146	\$ 19,013,467	\$ 3,962,174	\$ 838,130	\$ 4,800,304	\$ 23,813,771

2019									
Natural Expense	Program Activities					Supporting Activities			
	Student					Management and General	Fundraising	Total Supporting	Total Expenses
	Scholarship and Grants	Activities and Programs	Housing	Other Programs	Total Programs				
Salaries and benefits	\$ -	\$ 366,239	\$ 2,566,086	\$ 250,075	\$ 3,182,400	\$ 1,683,770	\$ -	\$ 1,683,770	\$ 4,866,170
Gifts and grants	-	390,848	434,821	-	825,669	495,599	3,870	499,469	1,325,138
Supplies and travel	-	562,752	18,165	20,836	601,753	162,015	25,280	187,295	789,048
Services and professional fees	-	351,452	1,234,088	91,998	1,677,538	156,438	84,276	240,714	1,918,252
Office and occupancy	-	-	495,895	76,588	572,483	49,604	-	49,604	622,087
Depreciation	-	60,699	3,862,745	-	3,923,444	41,691	-	41,691	3,965,135
Interest	-	-	5,241,892	-	5,241,892	-	-	-	5,241,892
Other	943,648	2,124,864	1,798,895	185,857	5,053,264	1,170,060	574,809	1,744,869	6,798,133
Total Expenses	\$ 943,648	\$ 3,856,854	\$ 15,652,587	\$ 625,354	\$ 21,078,443	\$ 3,759,177	\$ 688,235	\$ 4,447,412	\$ 25,525,855

See accompanying Notes to Financial Statements.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

East Stroudsburg University of Pennsylvania of the State System of Higher Education (the University) is a public four-year institution located in East Stroudsburg, Pennsylvania. The University is one of 14 universities of the Pennsylvania State System of Higher Education (the State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (Commonwealth).

Reporting Entity

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

The University has determined that the East Stroudsburg University Student Activity Association, Inc. (Association), the East Stroudsburg University Foundation (Foundation), The Rose Mekeel Child Care Center (Mekeel), the East Stroudsburg University Center for Research and Economic Development, Inc. (CFRED) and University Properties, Inc. (UPI) should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

The Association is a legally separate, tax-exempt entity, which is responsible for the operations of the Student Activity Association, whose primary function is acting as a liaison between students, faculty and alumni, the University Store and Stony Acres, Inc., a recreation site and field campus for faculty and students. Although the University does not control the resources of the Association, the activities of the Association are solely for the benefit of the University and its students. Because these resources are held by the Association and can only be used to benefit the University and its students, the Association is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Association is presented as of and for the years ended May 31, 2020 and 2019.

The Foundation is a legally separate, tax-exempt entity, which acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to activities of the University by the donors. Since these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Foundation is presented as of and for the years ended June 30, 2020 and 2019.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

Reporting Entity (Continued)

Mekeel is a legally separate, tax-exempt entity, which operates a childcare center for the children of students, faculty, and staff enrolled and/or employed at the University. It also assists various departments of the University with educational programs. Although the University does not control the resources of Mekeel, the activities of Mekeel are solely for the benefit of the University and its students. Mekeel is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of Mekeel is presented as of and for the years ended May 31, 2020 and 2019.

East Stroudsburg University Center for Research & Economic Development, Inc. (CFRED) is a legally separate, tax-exempt entity, whose primary function is acting as the principal economic development and research extension of the University, through research and workforce training. CFRED and the University have entered into a memorandum of understanding, which recognizes CFRED as an affiliated organization of the University. CFRED is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of CFRED is presented as of and for the years ended June 30, 2020 and 2019.

UPI is a legally separate, tax-exempt entity, whose primary function is the operation and maintenance of certain housing for University students. Although the University does not control the resources of UPI, the activities of UPI are solely for the benefit of the University and its students. UPI is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of UPI is presented as of and for the years ended June 30, 2020 and 2019.

At June 30, 2020 and 2019, the University owed amounts to and was due amounts from its component units. Such balances are incurred as a normal part of doing business and are expected to be liquidated within the next fiscal year.

Complete financial statements for the component units may be obtained at the University's administrative office.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. 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.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

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 University records tuition, all academic, instructional, and other student fees; student financial aid; auxiliary activity; and corporate partnerships as operating revenue. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All expenses, with the exception of interest expense and loss on the disposal of assets, are recorded as operating expenses. Appropriations, Pell grants, investment income, gifts for other than capital purposes, and parking and library fines are reported as nonoperating revenue.

Deferred Outflows and Deferred Inflows of Resources

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

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

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

The University is required to report the following as *Deferred Outflows of Resources* or *Deferred Inflows of Resources*.

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

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

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

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

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

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

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

Cash Equivalents and Investments

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

Accounts and Loans Receivable

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

Accounts and Loans Receivable (Continued)

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

Inventories

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

Capital Assets

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

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

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

Impairment of Capital Assets

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

Unearned Revenue

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

Compensated Absences

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

Pension Plans and OPEB Plans

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

Scholarships and Waivers

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

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

New Accounting Standards

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

In May 2020, GASB issued Statement No. 95, *Postponement of Effective Dates*, which is effective immediately. Statement 95 provides relief to governments and other stakeholders in light of the COVID-19 pandemic. It postpones the following standards, which are evaluated below, by one year from the original effective date: Statements 84, 89, 92 and 93. It postpones the effective date of Statement 87 by 18 months. Statement 94 and those issued after were not affected by Statement 95.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The State System is evaluating the impact of the adoption of this standard on its financial statements. The provisions in Statement No. 84 are effective for reporting periods beginning after December 15, 2020.

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 the same manner as capital leases. The University has determined that, although Statement No. 87 will change the way it accounts for its operating leases, it will have little, if any, effect on its net position or results of operations. The provisions in Statement No. 87 are effective for reporting periods beginning after June 15, 2021.

