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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2021 AND 2020

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2021 AND 2020

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, 2021 and 2020, 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, 2021 and 2020, 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.

Emphasis of Matter

The financial statements of the University are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and the aggregate discretely presented component units that are attributable to the transactions of the University. The University is one of fourteen universities and the Office of Chancellor of the Pennsylvania State System of Higher Education (the System). These financial statements do not purport to, and do not, present fairly the financial position of the System, as of June 30, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-25, and the various schedules of Proportionate Share of Net Pension Liability, OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 83-86 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 1, 2021

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, 2021 and 2020 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 5,842 students for fall 2020 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, 2021 and 2020.

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 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 has begun offering a mix of live, hybrid, and remote classes beginning Fall 2021. The University continues to monitor and modify Fall activities as necessary and in accordance with Centers for Disease Control and Prevention (CDC) safety guidelines.

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 COVID-19 relief funding awarded to the System, the associated costs incurred during fiscal year 2019/20 and fiscal year 2020/21 as a result of the coronavirus pandemic 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.

ESU has received funds under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriation Act (CRRSAA), and the American Rescue Plan Act of 2021 (ARPA), in response to costs and revenue losses associated with the impacts of COVID-19.

The CARES Act, enacted on March 27, 2020, allocated $2.2 trillion in support to individuals and businesses affected by the COVID-19 pandemic and related economic downturn. State System universities have been awarded grants from the education component of the Act, administered through the U.S. Department of Education's (ED) Higher Education Emergency Relief Fund (HEERF). Additionally, the Commonwealth was appropriated funds from the state and local governments section, administered through the U.S. Treasury's Coronavirus Relief Fund (CRF), of which a portion was appropriated by the state to the State System. In August 2020, the Pennsylvania Department of Education also awarded a portion of the Governor's Education Emergency Relief Fund (GEERF) to State System universities to assist with fall 2020 reopening efforts.

The CRRSAA, enacted on December 27, 2020, authorized $81.88 billion in support for education to ensure learning continues for students during the COVID-19 pandemic. Of those funds, $22.7 billion was issued to universities of higher education under the Higher Education Emergency Relief Funds (HEERF II). State System universities received approximately $125 million in HEERF II funding, inclusive of emergency student aid allocations. The allowable uses of the funds were expanded to encompass items such as lost revenue, excluding any reduction in funding from the Commonwealth.

In addition, in February 2021, $5 million of the Governor's Education Emergency Relief Funds (GEERF II) were designated to be distributed to the State System to support ongoing functionality of its member institutions, as directed by the chancellor. Minority Serving Higher Education Institutions were allocated distinct funding through this Act; State System universities were awarded approximately $3.8 million.

The ARPA is a $1.9 trillion plan that was enacted on March 11, 2021 to help speed recovery from the effects of the COVID-19 pandemic. $40 billion in Higher Education Emergency Relief Funds (HEERF III) were allocated to higher education to help defray expenses related to COVID-19, "implement evidence-based practices to monitor and suppress the Coronavirus, in accordance with public health guidelines, and conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances." - American Rescue Plan Act of 2021

Below is a summary of COVID-19 relief funds awarded to the University through fiscal year 2020/21.

(millions)	CARES Act	CRRSAA Act	ARP Act
Emergency Aid for Students[1]	$3.2	$3.2	$9.0
Institutional Share[1]	3.2	7.0	9.0
Strengthening Institutions Program[1]	.3	.5	-
County of Monroe CARES Act[1]	1.2	-	-
Appropriated Coronavirus Relief Funds[2]	1.9	-	-
Governor's Education Emergency Relief[3]	.3	.4	-
Total Funds Available	$10.1	$11.1	$18.0
For University Use (less Emergency Aid)	$6.9	$7.9	$9.0

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

In addition to the COVID-19 relief 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. The University is identifying such costs and will be managing the reimbursement process in fiscal year 2021/22.

With regard to the current impact of COVID-19, the University has been incurring costs associated with making the campus safe for students, faculty, vendors, and other stakeholders. These costs include but are not limited to testing services being provided by Lehigh Valley Health Network, increased sanitation supplies, advertising safety procedures, raising awareness, counseling, etc. 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 suspending contracts, where possible.

Regarding the current impact of COVID-19 on student housing, most residential facilities were closed during the Fall 2020 semester with a limited amount of students living at the residential facilities during the Spring 2021 semester. As of Fall 2021 semester, the University and its affiliate, University Properties, Inc. (UPI), has an overall occupancy of approximately 63%.

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, as well as vaccination rates. 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 2020/21 was $477.5 million, which was at the same level as fiscal year 2019/20.

The University's share of the **base appropriation** was $28.7 million which represents an increase of $179 thousand or 0.6% over fiscal year 2019/20. In addition to base appropriation, the University received $79 thousand and $301 thousand to fund the debt service related to the Academic Facilities Renovation Program (AFRP) and the Chincoteague Bay Field Station, respectively.

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 University received a $1.4 million allocation from the Keystone Fund in fiscal year 2020/21 which was a 15.4% increase ($183 thousand) from fiscal year 2019/20. 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.

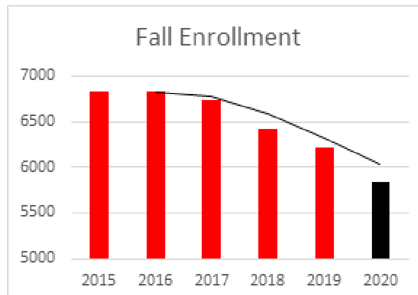
The State System was allocated $70 million in **Commonwealth capital funding** for fiscal year 2020/21, primarily for the renovation, replacement, and demolition of existing educational and general (E&G) buildings, all of which is completed under the direction and project management of the Commonwealth. This was a slight decrease from the $73 million received in 2019/20; however, it is a $5 million increase over the $65 million in capital funding that has been allocated to the State System annually since fiscal year 2000/01, with the exception of fiscal years 2009/10 and 2010/11, when $130 million was allocated.

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.

On January 15, 2020, an additional $45 million of Commonwealth Public Improvement Project Capital Funding (PIP) was allocated to the State System, over and above the annual PIP funding for fiscal years 2019/20, 2020/21 and 2021/22. The State System received $17 million of these funds on a reimbursement basis in fiscal year 2019/20, $13 million in fiscal year 2020/21, and $15 million in 2021/22.

Fall 2020 student headcount was 5,842, a decrease of 372 students, or (5.9%), from fall 2019. This is the fourth year in a row that the University has experienced an enrollment decline following two years of growth.

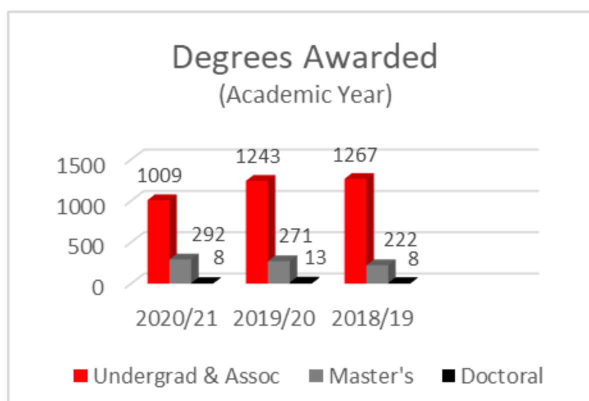
Year	Fall Enrollment	Change from Prior Year
2020	5,842	(372)
2019	6,214	(211)
2018	6,425	(317)
2017	6,742	(88)
2016	6,830	2
2015	6,828	8



In academic year 2020/21, the University awarded 1,310 degrees, a 14.2% decrease from academic year 2019/20. In the prior year, 1,527 degrees were awarded, a 2.0% increase from the 1,497 degrees awarded in academic year 2018/19. Additionally, the University awarded 46 certificates in 2020/21.