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

New Accounting Standards (Continued)

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

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION

The following represents combining condensed statement of financial position information for the component units as of June 30, 2020:

	Foundation	Association	UPI	CFRED	Mekeel	Total
Capital Assets	\$ -	\$ 426,290	\$ 99,962,046	\$ -	\$ -	\$ 100,388,336
Investments	25,554,313	11,879,391	-	-	-	37,433,704
Due from University	-	1,880	558,431	3,987	-	564,298
Other Assets	3,204,613	3,385,086	22,240,281	63,201	228,216	29,121,397
Total Assets	\$ 28,758,926	\$ 15,692,647	\$ 122,760,758	\$ 67,188	\$ 228,216	\$ 167,507,735
Due to University	\$ 173,375	\$ -	\$ 5,783,790	\$ -	\$ -	\$ 5,957,165
Long-Term Debt	186,300	200,000	124,890,227	-	54,500	125,331,027
Other Liabilities	392,420	654,814	2,109,008	275	29,287	3,185,804
Total Liabilities	752,095	854,814	132,783,025	275	83,787	134,473,996
Net Assets:						
Without Donor Restrictions	3,050,147	14,751,833	(10,022,267)	65,913	144,429	7,990,055
With Donor Restrictions	24,956,684	86,000	-	1,000	-	25,043,684
Total Net Assets	28,006,831	14,837,833	(10,022,267)	66,913	144,429	33,033,739
Total Liabilities and Net Assets	\$ 28,758,926	\$ 15,692,647	\$ 122,760,758	\$ 67,188	\$ 228,216	\$ 167,507,735

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

	Foundation	Association	UPI	CFRED	Mekeel	Total
Capital Assets	\$ -	\$ 447,395	\$ 103,504,128	\$ -	\$ -	\$ 103,951,523
Investments	24,726,747	11,228,078	-	-	-	35,954,825
Due from University	-	-	1,712,340	3,987	-	1,716,327
Other Assets	1,198,930	3,677,546	19,616,245	76,189	200,347	24,769,257
Total Assets	\$ 25,925,677	\$ 15,353,019	\$ 124,832,713	\$ 80,176	\$ 200,347	\$ 166,391,932
Due to University	\$ 247,610	\$ -	\$ 1,673,188	\$ -	\$ -	\$ 1,920,798
Long-Term Debt	-	-	127,709,254	-	-	127,709,254
Other Liabilities	351,606	674,728	3,209,148	4,000	32,540	4,272,022
Total Liabilities	599,216	674,728	132,591,590	4,000	32,540	133,902,074
Net Assets:						
Without Donor Restrictions	2,952,678	14,592,291	(7,758,877)	75,176	167,807	10,029,075
With Donor Restrictions	22,373,783	86,000	-	1,000	-	22,460,783
Total Net Assets	25,326,461	14,678,291	(7,758,877)	76,176	167,807	32,489,858
Total Liabilities and Net Assets	\$ 25,925,677	\$ 15,353,019	\$ 124,832,713	\$ 80,176	\$ 200,347	\$ 166,391,932

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining statement of activities for the component units for the year ended June 30, 2020:

	Foundation	Association	UPI	CFRED	Mekeel	Total
Changes in Net Assets Without Donor Restrictions						
Revenues and Other Additions:						
Contributions	\$ 653,444	\$ -	\$ -	\$ 55,193	\$ -	\$ 708,637
Sales and Services	-	-	-	-	254,810	254,810
Student Fees	-	2,112,151	-	-	-	2,112,151
Grants and Contracts	-	-	-	-	89,104	89,104
Rental Income	-	-	12,759,053	-	-	12,759,053
Investment Income	104,109	694,106	121,825	286	1,181	921,507
Service Fee Income	1,125,000	-	-	-	-	1,125,000
Other Revenues and Gains	417,777	897,633	2,843	5,500	-	1,323,753
Net Assets Released from Restrictions	2,480,736	-	-	-	-	2,480,736
Total Revenues and Other Additions	4,781,066	3,703,890	12,883,721	60,979	345,095	21,774,751
Expenses and Other Deductions:						
Program Expenses:						
Scholarships and Grants	1,017,436	-	-	-	-	1,017,436
Student Activities and Programs	1,449,665	1,410,873	-	-	-	2,860,538
Housing	-	-	14,629,347	-	-	14,629,347
Other University Support	186,282	-	-	-	-	186,282
Other Programs	-	-	-	27,824	292,040	319,864
Management and General	1,192,084	2,133,475	517,764	42,418	76,433	3,962,174
Fundraising	838,130	-	-	-	-	838,130
Total Expenses and Other Deductions	4,683,597	3,544,348	15,147,111	70,242	368,473	23,813,771
Change in Net Assets Without Donor Restrictions	97,469	159,542	(2,263,390)	(9,263)	(23,378)	(2,039,020)
Changes in Net Assets With Donor Restrictions						
Contributions	5,178,420	-	-	-	-	5,178,420
Investment Income	325,270	-	-	-	-	325,270
Other Gains	(440,053)	-	-	-	-	(440,053)
Net Assets Released from Restrictions	(2,480,736)	-	-	-	-	(2,480,736)
Change in Net Assets With Donor Restrictions	2,582,901	-	-	-	-	2,582,901
CHANGE IN NET ASSETS	2,680,370	159,542	(2,263,390)	(9,263)	(23,378)	543,881
Net Assets - Beginning of Year	25,326,461	14,678,291	(7,758,877)	76,176	167,807	32,489,858
NET ASSETS - END OF YEAR	\$ 28,006,831	\$ 14,837,833	\$ (10,022,267)	\$ 66,913	\$ 144,429	\$ 33,033,739

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Association	UPI	CFRED	Mekeel	Total
Changes in Net Assets Without Donor Restrictions						
Revenues and Other Additions:						
Contributions	\$ 1,889,674	\$ -	\$ -	\$ 54,193	\$ -	\$ 1,943,867
Sales and Services	-	-	-	-	321,035	321,035
Student Fees	-	2,771,304	-	-	-	2,771,304
Grants and Contracts	-	-	-	-	86,444	86,444
Rental Income	-	-	15,926,357	-	-	15,926,357
Investment Income	308,904	334,789	227,477	457	896	872,523
Service Fees Income	1,125,000	-	-	-	-	1,125,000
Other Revenues and Gains	376,343	1,017,936	19,922	21,288	-	1,435,489
Net Assets Released from Restrictions	3,094,625	-	-	-	-	3,094,625
Total Revenues and Other Additions	6,794,546	4,124,029	16,173,756	75,938	408,375	27,576,644
Expenses and Other Deductions:						
Program Expenses:						
Scholarships and Grants	943,649	-	-	-	-	943,649
Student Activities and Programs	2,157,167	1,699,687	-	-	-	3,856,854
Housing	-	-	15,652,587	-	-	15,652,587
Other University Support	222,048	-	-	-	-	222,048
Other Programs	-	-	-	87,525	318,498	406,023
Management and General	1,106,599	2,025,793	506,148	41,303	76,616	3,756,459
Fundraising	688,235	-	-	-	-	688,235
Total Expenses and Other Deductions	5,117,698	3,725,480	16,158,735	128,828	395,114	25,525,855
Change in Net Assets Without Donor Restrictions	1,676,848	398,549	15,021	(52,890)	13,261	2,050,789
Changes in Net Assets With Donor Restrictions						
Contributions	2,659,804	-	-	1,000	-	2,660,804
Investment Income	1,213,735	-	-	-	-	1,213,735
Other Expenses and Losses	(404,740)	-	-	-	-	(404,740)
Net Assets Released from Restrictions	(3,094,625)	-	-	-	-	(3,094,625)
Change in Net Assets With Donor Restrictions	374,174	-	-	1,000	-	375,174
CHANGE IN NET ASSETS	2,051,022	398,549	15,021	(51,890)	13,261	2,425,963
Net Assets - Beginning of Year	23,275,439	14,279,742	(7,773,898)	128,066	154,546	30,063,895
NET ASSETS - END OF YEAR	<u>\$ 25,326,461</u>	<u>\$ 14,678,291</u>	<u>\$ (7,758,877)</u>	<u>\$ 76,176</u>	<u>\$ 167,807</u>	<u>\$ 32,489,858</u>

In 2018, UPI contributed \$10,000 to form UPI II, Inc., an entity which was created in order to facilitate the financing of capital projects intended to benefit the University. UPI II, Inc.'s activity since its inception was de minimis, and accordingly it is not included in the tables of condensed component unit information presented above.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of \$1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals \$50,648,670 and \$74,723,213 at June 30, 2020 and 2019, respectively.