Degrees Awarded (Academic Year)			
	2020/21	2019/20	2018/19
Associates*	-	-	-
Undergraduate	1,009	1,243	1,267
Master's	292	271	222
Doctoral	9	13	8
Total	1,310	1,527	1,497

* Represents teach-outs



There was a 0% **tuition rate** increase in 2020/21 for both **in-state and out-of-state undergraduate students**. The State System's Board of Governors (the Board) also voted to freeze basic in-state **tuition** for the 2021/22 academic year. This action resulted in an unprecedented three consecutive years in which tuition was frozen, even while confronting financial challenges brought on in part by the coronavirus pandemic.

Graduate students' tuition rates remained at $516 per credit, while the typical nonresident, graduate tuition rate remained at $774 per credit.

The **technology tuition fee** remains at $478 for full-time in-state students and $728 for full-time out-of-state students. All funds raised by the technology tuition fee are used directly to benefit student learning. 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 .88% and 1.2% in 2020/21 for undergraduate students and graduate students, respectively, as compared with 2019/20. **Room rates** for the most common room type, suites housing, did not increase in fiscal year 2020/21. **Food service rates** for fiscal year 2020/21 increased by 3.0% for the 19-meal plan, the most common plan.

Tuition and fee revenue (net of discounts) was $46.6 million for fiscal year 2020/21 and $51.5 million for fiscal year 2019/20. Revenue from auxiliary enterprises (net of discounts) was $1.8 million in fiscal year 2020/21 and $13.6 million in fiscal year 2019/20. 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 acquired $53 million in capital assets in fiscal year 2020/21, as compared to $5.7 million in fiscal year 2019/20. The University acquired Hemlock and Hawthorne suites from its affiliate, University Properties Inc. (UPI), in July of 2020. This accounted for $48.4 million of the capital assets acquired. Major projects in progress or completed during the fiscal year include $1.9 million for the Koehler Fieldhouse Air Conditioning, $496 thousand for replacement of the Field Hockey/Lacrosse Field Turf, $250 thousand for the Koehler Fieldhouse Emergency Generator, $238 thousand on replacement of the elevator in the Fine Arts Center building, $368 thousand for renovation of the official campus residence, and $114 thousand for replacement of the roof on the Reibman building, among others.

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. Total bond financing for the 2020/21 fiscal year amounted to $67.1 million. The acquisition of Hemlock and Hawthorne suites from its affiliate, UPI, in July of 2020 accounted for $57 million of that total. Additionally, the State System refunds bonds when it is determined that savings will result for the entire State System and the universities. During fiscal year 2020/21, the State System refunded Series AH, AJ, AL and AM resulting in a significant savings for the State System and, specifically, the University.

In June 2021, Moody's Investors Service, Inc. maintained the State System's bond rating of Aa3, stable outlook. In June 2021, Fitch Ratings affirmed the State System's rating of A+ with stable outlook. Moody's ratings were reaffirmed August 4, 2021, resulting from its update on its higher education rating methodology. 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 five year grant in its fifth year in fiscal year 2020/21, 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 State System and faculty union successfully negotiated a second retirement incentive: the Enhanced Sick Leave Program (ESLP), 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. In spring 2021, another ESLP program was approved by the Board of Governors for all employee groups. This program provides two windows of retirement, on or before June 30, 2021, or June 30, 2022, with those retiring on or before June 30, 2021 receiving a slightly higher incentive.

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.

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 unused 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 based 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.

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 $1.25 million to $9.46 million for the year ended June 30, 2021, compared to a $1.1 million increase from the prior year for the year ended June 30, 2020. 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 $1.6 million to $38.2 million for the year ended June 30, 2021, compared to a decrease of $9.1 million for the prior 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 increased by $15.85 million to $116 million for the year ended June 30, 2021, compared to a decrease of $16.1 million for the year ended June 30, 2020.

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 REHP and PSERS OPEB plans, the University makes contractually required contributions as determined by the Commonwealth.

The State System's liabilities related to **unfunded future pension and retiree healthcare costs** total $3.16 billion when combined with the respective deferred inflows of resources and deferred outflows of resources. The System has virtually no control over $1.4 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.

The **Commonwealth's combined net pension and OPEB** liabilities totaled $80.9 billion at June 30, 2021, compared to $85.6 billion at June 30, 2020. Credit rating agencies consistently site these liabilities as significant challenges for both the State System and the Commonwealth and as factors that have contributed to credit rating downgrades. Recently enacted Commonwealth pension legislation 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.

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, 2021, 2020, and 2019.

(thousands)

Balance Sheet

	June 30, 2021	Change From Prior Year	June 30, 2020	Change From Prior Year	June 30, 2019	Change From Prior Year
Assets						
Cash and investments	$85,168	3.6%	$82,180	2.2%	$80,432	(4.3%)
Capital assets, net	147,322	43.0%	103,041	(1.6%)	104,768	7.5%
Other assets and deferred outflows	43,024	65.4%	26,008	(10.1%)	28,921	28.4%
Total assets and deferred outflows	$275,514	30.4%	$211,229	(1.4%)	$214,121	4.9%
Liabilities						
Workers' compensation	$828	19.6%	$693	13.8%	$609	(17.5%)
Compensated absences	9,460	15.3%	8,205	15.2%	7,121	(0.7%)
Net pension liability	38,180	(4.1%)	39,813	(18.5%)	48,866	19.7%
Net OPEB liability	115,986	15.8%	100,133	(13.8%)	116,225	(16.5%)
Bonds & notes payable	86,819	195.6%	29,531	(13.7%)	34,221	(11.3%)
Other liabilities and deferred inflows	62,270	(5.6%)	65,459	19.1%	54,947	47.9%
Total liabilities and deferred inflows	313,543	28.6%	243,834	(6.9%)	261,989	(0.6%
Net Position						
Net investment in capital assets	61,876	(19.2%)	76,544	3.3%	74,112	17.7%
Restricted	3,740	24.0%	3,015	12.5%	2,681	33.9%
Unrestricted	(103,645)	(7.6%)	(112,164)	(10.0%)	(124,661)	0.1%
Total net position	(38,029)	16.6%	(32,605)	(31.9%)	(47,868)	(19.7%)
Total liabilities, deferred inflows, and Net position	$275,514	30.4%	$211,229	(1.4%)	$214,121	4.9%

Overall, **net position decreased by $5.4 million** in fiscal year 2020/21. This compares to an increase of $15.3 million in fiscal year 2019/20 when compared to fiscal year 2018/19.

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, 2021	June 30, 2020	June 30, 2019
Unrestricted Net Position when the effect of the unfunded liabilities is included	($103,645)	($112,164)	($124,661)
Pension Liabilities, including DOR and DIR			
SERS Pension	$34,643	$34,863	$36,595
PSERS Pension	3,788	3,875	3,748
Alternative Retirement Plan	-	-	-
Total Pension Liabilities	38,431	38,738	40,343
OPEB Liabilities, including DOR and DIR			
SSHE OPEB Plan	87,544	86,563	89,408
REHP OPEB Plan	44,029	46,409	52,890
PSERS OPEB Plan	171	179	142
Total OPEB Liabilities	131,744	133,151	142,440
Compensated Absences Liability	9,460	8,205	7,121
Total Unfunded Liabilities, including DOR and DIR	179,635	180,094	189,904
Unrestricted Net Position when the effect of the unfunded liabilities is excluded	$75,990	$67,930	$65,243

When the unfunded liabilities and related DOR and DIR are excluded, unrestricted net position increased by $8.1 million, or 11.87%, from fiscal year 2019/20 to 2020/21, as compared to an increase of $2.7 million, or 4.12% increase, from fiscal year 2018/19 to 2019/20.

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 COVID-19 relief funds 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.

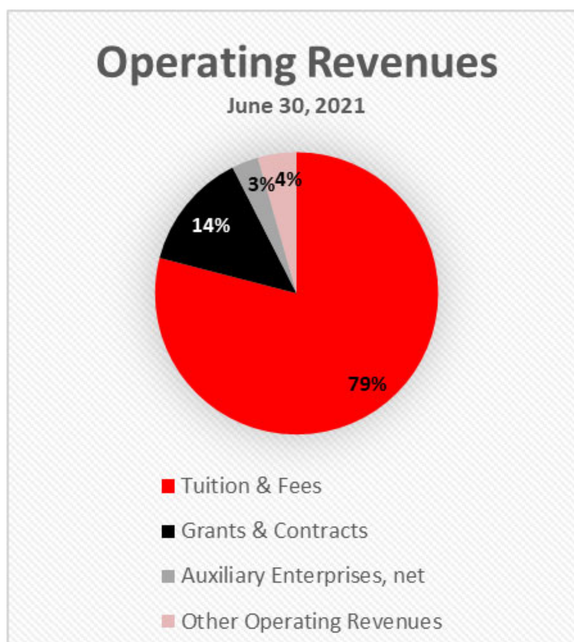
Revenues and Gains

Following is a summary of revenues and gains for the years ending June 30, 2021, 2020, 2019.

(thousands)

Revenues and Gains	June 30, 2021	Change From Prior Year	June 30, 2020	Change From Prior Year	June 30, 2019	Change From Prior Year
Operating Revenues						
Tuition and fees, net	$46,587	-9.62%	$51,543	(0.3%)	$51,675	(2.4%)
Grants and contracts	7,954	-5.98%	8,460	(2.2%)	8,650	0.4%
Auxiliary enterprises, net	1,792	-86.85%	13,623	(27.5%)	18,799	(4.3%)
Other	2,610	-33.54%	3,927	3.6%	3,791	0.6%
Total operating revenues	58,943	-24.00%	77,553	(6.5%)	82,915	(2.4%)
Nonoperating revenues and gains						
State appropriations	30,414	0.41%	30,290	1.9%	29,719	5.2%
Federal appropriations-COVID relief	1,274	89.58%	672	0.00%	-	-
Federal grants-COVID-19 relief funds	13,689	464.73%	2,424	0.00%	-	-
Investment income, net	792	-43.83%	1,410	-21.40%	1,794	7.90%
Gifts, nonoperating grants, and other	12,052	-6.48%	12,887	-12.40%	14,712	19.30%
Total nonoperating revenues and gains	58,221	22.10%	47,683	3.15%	46,225	9.40%
Total revenues and gains	$117,164	-6.45%	$125,236	-3.02%	$129,140	1.50%

For fiscal year 2020/21, **operating revenues** decreased by 24% from the prior fiscal year as a result of a decline in enrollment and the impact of the coronavirus while **Nonoperating revenues** increased by 22.1% mainly due to the COVID-19 relief funding. Overall, the University experienced a decrease in revenues and gains of 6.5%. With auxiliary revenues most impacted by the move to remote instruction due to COVID-19, the mix of revenue changed slightly from fiscal year 2019/20 to fiscal year 2020/21 with tuition and fees comprising 79% of revenue whereas it was 66% in the prior year.



Tuition and fees are shown net of scholarship discounts and allowances and bad debt expense. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the 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 $4.46 million, or 9.6%, from fiscal year 2019/20 to fiscal year 2020/21, compared to a decrease of $132 thousand, or .3%, in fiscal year 2019/20 when compared to fiscal year 2018/19. The fiscal year 2020/21 and 2019/20 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 $11.8 million, or 86.9%, from fiscal year 2019/20. This compares to a decrease of $5.2 million in fiscal year 2019/20 when compared to fiscal year 2018/19. The decreases in both 2020/21 and 2019/20 are largely attributed to the reduction of student fees in Spring 2020, Fall 2020 and Spring 2021 due to the move to online instruction in response to the pandemic.

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 general cash appropriation was $28.7 million for fiscal year 2020/21, an increase of $179 thousand or 0.6% over the $28.5 million received for fiscal year 2019/20. Capital appropriations were $1.4 million for fiscal year 2020/21, a $183 thousand increase over fiscal year 2019/20. In fiscal year 2020/21, the University also received special appropriations of $79 thousand and $301 thousand to be used to fund the debt service on the AFRP and Chincoteague Bay Field Station, respectively.

Other Revenue includes COVID-19 relief 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 $39.2 million in COVID-19 relief funds have been awarded to the University to date, of which $3.1 million and 15 million were recorded as revenue in 2019/20 and 2020/21, respectively. The remaining will be recorded in 2021/22, when expended. In addition, Other Revenue includes $2 million in gifts, an increase of $1.5 million from 2019/20.

Investment income (net of related investment expenses) for fiscal year 2020/21 was $792 thousand. This represents a decrease of $618 thousand from fiscal year 2019/20. The decrease is due to declining interest rates during the fiscal year. Rates moved from a high of 2.43% in fiscal year 2019/20 to a low of 1.03% during fiscal year 2020/21.

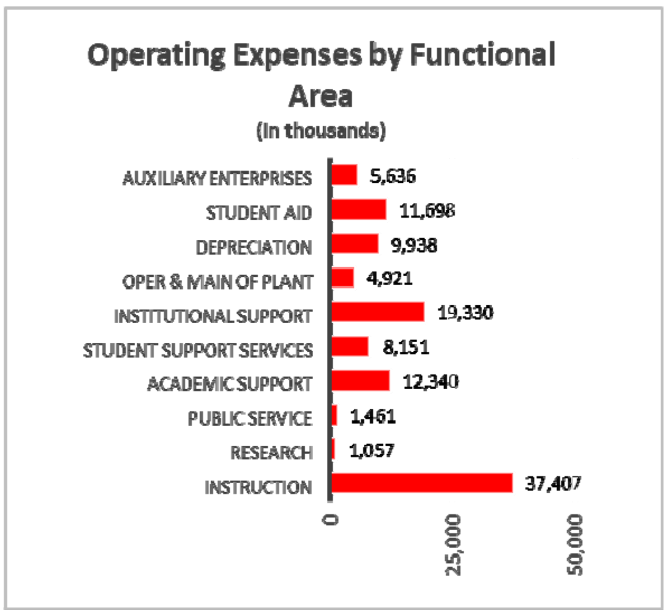
Expenses and Losses

Following is a summary of expenses and losses for the years ending June 30, 2021, 2020, and 2019.