The State System invests its funds in accordance with *Board of Governors' Policy 1986-02-A, Investment*, which authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, bankers' 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 may be invested in the investments described above, as well as in corporate equities and approved pooled common funds. In addition, the University 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 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.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

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. Detailed information regarding the fair value of the State System pooled deposits and investment portfolio is available in the financial statements of the State System, which can be found at www.passhe.edu. The University had no local investments recorded at fair value as of June 30, 2020 and 2019.

University Local Deposits and Investments: At June 30, 2020 and 2019, the carrying amount of the University's demand and time deposits were \$31,517,469 and \$5,694,130, respectively, as compared to bank balances of \$27,358,227 and \$5,469,968, respectively. The differences are primarily caused by items in-transit and outstanding checks. Of the bank balances at June 30, 2020 and 2019, \$250,000 was covered by federal government depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions; \$27,108,227 and \$5,219,968, respectively, were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2020 and 2019, none of the University's demand and time deposits were exposed to foreign currency risk.

Short-term investments at June 30, 2020 and 2019 consist of certificates of deposit carried at cost, which approximates fair value.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 4 CAPITAL ASSETS

Capital assets and the changes therein are summarized as follows:

	Estimated Lives (in Years)	Beginning Balance July 01, 2019	Additions	Retirements	Reclassifications	Ending Balance June 30, 2020
Capital Assets Not Being Depreciated:						
Land		\$ 6,442,486	\$ -	\$ -	\$ -	\$ 6,442,486
Construction in Progress		3,662,744	844,933	-	(2,238,870)	2,268,807
Total Capital Assets Not Being Depreciated		10,105,230	844,933	-	(2,238,870)	8,711,293
Capital Assets Being Depreciated:						
Buildings, Including Improvements	10-40	145,383,520	2,130,661	(354,570)	2,171,102	149,330,713
Improvements Other Than Buildings	20	25,948,870	12,439	-	67,768	26,029,077
Furnishings and Equipment	Varies	27,349,634	3,540,117	(422,188)	-	30,467,563
Library Books	10	4,575,299	1,129	(781,497)	-	3,794,931
Total Capital Assets Being Depreciated		203,257,323	5,684,346	(1,558,255)	2,238,870	209,622,284
Less Accumulated Depreciation:						
Buildings, Including Improvements		(82,225,143)	(5,899,800)	182,671	-	(87,942,272)
Furnishings and Equipment		(21,983,888)	(2,128,811)	422,188	-	(23,690,511)
Library Books		(4,385,213)	(55,750)	781,497	-	(3,659,466)
Total Accumulated Depreciation		(108,594,244)	(8,084,361)	1,386,356	-	(115,292,249)
Total Capital Assets Being Depreciated, Net		94,663,079	(2,400,015)	(171,899)	2,238,870	94,330,035
Capital Assets, Net		<u>\$ 104,768,309</u>	<u>\$ (1,555,082)</u>	<u>\$ (171,899)</u>	<u>\$ -</u>	<u>\$ 103,041,328</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Estimated Lives (in Years)	Beginning Balance July 01, 2018	Additions	Retirements	Reclassifications	Ending Balance June 30, 2019
Capital Assets Not Being Depreciated:						
Land		\$ 6,412,708	\$ 27,218	\$ -	\$ 2,560	\$ 6,442,486
Construction in Progress		12,617,163	2,372,725	(2,560)	(11,324,584)	3,662,744
Total Capital Assets Not Being Depreciated		19,029,871	2,399,943	(2,560)	(11,322,024)	10,105,230
Capital Assets Being Depreciated:						
Buildings, Including Improvements	10-40	125,544,469	9,133,665	(103,606)	10,808,992	145,383,520
Improvements Other Than Buildings	20	25,063,039	372,799	-	513,032	25,948,870
Furnishings and Equipment	Varies	24,790,349	2,712,560	(153,275)	-	27,349,634
Library Books	10	5,885,456	5,529	(1,315,686)	-	4,575,299
Total Capital Assets Being Depreciated		181,283,313	12,224,553	(1,572,567)	11,322,024	203,257,323
Less Accumulated Depreciation:						
Buildings, Including Improvements		(76,961,690)	(5,367,059)	103,606	-	(82,225,143)
Furnishings and Equipment		(20,270,082)	(1,867,081)	153,275	-	(21,983,888)
Library Books		(5,636,543)	(64,356)	1,315,686	-	(4,385,213)
Total Accumulated Depreciation		(102,868,315)	(7,298,496)	1,572,567	-	(108,594,244)
Total Capital Assets Being Depreciated, Net		78,414,998	4,926,057	-	11,322,024	94,663,079
Capital Assets, Net		<u>\$ 97,444,869</u>	<u>\$ 7,326,000</u>	<u>\$ (2,560)</u>	<u>\$ -</u>	<u>\$ 104,768,309</u>

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2020	2019
Employees	\$ 6,861,917	\$ 7,065,527
Suppliers and Services	1,199,134	2,409,313
Other	1,565,290	903,011
Total	<u>\$ 9,626,341</u>	<u>\$ 10,377,851</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System's Board of Governor's has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University for the years ended June 30, 2020 and 2019 are as follows:

	Weighted Average Interest Rate	Balance July 1, 2019	Bonds Issued	Bonds Redeemed	Balance June 30, 2020
Series AH	4.67%	\$ 3,885,000	\$ -	\$ (205,000)	\$ 3,680,000
Series AJ	4.88%	2,485,701	-	(1,305,701)	1,180,000
Series AK	4.00%	16,171	-	(16,171)	-
Series AL	5.00%	1,392,656	-	(518,987)	873,669
Series AM	4.65%	5,762,657	-	(366,804)	5,395,853
Series AN	5.00%	1,029,177	-	(297,174)	732,003
Series AP	4.34%	91,657	-	(16,838)	74,819
Series AQ	4.71%	3,850,420	-	(477,261)	3,373,159
Series AS	3.72%	7,659,050	-	(1,411,195)	6,247,855
Series AU	3.51%	3,958,866	-	(358,922)	3,599,944
Series AV	4.22%	1,139,639	-	(192,118)	947,521
Series AW	5.00%	-	1,030,409	-	1,030,409
Total Bonds Payable		<u>\$ 31,270,994</u>	<u>\$ 1,030,409</u>	<u>\$ (5,166,171)</u>	<u>\$ 27,135,232</u>
Plus: Unamortized Bond Premium					<u>1,850,915</u>
Outstanding at End of Year					<u>\$ 28,986,147</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 BONDS PAYABLE (CONTINUED)

	Weighted Average Interest Rate	Balance July 1, 2018	Bonds Issued	Bonds Redeemed	Balance June 30, 2019
Series AH	4.67%	\$ 4,080,000	\$ -	\$ (195,000)	\$ 3,885,000
Series AI	4.19%	1,436,876	-	(1,436,876)	-
Series AJ	4.88%	2,635,555	-	(149,854)	2,485,701
Series AK	4.00%	31,771	-	(15,600)	16,171
Series AL	5.00%	1,887,758	-	(495,102)	1,392,656
Series AM	4.65%	6,112,222	-	(349,565)	5,762,657
Series AN	5.00%	1,314,129	-	(284,952)	1,029,177
Series AP	4.34%	107,843	-	(16,186)	91,657
Series AQ	4.71%	4,304,911	-	(454,491)	3,850,420
Series AS	3.72%	9,045,547	-	(1,386,497)	7,659,050
Series AU	3.51%	4,147,434	-	(188,568)	3,958,866
Series AV	4.22%	-	1,340,812	(201,173)	1,139,639
Total Bonds Payable		<u>\$ 35,104,046</u>	<u>\$ 1,340,812</u>	<u>\$ (5,173,864)</u>	<u>\$ 31,270,994</u>
Plus: Unamortized Bond Premium					<u>2,162,224</u>
Outstanding at End of Year					<u>\$ 33,433,218</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 BONDS PAYABLE (CONTINUED)

Principal and interest maturities for each of the next five years as of June 30, 2020 and in subsequent five-year periods ending June 30 are as follows:

Series		2021	2022	2023	2024	2025	2026-2030	2031-2035	2036-2040	Total
AH	Principal	\$ 215,000	\$ 222,500	\$ 232,500	\$ 242,500	\$ 252,500	\$ 1,462,500	\$ 1,052,500	\$ -	\$ 3,680,000
	Interest	172,853	164,253	155,353	143,728	133,422	469,666	106,875	-	1,346,150
	Total	387,853	386,753	387,853	386,228	385,922	1,932,166	1,159,375	-	5,026,150
AJ	Principal	60,000	65,000	65,000	70,000	75,000	430,000	415,000	-	1,180,000
	Interest	57,188	54,188	50,938	47,688	44,188	167,194	53,500	-	474,884
	Total	117,188	119,188	115,938	117,688	119,188	597,194	468,500	-	1,654,884
AL	Principal	543,669	15,000	20,000	20,000	20,000	115,000	140,000	-	873,669
	Interest	43,683	16,500	15,750	14,750	13,750	53,000	21,750	-	179,183
	Total	587,352	31,500	35,750	34,750	33,750	168,000	161,750	-	1,052,852
AM	Principal	385,235	404,259	424,472	447,063	470,248	2,656,812	607,764	-	5,395,853
	Interest	249,610	230,349	210,136	187,851	164,380	517,295	27,341	-	1,586,962
	Total	634,845	634,608	634,608	634,914	634,628	3,174,107	635,105	-	6,982,815
AN	Principal	313,835	328,051	90,117	-	-	-	-	-	732,003
	Interest	22,320	4,853	343	-	-	-	-	-	27,516
	Total	336,155	332,904	90,460	-	-	-	-	-	759,519
AP	Principal	17,486	18,201	19,111	20,021	-	-	-	-	74,819
	Interest	3,566	2,867	1,957	1,001	-	-	-	-	9,391
	Total	21,052	21,068	21,068	21,022	-	-	-	-	84,210
AQ	Principal	501,486	526,323	552,674	580,423	609,569	602,684	-	-	3,373,159
	Interest	168,658	143,584	117,268	89,634	60,613	30,134	-	-	609,891
	Total	670,144	669,907	669,942	670,057	670,182	632,818	-	-	3,983,050
AS	Principal	1,438,826	1,469,804	604,241	634,369	666,171	1,434,444	-	-	6,247,855
	Interest	269,228	240,451	166,961	136,749	105,031	108,462	-	-	1,026,882
	Total	1,708,054	1,710,255	771,202	771,118	771,202	1,542,906	-	-	7,274,737
AU	Principal	377,137	395,351	415,708	436,065	458,564	1,517,119	-	-	3,599,944
	Interest	179,997	161,140	141,373	120,587	98,784	154,176	-	-	856,057
	Total	557,134	556,491	557,081	556,652	557,348	1,671,295	-	-	4,456,001
AV	Principal	201,840	289,178	178,003	198,787	79,713	-	-	-	947,521
	Interest	47,376	37,284	22,825	13,925	3,986	-	-	-	125,396
	Total	249,216	326,462	200,828	212,712	83,699	-	-	-	1,072,917
AW	Principal	-	96,232	115,321	121,028	126,341	571,487	-	-	1,030,409
	Interest	51,520	51,520	46,709	40,943	34,891	73,178	-	-	298,761
	Total	51,520	147,752	162,030	161,971	161,232	644,665	-	-	1,329,170
Total	Principal	4,054,514	3,829,899	2,717,147	2,770,256	2,758,106	8,790,046	2,215,264	-	27,135,232
	Interest	1,265,999	1,106,989	929,613	796,856	659,045	1,573,105	209,466	-	6,541,073
	Total	\$ 5,320,513	\$ 4,936,888	\$ 3,646,760	\$ 3,567,112	\$ 3,417,151	\$ 10,363,151	\$ 2,424,730	\$ -	\$ 33,676,305

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 BONDS PAYABLE (CONTINUED)

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. The State System will issue bonds to provide a pool for funding for AFRP (\$5,548,428 and \$9,228,259 was outstanding at June 30, 2020 and 2019, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance under the AFRP pool of funding were as follows:

	<u>2020</u>	<u>2019</u>
Balance at July 1	\$ 610,587	\$ 879,916
Repayments	<u>(243,475)</u>	<u>(269,329)</u>
Balance at June 30	<u>\$ 367,112</u>	<u>\$ 610,587</u>