(thousands)

Expenses and Losses	June 30, 2021	Change From Prior Year	June 30, 2020	Change From Prior Year	June 30, 2019	Change From Prior Year
Operating Expenses						
Instruction	$37,407	1.71%	$36,777	(4.6%)	$38,540	(2.1%)
Research	1,057	(11.99%)	1,201	31.4%	914	21.9%
Public Service	1,461	(27.60%)	2,018	2.1%	1,976	7.5%
Academic Support	12,340	(12.72%)	14,139	(2.4%)	14,483	(4.9%)
Student Services	8,151	(5.94%)	8,666	(6.3%)	9,252	1.8%
Institutional Support	19,330	11.51%	17,334	(4.0%)	18,062	(7.1%)
Operations and maintenance of plant	4,921	11.41%	4,417	(44.3%)	7,933	(7.4%)
Depreciation	9,938	22.93%	8,084	10.8%	7,298	20.3%
Student aid	11,698	80.27%	6,489	78.2%	3,641	1.4%
Auxiliary enterprises	5,636	(42.76%)	9,846	(31.1%)	14,282	(3.0%)
Total operating expenses	111,939	2.72%	108,971	(6.4%)	116,381	(1.9%)
Other expenses and losses						
Interest expense on capital asset-related debt	1,774	113.48%	831	(16.2%)	992	0.7%
Loss on disposal/acquisition of assets	8,875	5120.59%	170	-	-	-
Total other expenses and losses	10,649	963.84%	1,001	0.9%	992	0.7%
Total expenses and losses	$122,588	11.47%	$109,972	(6.3%)	$117,373	(1.9%)

The University spent $37.4 million on **instruction**, in fiscal year 2020/21, an increase of $629 thousand from 2019/20. As a percentage of total operating expenses, instruction costs represented 33.4% in 2020/21 which is slightly less than the percentage of the prior year when instruction was 33.7% of total operating expenses. This small % decrease stems from depreciation significantly increasing total operating expenses in 2020/21 vs 2019/20. Had depreciation remained constant between the two years, the percentage would have been an increase of .2% rather than a decrease of .3%.



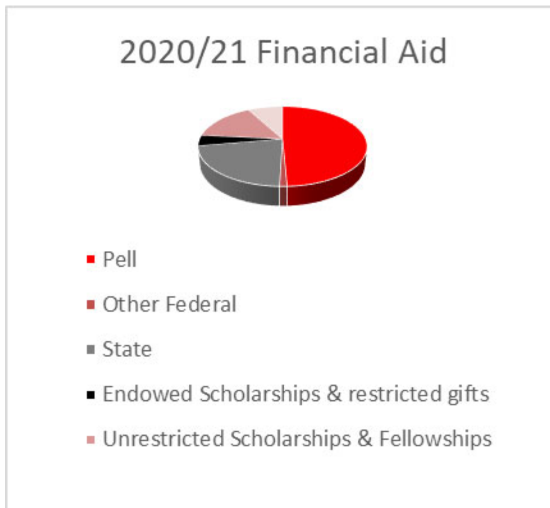
Financial aid to students in the form of grants, waivers, and scholarships was $19.4 million in fiscal year 2020/21. In accordance with a formula prescribed by **the National Association of College and University Business Officers (NACUBO)**, in fiscal year 2020/21 the University reported $12.1 million of financial aid as discounts, which are netted against tuition and fees, and $7.3 million as student aid, which is reported as an expense. Of these amounts, $36 thousand of discounts and $22 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 2020/21 by $2.6 million from the previous year. This is primarily because, **Federal Pell grants and Pennsylvania Higher Education Assistance Agency (PHEAA) grants** decreased by $1.4 million and $824 thousand, respectively, when compared to fiscal year 2019/20. Financial aid from other sources increased by $396 thousand. **Tuition and fee waivers** decreased by $424 thousand mainly due to the decline in enrollment. **Housing and dining waivers** decreased by 285 thousand due to the fact that very few students were on campus due to COVID-19 restrictions.

Following is a breakdown of financial aid.

(thousands)

Student Financial Aid	2020/21	2019/20
Federal Pell grants	$9,582	$11,013
Other federal aid	233	275
State financial aid including PHEAA grants	4,229	5,053
Local government financial aid	-	-
Scholarships from endowments and restricted gifts and grants	837	883
Unrestricted scholarships and fellowships	3,029	2,587
Tuition and fee waivers	1,522	1,946
Housing and dining waivers	12	297
Total	$19,444	$22,054



Interest expense on capital asset-related debt was $1.8 million, an increase of $943 thousand from fiscal year 2019/20 due to the issuance of $57 million in bonds to finance the acquisition of Hemlock & Hawthorn Suites. In addition, a loss on the acquisition of student housing was recorded in the amount of $8.9 million in fiscal year 2020/21.

Salaries and benefits totaled $71.1 million in fiscal year 2020/21. **Salary and wage expenses** decreased by $3.6 million, or (6.6%), while **benefit expenses** increased by $6.7 million, or 50.3%, from fiscal year 2019/20, for an overall increase of $3.1 million. The $3.6 million decrease in salaries and wages in fiscal year 2020/21 is the result of employee separations, fewer faculty needed to support lower enrollment levels, and vacancies that occurred during reduced operations as a result of COVID-19. These reductions were partially offset by salary increases associated with collective bargaining agreements.

The **increase in benefits expenses** is attributed to the University's share of a $7.7 million increase in the actuarially calculated pension and OPEB expenses in excess of pay-as-you go contributions. Following is a summary of salaries, wages, and benefits expenses for the years ended June 30, 2021, 2020, and 2019.

(thousands)

Salaries, Wages, and Benefits

	June 30, 2021	Change From Prior Year	June 30, 2020	Change From Prior Year	June 30, 2019	Change From Prior Year
Salaries and wages	$51,225	$($3,619)	$54,844	$778	$54,066	$(379)
Benefits						
Employee healthcare	6,803	(118)	6,921	424	6,497	(410)
Pension benefits	7,367	730	6,637	(4,320)	10,957	1,624
Retiree healthcare	924	6,926	(6,002)	(4,412)	(1,590)	(5,743)
Other benefits	4,828	(869)	5,697	280	5,417	(430)
Total benefits	19,922	6,669	13,253	(8,028)	21,281	(4,959)
Total salaries, wages, and benefits	$71,147	$3,050	$68,097	$(7,250)	$75,347	$(5,338)

The **employer share of employee healthcare contributions** decreased 1.7% from fiscal year 2019/20, for a total decrease of $118 thousand. This follows an increase of 6.5% ($424 thousand) in fiscal year 2019/20, and a decrease of 5.9% ($410 thousand) in fiscal year 2018/19, when compared to the prior fiscal years. This cumulative net three-year decrease of $104 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.

(thousands)

University Employer Contributions for Retiree Pension and Healthcare Benefits

	June 30, 2021	Increase (Decrease) From Prior Year	June 30, 2020	Increase (Decrease) From Prior Year	June 30, 2019	Increase (Decrease) From Prior Year
Pension						
SERS	$3,616	$1,284	$2,332	$(4,357)	$6,689	$1,144
PSERS	789	(282)	1,071	(19)	1,090	472
ARP	2,963	(271)	3,234	56	3,178	8
Healthcare						
System Plan	1,705	(414)	2,119	(29)	2,148	(53)
REHP	605	(542)	1,147	(322)	1,469	191
PSERS Healthcare	10	-	10	(1)	11	3
Totals	$9,688	$(225)	$9,913	$(4,672)	$14,585	$1,765

Employer contributions to SERS, a defined benefits pension plan, were 36.84% of a participating employee's salary for the vast majority of participants in fiscal year 2020/21, and this rate is expected to increase in the near future, but at a lesser rate than recent historical experience. This rate has been steadily and significantly increasing since fiscal year 2010/11, when the rate was 4.11% of an employee's salary. At December 31, 2020, 63.1% of the SERS liability was funded.

Employer contributions to PSERS, a defined benefits pension plan, were 16.8% of a participating employee's salary in fiscal year 2020/21. This rate is expected to increase in the near future, but at a lesser rate than recent historical experience. 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 Commonwealth makes annual pension contributions to PSERS on behalf of State System employees at the same annual rate. At June 30, 2020, 54.3% of the PSERS liability was funded.

Employer contributions to the ARP, a defined contribution plan, were 9.29% of a participating employee's salary in fiscal year 2020/21, the same rate since the plan's inception, and is expected to remain at the same rate for the near future. Because it is a defined contribution plan, the ARP has no unfunded liability.