NOTE 7 LEASES

The University has entered into noncancelable lease agreements which have been reported as operating leases in the accompanying financial statements. Future minimum payments at June 30, 2020 for leases with initial or remaining terms of one year or more are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 828,771
2022	856,188
2023	743,697
2024	706,990
2025	734,154
Thereafter	<u>32,156,043</u>
Total	<u>\$ 36,025,843</u>

Total rent expense for operating leases in 2020 and 2019 was \$1,454,665 and \$1,339,031, respectively.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Student Tuition and Fees	\$ 2,336,550	\$ 3,049,135
Grants	2,403,989	245,371
Federal Appropriation	1,273,687	-
Sales and Services and Other	48,582	340,137
Total	<u>\$ 6,062,808</u>	<u>\$ 3,634,643</u>

NOTE 9 COMPENSATED ABSENCES

Changes in the compensated absences liability were as follows during 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Balance at July 1	\$ 7,120,855	\$ 7,167,721
Current Changes in Estimate	1,487,509	862,781
Payouts	(403,228)	(909,647)
Balance at June 30	<u>\$ 8,205,136</u>	<u>\$ 7,120,855</u>

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB)

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

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

	SSHE Plan		REHP		PSERS		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Net OPEB liabilities	\$ 74,003,092	\$ 76,848,605	\$ 25,933,505	\$ 39,225,327	\$ 196,657	\$ 150,832	\$ 100,133,254	\$ 116,224,764
Deferred outflows of resources:								
Net difference between expected and actual experience	-	-	-	-	1,128	946	1,128	946
Net difference between projected and actual investment earnings on OPEB plan investments	-	-	-	-	343	236	343	236
Changes in proportion	-	-	1,581,343	2,095,906	6,325	1,812	1,587,668	2,097,718
Changes in assumptions	-	-	829,706	-	6,472	2,364	836,178	2,364
Contributions after the measurement date	2,118,936	2,148,332	1,147,482	1,469,478	10,344	10,662	3,276,762	3,628,472
Total deferred outflows of resources	2,118,936	2,148,332	3,558,531	3,565,384	24,612	16,020	5,702,079	5,729,736
Deferred inflows of resources:								
Net difference between expected and actual experience	6,780,668	-	19,287,821	12,013,827	-	-	19,287,821	12,013,827
Net difference between projected and actual investment earnings on OPEB plan investments	-	N/A	45,930	59,951	-	-	45,930	59,951
Changes in assumptions	7,897,889	14,707,979	3,592,070	5,156,513	5,835	5,713	11,495,794	19,870,205
Changes in proportion	-	N/A	1,107,966	-	1,324	1,340	1,109,290	1,340
Total deferred inflows of resources	14,678,557	14,707,979	24,033,787	17,230,291	7,159	7,053	31,938,835	31,945,323
OPEB expense	(726,604)	1,431,533	(5,333,991)	(382,767)	58,128	13,947	(6,002,467)	1,062,713
Contributions recognized by OPEB plans	-	-	1,147,482	1,469,478	10,344	10,662	1,157,826	1,480,140

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling \$2,118,936 for the System (SSHE) Plan, \$1,147,482 for the REHP plan, and \$10,344 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended	Amortization		
	SSHE	REHP	PSERS
June 30, 2021	\$ 3,849,272	\$ 5,436,171	\$ 834
June 30, 2022	3,849,272	5,436,171	834
June 30, 2023	3,849,272	5,150,333	784
June 30, 2024	2,468,596	3,901,386	735
June 30, 2025	662,145	1,690,412	2,501
Thereafter	-	8,265	1,421

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

System Plan

Plan Description

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

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

A total of 12,122 individuals are covered by the benefit terms (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.

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.

Funding Policy:

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

System Plan (Continued)

Funding Policy (Continued):

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

Actuarial Assumptions and Other Inputs

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates based on the PubG-2010 Mortality Table, including rates for contingent survivors, and which incorporates rates based on a generational projection using Scale MP-2018 to reflect mortality improvement.
- The discount rate decreased from 2.98% to 3.36%, based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2019.
- Participant data is based on census information as of July 1, 2018.
- Experience assumptions for withdrawal and retirement, expected vs. actual, and election percentages were reviewed in 2019, and it was determined that the results were reasonable and did not warrant a further formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all 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, 2020, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.5% decreasing to 2.8%) or one percentage point higher (6.5% decreasing to 4.8%) than the current healthcare cost trend rates (5.5% decreasing to 3.8%).

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (4.5% decreasing to 2.8%)	Healthcare Cost Trend Rates (5.5% decreasing to 3.8%)	1% Increase (6.5% decreasing to 4.8%)
2020	\$ 61,722,675	\$ 74,003,093	\$ 89,906,111

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 June 30, 2019, healthcare cost trend rates used (5.5% decreasing to 3.8%).

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (4.5% decreasing to 2.8%)	Healthcare Cost Trend Rates (5.5% decreasing to 3.8%)	1% Increase (6.5% decreasing to 4.8%)
2019	\$ 64,338,636	\$ 76,848,605	\$ 93,037,314

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.36%	Current Rate 3.36%	1% Increase 4.36%
2020	\$ 86,386,292	\$ 74,003,093	\$ 64,133,827

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
2019	\$ 90,196,178	\$ 76,848,605	\$ 66,260,010

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

System Plan (Continued)

OPEB Liability

The System Plan's total OPEB liability of \$74,003,092 at June 30, 2020 was measured as of July 1, 2019 and was determined by an actuarial valuation as of July 1, 2018 that was rolled forward to July 1, 2019. The University's share of the System's total OPEB liability of \$76,848,605 at June 30, 2019 was measured as of July 1, 2018 and was determined by an actuarial valuation as of July 1, 2018.

Changes in the System Plan Total OPEB Liability	Fiscal Year Ending June 30, 2020	Fiscal Year Ending June 30, 2019
Total OPEB Liability - Beginning Balance	\$ 76,848,605	\$ 86,859,889
Service Cost	2,081,766	2,520,306
Interest	2,312,620	2,751,532
Changes of Benefit Terms	-	(60,586)
Differences Between Expected and Actual Experience	-	(10,459,704)
Changes in Assumptions	(4,014,637)	(686,656)
Benefit Payments	(3,225,262)	(4,076,176)
Net Changes	(2,845,513)	(10,011,284)
Total OPEB Liability - Ending Balance	\$ 74,003,092	\$ 76,848,605
Covered Employee Payroll	\$ 33,716,976	\$ 34,071,448
OPEB Liability as a Percent of Covered Payroll	219.48%	225.55%

REHP

Plan Description

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

REHP (Continued)

Plan Description (Continued)

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

Funding Policy:

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

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2019 and 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial Cost Method is Entry Age Normal, which requires an estimate of the projected benefit payable at retirement to determine costs and liabilities.
- Inflation of 2.60%.
- Healthcare cost trend rate of 6.0%, with rates gradually decreasing to 4.1% in 2075 and later, based on the SOA-Getzen trend rate model version 2019_b.
- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase.
- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates based on the RP-2000 Male and Female Combined Healthy Mortality Tables or the RP-2000 Male and Female Disabled Retiree Mortality Tables, as appropriate, adjusted to ensure sufficient margin improvement in certain age ranges.
- Participant data based on census information as of December 31, 2018, for the June 30, 2019, measurement date; and as of December 31, 2017, for June 30, 2018, measurement date.