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 retires 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. The employer rate for fiscal year 2020/21 was set at $171 per pay period per active participating employee and will decrease to $163 in fiscal year 2021/22. Future year changes will depend upon actual claims experience. As of June 30, 2021, no funds have been placed in a trust to fund the future liability.

Employer contributions to the REHP, a defined benefits retiree healthcare plan administered by the PEBTF, were $260 per pay period per active participating employee for the first 16 pay periods and eliminated for the remaining 10 pay periods in fiscal year 2020/21. 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. For fiscal year 2021/22, the rate will be $120 per pay period. At June 30, 2020, only 3.7% of the REHP liability was funded.

Employer contributions to the PSERS Health Insurance Premium Assistance Program, a defined benefits retiree healthcare plan administered by PSERS, were 0.42% of a participating employee's salary in fiscal year 2020/21. The rate has been and is expected to remain at approximately the same amount. Any State System retiree who is a member of PSERS is eligible for this additional healthcare benefit, which offers up to $100 per month of reimbursements for healthcare costs, including insurance premiums.

The cost for all **other employee benefits**, such as Social Security and workers' compensation, decreased by $869 thousand, or (15.3%), when compared to fiscal year 2019/20. Fiscal year 2019/20 saw an increase of $280 thousand, or 5.2%, when compared to fiscal year 2018/19. The change in benefits is attributed partially to the change in salaries and wages, since some of these benefits are based on a percentage of salaries and wages, and also to a decline in workers compensation expense.

Other Economic Factors

In response to COVID-19 and to continue its efforts to address affordability, in April 2021, the Board voted to **freeze basic in-state tuition** for the 2021/22 academic year. This action resulted in an unprecedented three consecutive years in which tuition was frozen, even while confronting financial challenges brought on in part by the coronavirus pandemic. In addition, the Board set a tentative tuition rate for the 2022/23 academic year that also was frozen. These actions provide 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 not increase in 2021/22 for undergraduate students and graduate students, respectively. In addition, none of the **Room rates** will increase in 2021/22. **Food service plans** will also not increase. However, the 15 meals/week plan was changed to 14 meals/week for the same rate, and a new five meals/week plan has been added.

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 2021/22 and beyond:

Enrollment

The University has experienced **declining enrollment** over the past four fiscal years and that trend has continued into fall 2021 when a significant decline was noted. With tuition and fees comprising 79% 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.

Cash Flow

The University has a **relatively strong cash balance**. E&G cash and investments and restricted cash increased by $2.1 million and $2.5 million, respectively, while auxiliary funds decreased $1.6 million during 2020/21. The decrease in auxiliary funds is attributed to the COVID-19 pandemic which resulted in very few students being on-campus and lead to a very significant decline in housing and meal fees. The $3.0 million net increase in cash and investments in 20/21 is almost double the $1.7 million increase from fiscal year 2019 to 2020 and is mainly attributed to the COVID-19 relief funding. In fiscal year 2019/20, E&G cash and investments and auxiliary cash increased by $3.1 million and $792 thousand, respectively, while restricted funds decreased $2.2 million.

State Appropriations

As part of the System Redesign strategy affirmed by the Board of Governors in January 2019, the System will be 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 and used a modified form of it in fiscal year 2021/22. For fiscal year 2020/21, the Commonwealth appropriated $477.5 million which was at the same level as fiscal year 2019/20.

In fiscal year 2021/22, the State System will receive $477.5 million in General Fund appropriations, equal to fiscal years 2019/20 and 2020/21. Also, the Board of Governors took steps to address differences between the frozen appropriation allocation and the existing appropriation formula calculation. The availability of one-time funds provides the opportunity to address this disparity by restoring 50% of the variances from the frozen allocations compared to the formula; therefore, no university lost funding due to this adjustment and five universities saw their allocation increase compared to prior years. This adjustment serves as a transitional measure to address the growing disparity since the last usage of the allocation formula in 2018, while a new appropriation allocation formula policy recommendation and implementation plan is created during fiscal year 2021/22.

Compensation Costs

Approximately 85% of PASSHE's FTE employees are covered by nine collective bargaining agreements. During 2020/21, a new collective bargaining agreement was established for police supervisors with the International Union, Security, Police, and Fire Professionals of America (SPFPA) through August 31, 2022. Currently, agreements exist with all unions, except the Professional Doctors Association (PDA). The terms of the prior contract 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.

COVID-19 and Fall 2021

In mid-summer 2021, the decision was made to continue with a flexible plan for instruction utilizing face-to-face, hybrid, online, and multi-modal delivery for the Fall 2021 semester. Following the guidance of the C.D.C., masking will be mandated in all public spaces. All financial projections for FY2022 assume that the university will return to a more traditional mode of delivery of instruction for the Spring 2022 semester (while incorporating more online instruction) and continue in a similar format thereafter.

System Redesign

In 2016, the State System undertook a strategic review of all operations with the goal of identifying the changes that are necessary to help ensure its long-term success. As a result of that review, the Board of Governors (Board) established three priorities:

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

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

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.

In October 2020, the Board approved moving forward into the implementation planning phase with proposed implementation plans for the Northeast Integrated University and West Integrated University presented to the Board in April 2021. The Board approved the proposed plans, which resulted in the public comment period and several Board hearings.

On July 14, 2021, the Board approved the final university integrations which integrate the existing Bloomsburg University, Lock Haven University, and Mansfield University into a single Northeast Integrated University, and the existing California University, Edinboro University, and Clarion University into a single Western Integrated University. These integrations have been designed to leverage the strength of these universities to position them to better serve students and to improve financial sustainability.

The integrations plans assume the integrated universities will begin operations in fiscal year 2022/23 and will phase in changes over a multiyear timeline with mission critical changes phased in first. The process for implementing these plans will be collaborative and transparent, requiring the sustained engagement of students, faculty, staff, university and system leaders, elected officials, community leaders and others across the State System. Quarterly updates will be provided to the Board of Governors and General Assembly according to Act 50 and to ensure alignment with board-approved metrics so that adjustments can be made as needed.

Overall, the parallel tracks of the university financial sustainability policy and integrations is intended to improve long-term financial sustainability, ultimately providing a better future for the students served across the Commonwealth and the communities in which the System universities reside.

Detailed information on the progress of the System Redesign can be found at https://www.passhe.edu/SystemRedesign.

Integrations detailed information at https://www.passhe.edu/SystemRedesign/Pages/integratons.aspx.

Requests for information

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

(Ms.) Donna R. Bulzoni
Chief Financial Officer
Room 202, Rosenkrans West
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, 2021 AND 2020

	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 85,154,084	$ 82,166,139
Short-Term Investments	14,349	14,342
Accounts Receivable:		
Governmental Grants and Contracts	3,029,271	722,769
Students, Net of Allowance for Doubtful Accounts of $3,201,476 in 2021 and $3,479,651 in 2020	997,968	1,310,871
Other	1,880,767	2,058,301
Inventories	243,907	168,546
Prepaid Expenses	629,846	884,535
Due from Component Units	4,329,616	6,026,810
Loans Receivable	258,185	133,477
Investment Income Receivable	42,598	119,915
Other Current Assets	127,553	110,282
Total Current Assets	96,708,144	93,715,987
NONCURRENT ASSETS		
Loans Receivable	1,014,637	1,463,228
Capital Assets, Net	147,321,616	103,041,328
Other Assets	1,720,860	1,920,455
Total Noncurrent Assets	150,057,113	106,425,011
Total Assets	246,765,257	200,140,998
DEFERRED OUTFLOWS OF RESOURCES	28,748,896	11,088,400
Total Assets and Deferred Outflows of Resources	$ 275,514,153	$ 211,229,398