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

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

- Discount rate of 3.50% as of June 30, 2019, and 3.87% as of June 30, 2018.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the 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:

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	47.0%	5.6%
International Equity	20.0%	5.8%
Fixed Income	25.0%	1.7%
Real Estate	8.0%	4.6%
Cash and Cash Equivalents	0.0%	0.9%
Total	<u>100.00%</u>	

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

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

	Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate		
	1% Decrease (5.0% decreasing to 3.1%)	Healthcare Cost Trend Rates (6.0% decreasing to 4.1%)	1% Increase (7.0% decreasing to 5.1)
2020	\$ 22,528,006	\$ 25,933,505	\$ 30,122,496

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (5.2% decreasing to 3.1%)	Healthcare Cost Trend Rates (6.2% decreasing to 4.1%)	1% Increase (7.2% decreasing to 5.1)
2019	\$ 33,671,742	\$ 39,225,327	\$ 46,128,349

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

Sensitivity of the REHP Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.50%	Current Rate 3.50%	1% Increase 4.50%
2020	\$ 29,423,001	\$ 25,933,505	\$ 23,012,666

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

Sensitivity of the REHP Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.87%	Current Rate 3.87%	1% Increase 4.87%
2019	\$ 44,938,921	\$ 39,225,327	\$ 34,518,030

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

REHP (Continued)

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. Additional plan information can be found in the PSERS Comprehensive Annual Financial Report at www.psers.pa.gov.

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

Funding Policy

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.83% of covered payroll for the fiscal years ended June 30, 2020 and June 30, 2019. 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.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs

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

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

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

- The discount rate used to measure the total OPEB liability was 2.79% at June 30, 2019, and 2.98% at June 30, 2018.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs

- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 2.79%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.
- Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the Retirement Code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2019.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	13.2%	0.2%
US Core Fixed Income	83.1%	1.0%
Non-US Developed Fixed	3.7%	0.0%
Total	<u>100.00%</u>	

The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the total OPEB liability as of June 30, 2018, to June 30, 2019. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.1886% and 0.1836% for the measurement dates of June 30, 2019 and 2018, respectively.

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (Between 4% and 6.50%)	Healthcare Cost Trend Rates (Between 5% and 7.50%)	1% Increase (Between 6% and 8.50%)
2020	\$ 196,657	\$ 196,657	\$ 196,706

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

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (Between 4% and 6.75%)	Healthcare Cost Trend Rates (Between 5% and 7.75%)	1% Increase (Between 6% and 8.75%)
2019	\$ 150,792	\$ 150,831	\$ 150,871

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

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 1.79%	Current Rate 2.79%	1% Increase 3.79%
2020	\$ 224,065	\$ 196,657	\$ 173,957

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

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
2019	\$ 171,517	\$ 150,831	\$ 133,652

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Fiduciary Net Position

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

NOTE 11 PENSION BENEFITS

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

	SERS		PSERS		ARP		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Net Pension Liabilities	\$ 35,512,487	\$ 44,586,812	\$ 4,300,051	\$ 4,279,231	\$ -	\$ -	\$ 39,812,538	\$ 48,866,043
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	442,788	669,095	23,686	34,423	-	-	466,474	703,518
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	4,338,034	-	20,974	-	-	-	4,359,008
Changes in Assumptions	1,368,469	1,187,902	41,084	79,771	-	-	1,409,553	1,267,673
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	12,490	16,892	-	-	12,490	16,892
Changes in Proportion	367,612	639,495	114,773	73,022	-	-	482,385	712,517
Contributions After the Measurement Date	2,255,561	2,231,008	415,587	417,406	-	-	2,671,148	2,648,414
Total Deferred Outflows of Resources	<u>\$ 4,434,430</u>	<u>\$ 9,065,534</u>	<u>\$ 607,620</u>	<u>\$ 642,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,042,050</u>	<u>\$ 9,708,022</u>
Deferred Inflows of Resources:								
Difference Between Expected and Actual Experience	\$ 240,532	\$ 483,143	\$ 142,503	\$ 66,225	\$ -	\$ -	\$ 383,035	\$ 549,368
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	2,532,710	-	12,330	-	-	-	2,545,040	-
Difference Between Employer Contributions and Proportionate Share of Contributions	185,688	238,166	-	-	-	-	185,688	238,166
Changes in Proportion	826,495	352,649	27,536	45,202	-	-	854,031	397,851
Total Deferred Inflows of Resources	<u>\$ 3,785,425</u>	<u>\$ 1,073,958</u>	<u>\$ 182,369</u>	<u>\$ 111,427</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,967,794</u>	<u>\$ 1,185,385</u>
Pension Expense	<u>\$ 2,331,624</u>	<u>\$ 6,686,067</u>	<u>\$ 1,059,305</u>	<u>\$ 1,088,535</u>	<u>\$ 3,234,427</u>	<u>\$ 3,178,079</u>	<u>\$ 6,625,356</u>	<u>\$ 10,952,681</u>
Contributions Recognized by Pension Plans	<u>\$ 4,063,377</u>	<u>\$ 3,989,223</u>	<u>\$ 415,587</u>	<u>\$ 417,406</u>	N/A	N/A	<u>\$ 4,478,964</u>	<u>\$ 4,406,629</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

The University will recognize the \$2,255,561 reported as 2020 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$415,587 reported as 2020 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ended</u>	Amortization	
	SERS	PSERS
June 30, 2021	\$ (116,506)	\$ 51,296
June 30, 2022	(495,764)	(37,987)
June 30, 2023	208,978	(12,405)
June 30, 2024	(1,217,449)	8,760
June 30, 2025	14,185	-
Total	\$ (1,606,556)	\$ 9,664

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 provision of the plan to the General Assembly. Cost of Living Adjustments (COLA) are provided ad hoc at the discretion of the General Assembly.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

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.