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, 2021 AND 2020

	2021	2020
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 11,567,766	$ 9,626,341
Unearned Revenue	2,684,896	6,021,620
Students' Deposits	5,850	132,529
Workers' Compensation	408,738	409,021
Compensated Absences	1,331,113	1,954,767
Postemployment Benefits	2,310,558	3,266,418
Bonds Payable	6,504,887	4,505,816
Due to System, AFRP	47,090	109,846
Due to Component Units	1,300,842	565,565
Other Current Liabilities	486,114	281,280
Total Current Liabilities	26,647,854	26,873,203
NONCURRENT LIABILITIES		
Unearned Revenue	30,891	41,188
Workers' Compensation	419,493	283,938
Compensated Absences	8,128,835	6,250,369
Postemployment Benefits	113,675,247	96,866,836
Bonds Payable, Net	80,313,939	24,480,331
Due to System, AFRP	210,175	257,266
Net Pension Liability	38,180,171	39,812,538
Other Noncurrent Liabilities	1,375,742	6,246,719
Total Noncurrent Liabilities	242,334,493	174,239,185
Total Liabilities	268,982,347	201,112,388
DEFERRED INFLOWS OF RESOURCES	44,561,235	42,722,273
NET POSITION		
Net Investment in Capital Assets	61,875,539	76,544,226
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	10,000	10,000
Student Loans	315,872	26,628
Expendable:		
Scholarships and Fellowships	796,041	796,034
Capital Projects	2,618,132	2,181,119
Other	-	632
Unrestricted Net Position	(103,645,013)	(112,163,902)
Total Net Position	(38,029,429)	(32,605,263)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 275,514,153	$ 211,229,398

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, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Tuition and Fees	$ 59,787,294	$ 68,961,763
Less: Scholarship Discounts and Allowances	13,199,978	17,419,211
Net Tuition and Fees	46,587,316	51,542,552
Governmental Grants and Contracts:		
Federal	2,330,153	2,638,307
State	5,039,434	5,486,668
Local	-	-
Nongovernment Grants and Contracts	584,727	334,938
Sales and Services of Educational Departments	2,016,655	3,575,364
Auxiliary Enterprises (Net of Scholarship Discounts and Allowances of $43,188 in 2021 and $407,442 in 2020)	1,792,483	13,622,695
Other Revenues	592,517	352,451
Total Operating Revenues	58,943,285	77,552,975
OPERATING EXPENSES		
Instruction	37,406,526	36,777,308
Research	1,057,195	1,201,294
Public Service	1,460,701	2,018,326
Academic Support	12,340,462	14,139,305
Student Services	8,150,811	8,665,704
Institutional Support	19,329,630	17,334,250
Operations and Maintenance of Plant	4,921,196	4,416,866
Depreciation	9,937,853	8,084,361
Student Aid	11,698,030	6,489,322
Auxiliary Enterprises	5,635,937	9,845,872
Total Operating Expenses	111,938,341	108,972,608
NET OPERATING LOSS	(52,995,056)	(31,419,633)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	29,043,833	29,102,386
Federal Appropriations, CARES Act COVID Relief	1,273,688	672,200
Federal Grants, CARES Act COVID Relief	13,689,160	2,423,714
Commonwealth on-behalf Contributions to PSERS	460,678	527,529
Pell Grants	9,582,064	11,013,336
Investment Income, Net of Related Investment Expense of $11,842 in 2021 and $11,801 in 2020	791,590	1,410,361
Gifts for Other than Capital Purposes	1,973,623	466,951
Interest Expense on Capital Asset-Related Debt	(1,774,053)	(830,708)
Gain (Loss) on Disposal of Assets	5,876	(170,140)
Loss on Acquisition of Assets	(8,875,099)	-
Other Nonoperating Revenue	29,362	80,866
Net Nonoperating Revenues	46,200,722	44,696,495
INCOME (LOSS) BEFORE OTHER REVENUES	(6,794,334)	13,276,862
OTHER REVENUES		
State Appropriations, Capital	1,370,168	1,187,357
Capital Gifts and Grants	-	798,530
Total Other Revenues	1,370,168	1,985,887
INCREASE (DECREASE) IN NET POSITION	(5,424,166)	15,262,749
Net Position - Beginning of Year	(32,605,263)	(47,868,012)
NET POSITION - END OF YEAR	$ (38,029,429)	$ (32,605,263)

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, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 46,830,556	$ 51,471,547
Grants and Contracts	3,481,549	12,007,960
Payments to Suppliers for Goods and Services	(16,914,378)	(27,741,435)
Payments to Employees	(70,580,168)	(77,452,402)
Loans Collected from Students	323,883	145,653
Student Aid	(11,719,556)	(6,553,466)
Auxiliary Enterprise Charges	1,863,682	13,575,415
Sales and Services of Educational Departments	1,987,702	3,290,927
Other Receipts	3,508,383	(3,619,491)
Net Cash Used by Operating Activities	(41,218,347)	(34,875,292)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	29,043,834	31,048,274
Gifts and Nonoperating Grants for Other than Capital Purposes	25,244,847	13,904,001
PLUS, Stafford, and Other Loan Receipts (Non-Perkins)	33,948,557	56,444,991
PLUS, Stafford, and Other Loan Disbursements (Non-Perkins)	(33,948,557)	(56,444,991)
Agency Transactions, Net	(2,770)	10,666
Other	29,359	80,866
Net Cash Provided by Noncapital Financing Activities	54,315,270	45,043,807
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	11,152,610	1,267,222
Capital Appropriations	1,370,168	1,187,357
Capital Grants and Gifts Received	-	798,530
Proceeds from Sales of Capital Assets	5,873	1,759
Purchases of Capital Assets	(5,735,684)	(6,529,277)
Principal Paid on Capital and Other Debt	(14,883,752)	(5,409,650)
Interest Paid on Capital Debt	(2,887,092)	(1,280,216)
Net Cash Used by Capital Financing Activities	(10,977,877)	(9,964,275)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Endowment Investments	14,342	(11)
Interest on Investments	868,906	1,544,567
Purchase of Investments	(14,349)	-
Net Cash Provided by Investing Activities	868,899	1,544,556
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,987,945	1,748,796
Cash and Cash Equivalents - Beginning of Year	82,166,139	80,417,343
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 85,154,084	$ 82,166,139

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, 2021 AND 2020

	2021	2020
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Net Operating Loss	$ (52,995,056)	$ (31,419,633)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	9,937,853	8,084,361
Expenses paid by Commonwealth or Donor	1,261,732	527,529
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(1,993,599)	1,862,099
Inventories	(75,361)	46,152
Other Assets	2,311,741	(4,052,345)
Accounts Payable and Accrued Expenses	1,941,425	(751,510)
Unearned Revenue	(2,073,334)	1,154,477
Students' Deposits	(126,679)	121,629
Compensated Absences	1,254,812	1,084,281
Loans Receivable	323,883	145,653
Other Liabilities	727,714	(783,191)
Postretirement benefits liability (OPEB)	15,852,549	(16,091,509)
Defined benefit pensions	(1,632,367)	(9,053,505)
Deferred outflows of resources related to pensions	(2,198,413)	4,665,974
Deferred outflows of resources related to OPEB	(15,500,249)	27,657
Deferred inflows of resources related to pensions	3,523,464	2,782,410
Deferred inflows of resources related to OPEB	(1,758,462)	6,774,179
Net Cash Used by Operating Activities	$ (41,218,347)	$ (34,875,292)
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Capital Assets Acquired by Debt Assumption	$ 48,445,801	$ -
Capital Assets Acquired by New Capital Lease	36,652	-
Commonwealth On-Behalf Contributions to PSERS	460,678	527,529
Total	$ 48,943,131	$ 527,529