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Contributions

For the SERS defined benefit plan, the State System's actuarially determined contribution rate for most active members was 36.04% of active members' annual covered payroll at June 30, 2020, with less common rates ranging between 24.92% and 28.84%, depending upon the defined benefit plan chosen by the employee. For the SERS defined benefit/defined contribution hybrid plan, the State System's actuarially determined contribution rate was either 16.93% or 17.18% of annual covered payroll, depending upon the hybrid plan chosen by the employee. In addition, the State System was required to contribute to the defined benefit plan 15.62% of the annual covered payroll of employees who selected the straight 401(a) defined contribution plan. The University's contributions to SERS for the years ended June 30, 2020, 2019, and 2018 were \$4,063,377, \$3,989,222, and \$4,140,268, respectively, equal to the required contractual contribution.

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

For the SERS defined contribution plan, the University contributed at actuarially determined rates of between 2.0% and 3.5% of active members' annual covered payroll at June 30, 2020, depending upon the plan chosen by the employee. The University recognized \$11,750 in SERS defined contribution pension expense for the year ended June 30, 2020, and \$1,568 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.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions

Actuarial valuations are performed annually using December 31 measurement date. Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience* study for the period 2011–2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its June 2019 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.25% to 7.125%. The next SERS actuarial experience review occurred in summer 2020 and will be used for its 2020 valuation.

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

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.125%, net of expenses 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 (COLAs).

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

The long-term expected real rate of return on pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2019 and 2018 are summarized below:

Asset Class	2019 Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.0%	7.25%
Global Public Equity	48.0%	5.15%
Real Estate	12.0%	5.26%
Multi-Strategy	10.0%	4.44%
Fixed Income	11.0%	1.26%
Cash	3.0%	0.00%
Total	<u>100.0%</u>	

Asset Class	2018 Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.0%	7.25%
Global Public Equity	48.0%	5.15%
Real Assets	12.0%	5.26%
Multi-Strategy	10.0%	4.44%
Fixed Income	11.0%	1.26%
Cash	3.0%	0.00%
Total	<u>100.0%</u>	

The discount rate used to measure the total SERS pension liability was 7.125% as of December 31, 2019 and 7.25% as of December 31, 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and nonactive SERS members. Therefore, the long-term expected rate of return on SERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

The following presents the University's proportionate share of the SERS net pension liability at June 30, 2020 and June 30, 2019, calculated using a discount rate of 7.125% for 2020 and 7.25% for 2019, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.125% in 2020 and 6.25% in 2019) or one percentage point higher (8.125% in 2020 and 8.25% in 2019) than the current rate:

Sensitivity of the University's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate			
	1% Decrease 6.125%	Current Rate 7.125%	1% Increase 8.125%
2020	\$ 45,124,429	\$ 35,512,487	\$ 27,283,529
	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2019	\$ 54,748,966	\$ 44,586,812	\$ 35,878,403

Fiduciary Net Position

The fiduciary net positions of SERS, as well as additions to and deductions from SERS fiduciary net positions, 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, 2020, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2019 was \$35,512,487. At June 30, 2019, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2018 was \$44,586,812.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the December 2019 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2020/21 from the December 31, 2019 funding valuation to the expected funding payroll. For the allocation of the December 2018 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2019/20 from the December 31, 2018 funding valuation to the expected funding payroll. At the December 31, 2019, measurement date, the State System's proportion was 4.773%, a decrease of 0.124% from its proportion calculated as of December 31, 2018, measurement date.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS

Plan Description

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

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

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

Benefits Provided

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

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

Member Contributions

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2020 was 33.36% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 16.68% of covered payroll. The University's contributions to PSERS for the year ending June 30, 2020, June 30, 2019, and June 30, 2018 was \$415,587, \$417,407, and \$382,571, respectively, equal to the required contractual contribution.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

For the PSERS defined contribution plan, the State System is required to contribute at actuarially determined average rate 0.09% of active members' annual covered payroll for the year ending June 30, 2020, depending upon the plan chosen by the employee. Members were first eligible to choose the defined contribution plan on July 1, 2019. Therefore, the State System contributions for the year ended June 30, 2020 were immaterial.

Actuarial Assumptions

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

- Actuarial cost method is entry age normal, level percent of pay.
- Valuation date – June 30, 2018
- 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.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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, 2020 and 2019:

The following depicts asset allocation as of June 30, 2020:

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

The following depicts asset allocation as of June 30, 2019:

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

The following presents the University's proportionate share of the PSERS net pension liability at June 30, 2020 and June 30, 2019, calculated using the discount rate of 7.25% for both years, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% in 2020 and 2019) or one percentage point higher (8.25% in 2020 and 2019) than the current rate.

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

	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2020	\$ 5,356,204	\$ 4,300,051	\$ 3,405,751
2019	\$ 5,304,407	\$ 4,279,231	\$ 3,412,383

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.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Proportionate Share

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

	2020	2019
Total PSERS Net Pension Liability Associated With the University	\$ 8,600,102	\$ 8,558,462
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated With the University	4,300,051	4,279,231
University's Proportionate Share of the PSERS Net Pension Liability	\$ 4,300,051	\$ 4,279,231

PSERS measured the 2020 and 2019 net pension liability as of June 30, 2019 and June 30, 2018, respectively. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2019, the State System's proportion was .1886%, an increase of .0050% from its proportion calculated as of June 30, 2018.

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2020 and 2019 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2020 and 2019, were \$3,234,427 and \$3,178,079, respectively, from the University; and \$1,740,811 and \$1,710,484, respectively, from active members. No liability is recognized for the ARP.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 12 WORKERS' COMPENSATION

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims less than \$100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims less than \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which the University contributes in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$85,505 to the Reserve Fund during the year ended June 30, 2020, contributed \$49,524 to the Reserve Fund during the year ended June 30, 2019 and contributed \$162,203 to the Reserve Fund in 2018.

The liability for claims under the self-insurance limit and changes therein were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Balance at July 1	\$ 608,918	\$ 738,399	\$ 504,755
Current Year Claims and Changes in	438,312	451,595	698,518
Payments	<u>(354,271)</u>	<u>(581,076)</u>	<u>(464,874)</u>
Balance at June 30	<u>\$ 692,959</u>	<u>\$ 608,918</u>	<u>\$ 738,399</u>

NOTE 13 COMMITMENTS AND CONTINGENCIES

Contingencies

The nature of the education industry is such that, from time to time, the University is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies (Continued)

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

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The University's management believes disallowances, if any, will be immaterial.

Construction Commitments

Authorized expenditures for construction projects unexpended were approximately \$883,372 and \$972,000 as of June 30, 2020 and 2019, respectively.

Labor Concentration

Approximately 86% of PASSHE's employees are covered by nine collective bargaining agreements. Seven of the agreements were renegotiated during the past fiscal year; most of which are effective through fiscal year 2022/23. The only exceptions are two minor unions: the agreement for police supervisors and security officers with the International Union, Security, Police, and Fire Professionals of America (SPFPA), which expired on August 31, 2020, and the Professional Doctors Association (PDA). A tentative agreement was reached with SPFPA in September 2020. The terms of the prior contracts remain in effect until a successor agreement is achieved.

COVID-19 Pandemic

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 14 RATINGS ACTIONS

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

NOTE 15 SUBSEQUENT EVENTS

In July 2020, PHEFA issued Series AX tax-exempt revenue bonds in the amount of \$94,985,000. The net proceeds from the Series AX revenue bonds were used to acquire certain student housing facilities at East Stroudsburg University, as well as to current refund Series AH, Series AJ and Series AL revenue bonds. The refunding was performed to reduce debt service by approximately \$10 million and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$9 million. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of the bonds.

In September 2020, PHEFA accepted bids for Series AY taxable revenue bonds, in the amount of \$78,925,000, which will close on October 1, 2020. The purpose of this issue is to advance refund a portion of Series AM revenue bonds and will result in a reduction of debt service of approximately \$11.2 million and an economic gain of \$10.2 million. The State System will enter into a loan agreement with PHEFA under which the State System will pledge its full faith and credit for repayment of the bonds.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN
AND REHP (OPEB)
JUNE 30, 2020 AND 2019
(UNAUDITED)**

University System Plan OPEB Liability

Determined as of the July 1 measurement dates

Changes in the System Plan Total OPEB Liability	Fiscal Year Ending	Fiscal Year Ending
	June 30, 2020	June 30, 2019
Total OPEB Liability - Beginning Balance	\$ 76,848,605	\$ 86,859,889
Service Cost	2,081,766	2,520,306
Interest	2,312,620	2,751,532
Changes of Benefit Terms	-	(60,586)
Differences Between Expected and Actual Experience	-	(10,459,704)
Changes in Assumptions	(4,014,637)	(686,656)
Benefit Payments	(3,225,262)	(4,076,176)
Net Changes	<u>(2,845,513)</u>	<u>(10,011,284)</u>
Total OPEB Liability - Ending Balance	<u>\$ 74,003,092</u>	<u>\$ 76,848,605</u>
 Covered Employee Payroll	 \$ 33,716,976	 \$ 34,071,448
OPEB Liability as a Percent of Covered Payroll	219.48%	225.55%

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

Fiscal Year	State System's Proportion	University's Proportion Share	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability as a % of Covered- Employee Payroll	REHP's Fiduciary Net Position as a % of Total OPEB Liability
2017/18	4.374%	\$ 52,210	\$ 7,117	733.5%	1.4%
2018/19	4.573%	\$ 39,225	\$ 6,996	560.7%	2.2%
2019/20	4.370%	\$ 25,934	\$ 6,659	389.4%	3.8%

REHP Schedule of Contributions
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS REHP	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	\$ 1,278	\$ 1,278	\$ -	\$ 7,920	16.13%
2018/19	\$ 1,469	\$ 1,469	\$ -	\$ 7,779	18.89%
2019/20	\$ 1,148	\$ 1,148	\$ -	\$ 7,884	14.55%

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN
AND REHP (OPEB)
JUNE 30, 2020 AND 2019
(UNAUDITED)**

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

Fiscal Year	PSERS Net OPEB Liability				University's Proportionate Share of Net OPEB PSERS Fiduciary		Net Position as a % of Total OPEB Liability
	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total	Covered Employee Payroll	Liability as a % of Covered-Employee Payroll	
2017/18	0.1811%	\$ 173	\$ 173	\$ 346	\$ 2,253	7.65%	5.73%
2018/19	0.1836%	\$ 151	\$ 151	\$ 302	\$ 1,948	7.74%	5.56%
2019/20	0.1886%	\$ 197	\$ 197	\$ 394	\$ 2,550	7.71%	5.56%

PSERS Schedule of Contributions
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	\$ 8	\$ 8	\$ -	\$ 2,316	0.35%
2018/19	\$ 11	\$ 11	\$ -	\$ 2,602	0.41%
2019/20	\$ 10	\$ 10	\$ -	\$ 2,530	0.41%

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF SERS/PSERS CONTRIBUTIONS
JUNE 30, 2020 AND 2019
(UNAUDITED)**

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	\$ 2,529	\$ 2,529	\$ -	\$ 13,464	18.8%
2015/16	\$ 2,948	\$ 2,948	\$ -	\$ 12,677	23.3%
2016/17	\$ 3,614	\$ 3,614	\$ -	\$ 13,162	27.5%
2017/18	\$ 4,140	\$ 4,140	\$ -	\$ 13,422	30.9%
2018/19	\$ 3,989	\$ 3,989	\$ -	\$ 13,075	30.5%
2019/20	\$ 4,063	\$ 4,063	\$ -	\$ 12,977	31.3%

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	\$ 267	\$ 267	\$ -	\$ 2,360	11.3%
2015/16	\$ 306	\$ 306	\$ -	\$ 2,526	12.1%
2016/17	\$ 334	\$ 334	\$ -	\$ 2,321	14.4%
2017/18	\$ 384	\$ 384	\$ -	\$ 2,316	16.6%
2018/19	\$ 417	\$ 417	\$ -	\$ 2,602	16.0%
2019/20	\$ 416	\$ 416	\$ -	\$ 2,530	16.4%

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF PROPORTIONATE SHARE OF SERS/PSERS NET PENSION LIABILITY
JUNE 30, 2020 AND 2019
(UNAUDITED)**

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

Fiscal Year	State System's Proportion	University's Proportion Share	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	4.9010%	\$ 33,009	\$ 13,464	245%	64.8%
2015/16	4.7208%	\$ 37,933	\$ 13,156	288%	58.9%
2016/17	4.8370%	\$ 39,786	\$ 12,846	310%	57.8%
2017/18	4.9059%	\$ 36,613	\$ 13,340	274%	63.0%
2018/19	4.8971%	\$ 44,587	\$ 13,921	320%	56.4%
2019/20	4.7732%	\$ 35,512	\$ 12,893	275%	63.1%

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

Fiscal Year	PSERS Net Pension Liability				University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total			
2014/15	0.1785%	\$ 3,661	\$ 3,661	\$ 7,322	\$ 1,180	310%	57.2%
2015/16	0.1852%	\$ 4,098	\$ 4,098	\$ 8,196	\$ 2,435	200%	54.4%
2016/17	0.1833%	\$ 4,627	\$ 4,627	\$ 9,254	\$ 2,419	200%	50.1%
2017/18	0.1811%	\$ 4,198	\$ 4,198	\$ 8,396	\$ 2,264	200%	51.8%
2018/19	0.1836%	\$ 4,279	\$ 4,279	\$ 8,558	\$ 2,400	200%	54.0%
2019/20	0.1886%	\$ 4,300	\$ 4,300	\$ 8,600	\$ 2,535	200%	55.7%