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, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 10,887,134	$ 26,144,985
Accounts Receivable	76,872	230,967
Pledges Receivable	513,556	435,576
Due from University	1,342,669	564,298
Assets Held for Sale	3,682,202	2,610,066
Other Current Assets	169,393	216,794
Total Current Assets	16,671,826	30,202,686
NONCURRENT ASSETS		
Capital Assets, Net	49,793,768	100,388,336
Investments	42,474,187	34,823,638
Pledges Receivable	2,380,434	2,093,075
Total Noncurrent Assets	94,648,389	137,305,049
Total Assets	$ 111,320,215	$ 167,507,735
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 1,114,806	$ 2,867,897
Note Payable	-	186,300
Annuity Liabilities	254,784	281,127
Due to University	4,246,055	5,957,165
Deposit Liabilities	6,056	7,058
Current Portion of Long-Term Debt	833,635	3,108,124
Other Liabilities	28,878	29,722
Total Current Liabilities	6,484,214	12,437,393
LONG-TERM DEBT	59,513,838	122,036,603
Total Liabilities	65,998,052	134,473,996
NET ASSETS		
Without Donor Restrictions	14,889,108	7,990,055
With Donor Restrictions	30,433,055	25,043,684
Total Net Assets	45,322,163	33,033,739
Total Liabilities and Net Assets	$ 111,320,215	$ 167,507,735

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, 2021 AND 2020

	2021	2020
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND OTHER ADDITIONS		
Contributions	$ 1,018,724	$ 708,637
Sales and Services	215,368	254,810
Student Fees	53,107	2,112,151
Grants and Contracts	280,400	89,104
Rental Income	1,006,828	12,759,053
Investment Income	3,619,020	921,507
Service Fee Income - University	1,125,000	1,125,000
Other Revenues and Gains	11,426,077	1,323,753
Net Assets Released from Restrictions	2,278,692	2,480,736
Total Revenues and Other Additions	21,023,216	21,774,751
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses:		
Scholarships and Grants	1,037,729	1,017,436
Student Activities and Programs	2,159,521	2,860,538
Housing	6,638,557	14,629,347
Other University Support	124,902	186,282
Other Programs	337,066	319,864
Management and General	2,919,752	3,962,174
Fundraising	906,636	838,130
Total Expenses and Other Deductions	14,124,163	23,813,771
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	6,899,053	(2,039,020)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	2,778,210	5,178,420
Investment Income	5,353,651	325,270
Losses	(463,798)	(440,053)
Net Assets Released from Restrictions	(2,278,692)	(2,480,736)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	5,389,371	2,582,901
CHANGE IN TOTAL NET ASSETS	12,288,424	543,881
Net Assets - Beginning of Year	33,033,739	32,489,858
NET ASSETS - END OF YEAR	$ 45,322,163	$ 33,033,739

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, 2021 AND 2020

	2021								
	Program Activities					Supporting Activities			
Natural Expense	Scholarship and Grants	Student Activities and Programs	Housing	Other Programs	Total Programs	Management and General	Fundraising	Total Supporting	Total Expenses
Salaries and Benefits	$ -	$ 242,277	$ 556,581	$ 252,047	$ 1,050,905	$ 1,256,400	$ -	$ 1,256,400	$ 2,307,305
Gifts and Grants	-	314,620	458,190	-	772,810	452,426	26,085	478,511	1,251,321
Supplies and Travel	-	130,935	812	9,129	140,876	32,539	7,179	39,718	180,594
Services and Professional Fees	-	67,116	505,760	18,215	591,091	155,340	81,337	236,677	827,768
Office and Occupancy	-	-	74,268	77,639	151,907	47,893	-	47,893	199,800
Depreciation	-	57,066	2,153,784	-	2,210,850	12,638	-	12,638	2,223,488
Interest	-	-	2,115,727	-	2,115,727	-	-	-	2,115,727
Other	1,037,729	1,347,507	773,435	104,938	3,263,609	962,516	792,035	1,754,551	5,018,160
Total Expenses	$ 1,037,729	$ 2,159,521	$ 6,638,557	$ 461,968	$ 10,297,775	$ 2,919,752	$ 906,636	$ 3,826,388	$ 14,124,163

	2020								
	Program Activities					Supporting Activities			
Natural Expense	Scholarship and Grants	Student Activities and Programs	Housing	Other Programs	Total Programs	Management and General	Fundraising	Total Supporting	Total Expenses
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

See accompanying Notes to Financial Statements.

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, 2021 and 2020.

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, 2021 and 2020.

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, 2021 and 2020.

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, 2021 and 2020.

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, 2021 and 2020.

At June 30, 2021 and 2020, 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.

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. State appropriations and appropriations and grants received as a result of COVID-19 relief funds, 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.

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.

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, 2021 and 2020.

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 U.S. GAAP 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.

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.

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

New Accounting Standards (Continued)

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

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

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.

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

New Accounting Standards (Continued)

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.

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION

The following represents combining condensed statement of financial position information for the component units as of June 30, 2021:

	Foundation	Association	UPI	CFRED	Mekeel	Total
Capital Assets	$ -	$ 358,125	$ 49,435,643	$ -	$ -	$ 49,793,768
Investments	32,430,691	13,725,698	-	-	-	46,156,389
Due from University	187,500	46,488	1,104,694	3,987	-	1,342,669
Other Assets	3,567,170	1,707,715	8,424,078	54,115	274,311	14,027,389
Total Assets	$ 36,185,361	$ 15,838,026	$ 58,964,415	$ 58,102	$ 274,311	$ 111,320,215
Due to University	$ 373,472	$ -	$ 3,872,583	$ -	$ -	$ 4,246,055
Long-Term Debt	235,135	133,500	59,924,338	-	54,500	60,347,473
Other Liabilities	365,986	278,080	725,168	1,320	33,970	1,404,524
Total Liabilities	974,593	411,580	64,522,089	1,320	88,470	65,998,052
Net Assets:						
Without Donor Restrictions	4,864,713	15,340,446	(5,557,674)	55,782	185,841	14,889,108
With Donor Restrictions	30,346,055	86,000	-	1,000	-	30,433,055
Total Net Assets	35,210,768	15,426,446	(5,557,674)	56,782	185,841	45,322,163
Total Liabilities and Net Assets	$ 36,185,361	$ 15,838,026	$ 58,964,415	$ 58,102	$ 274,311	$ 111,320,215

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining statement of activities for the component units for the year ended June 30, 2021:

	Foundation	Association	UPI	CFRED	Mekeel	Total
Changes in Net Assets Without Donor Restrictions						
Revenues and Other Additions:						
Contributions	$ 962,723	$ -	$ -	$ 56,001	$ -	$ 1,018,724
Sales and Services	-	-	-	-	215,368	215,368
Student Fees	-	53,107	-	-	-	53,107
Grants and Contracts	1,125,000	200,000	-	-	80,400	1,405,400
Rental Income	-	-	1,006,828	-	-	1,006,828
Investment Income	1,542,142	2,066,618	9,681	72	507	3,619,020
Service Fee Income	-	-	-	-	-	-
Other Revenues and Gains	659,341	439,228	10,196,645	750	130,113	11,426,077
Net Assets Released from Restrictions	2,278,692	-	-	-	-	2,278,692
Total Revenues and Other Additions	6,567,898	2,758,953	11,213,154	56,823	426,388	21,023,216
Expenses and Other Deductions:						
Program Expenses:						
Scholarships and Grants	1,037,729	-	-	-	-	1,037,729
Student Activities and Programs	1,559,884	599,637	-	-	-	2,159,521
Housing	-	-	6,638,557	-	-	6,638,557
Other University Support	124,902	-	-	-	-	124,902
Other Programs	-	-	-	22,742	314,324	337,066
Management and General	1,124,181	1,570,703	110,004	44,212	70,652	2,919,752
Fundraising	906,636	-	-	-	-	906,636
Total Expenses and Other Deductions	4,753,332	2,170,340	6,748,561	66,954	384,976	14,124,163
Change in Net Assets Without Donor Restrictions	1,814,566	588,613	4,464,593	(10,131)	41,412	6,899,053
Changes in Net Assets With Donor Restrictions						
Contributions	2,778,210	-	-	-	-	2,778,210
Investment Income	5,353,651	-	-	-	-	5,353,651
Other Gains	(463,798)	-	-	-	-	(463,798)
Net Assets Released from Restrictions	(2,278,692)	-	-	-	-	(2,278,692)
Change in Net Assets With Donor Restrictions	5,389,371	-	-	-	-	5,389,371
CHANGE IN NET ASSETS	7,203,937	588,613	4,464,593	(10,131)	41,412	12,288,424
Net Assets - Beginning of Year	28,006,831	14,837,833	(10,022,267)	66,913	144,429	33,033,739
NET ASSETS - END OF YEAR	$ 35,210,768	$ 15,426,446	$ (5,557,674)	$ 56,782	$ 185,841	$ 45,322,163

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 Fees 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 Expenses and Losses	(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

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.

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 $70,561,798 and $50,648,670 at June 30, 2021 and 2020, 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.

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.

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.

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 at net asset value, meaning NAV 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, 2021 and 2020.

University Local Deposits and Investments: At June 30, 2021 and 2020, the carrying amount of the University's demand and time deposits was $14,577,577 and $31,517,469, respectively, as compared to bank balances of $8,028,795 and $27,358,227, respectively. The differences are primarily caused by items in-transit and outstanding checks. Of the bank balances at June 30, 2021 and 2020, $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; $7,778,795 and $27,108,227, 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, 2021 and 2020, none of the University's demand and time deposits were exposed to foreign currency risk.

Short-term investments at June 30, 2021 and 2020 consist of certificates of deposit carried at cost, which approximates fair value.

NOTE 4 CAPITAL ASSETS

Capital assets and the changes therein are summarized as follows:

	Estimated Lives (in Years)	Beginning Balance July 01, 2020	Additions	Retirements	Reclassifications	Ending Balance June 30, 2021
Capital Assets Not Being Depreciated:						
Land		$ 6,442,486	$ -	$ -	$ -	$ 6,442,486
Construction in Progress		2,268,807	1,243,763	-	(1,338,125)	2,174,445
Total Capital Assets Not Being Depreciated		8,711,293	1,243,763	-	(1,338,125)	8,616,931
Capital Assets Being Depreciated:						
Buildings, Including Improvements	10-40	149,330,713	50,927,177	-	1,338,125	201,596,015
Improvements Other Than Buildings	20	25,961,309	495,993	-	-	26,457,302
Furnishings and Equipment	Varies	30,535,331	1,549,966	(212,996)	-	31,872,301
Library Books	10	3,794,931	1,242	(216,092)	-	3,580,081
Total Capital Assets Being Depreciated		209,622,284	52,974,378	(429,088)	1,338,125	263,505,699
Less Accumulated Depreciation:						
Buildings, Including Improvements		(87,942,272)	(7,621,151)	-	-	(95,563,423)
Furnishings and Equipment		(23,690,511)	(2,273,812)	212,996	-	(25,751,327)
Library Books		(3,659,466)	(42,890)	216,092	-	(3,486,264)
Total Accumulated Depreciation		(115,292,249)	(9,937,853)	429,088	-	(124,801,014)
Total Capital Assets Being Depreciated, Net		94,330,035	43,036,525	-	1,338,125	138,704,685
Capital Assets, Net		$ 103,041,328	$ 44,280,288	$ -	$ -	$ 147,321,616

	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	-		25,961,309
Furnishings and Equipment	Varies	27,349,634	3,540,117	(422,188)	67,768	30,535,331
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		$ 104,768,309	$ (1,555,082)	$ (171,899)	$ -	$ 103,041,328

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2021	2020
Employees	$ 7,244,161	$ 6,861,917
Suppliers and Services	2,485,610	1,199,134
Other	1,837,995	1,565,290
Total	$ 11,567,766	$ 9,626,341

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.

In fiscal year 2021, the University acquired two student residence halls on campus property that had been constructed by their affiliate, University Properties, Inc. The book value of the housing at the time of acquisition was $48.4 million, the debt assumed was $61.9 million, savings realized from cancellation of lease agreements was $4.6 million, resulting in a net loss on acquisition of $8.9 million.

NOTE 6 BONDS PAYABLE

The various bond series allocated to the University are as follows for the years ended June 30:

	Weighted Average Interest Rate	Balance July 1, 2020	Bonds Issued	Bonds Redeemed	Balance June 30, 2021
Series AH	4.70%	$ 3,680,000	$ -	$ (3,680,000)	$ -
Series AJ	4.85%	1,180,000	-	(1,180,000)	-
Series AL	5.00%	873,669	-	(873,669)	-
Series AM	4.61%	5,395,853	-	(5,395,853)	-
Series AN	5.00%	732,003	-	(313,835)	418,168
Series AP	5.00%	74,819	-	(17,486)	57,333
Series AQ	4.49%	3,373,159	-	(501,486)	2,871,673
Series AS	4.33%	6,247,855	-	(1,438,826)	4,809,029
Series AU	3.51%	3,599,944	-	(377,137)	3,222,807
Series AV	4.21%	947,521	-	(201,840)	745,681
Series AW	4.69%	1,030,409	-	-	1,030,409
Series AX	3.85%	-	61,864,582	(789,582)	61,075,000
Series AY	1.48%	-	5,320,361	-	5,320,361
Total Bonds Payable		$ 27,135,232	$ 67,184,943	$ (14,769,714)	79,550,461
Plus: Unamortized Bond Premium					7,268,365
Outstanding at End of Year					$ 86,818,826

	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		$ 31,270,994	$ 1,030,409	$ (5,166,171)	27,135,232
Plus: Unamortized Bond Premium					1,850,915
Outstanding at End of Year					$ 28,986,147

NOTE 6 BONDS PAYABLE (CONTINUED)

Principal and interest maturities for each of the next five years as of June 30, 2021 and in subsequent five-year periods ending June 30 are as follows:

Series		2022	2023	2024	2025	2026	2030-2031	2035-2036	2040-2041	2045-2046	Total
AN	Principal	$ 328,051	$ 90,117	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 418,168
	Interest	4,853	343	-	-	-	-	-	-	-	5,196
	Total	332,904	90,460	-	-	-	-	-	-	-	423,364
AP	Principal	18,201	19,111	20,021	-	-	-	-	-	-	57,333
	Interest	2,867	1,957	1,001	-	-	-	-	-	-	5,825
	Total	21,068	21,068	21,022	-	-	-	-	-	-	63,158
AQ	Principal	526,323	552,674	580,423	609,569	602,684	-	-	-	-	2,871,673
	Interest	143,584	117,268	89,634	60,613	30,134	-	-	-	-	441,233
	Total	669,907	669,942	670,057	670,182	632,818	-	-	-	-	3,312,906
AS	Principal	1,469,804	604,241	634,369	666,171	699,647	734,797	-	-	-	4,809,029
	Interest	240,451	166,961	136,749	105,031	71,722	36,740	-	-	-	757,654
	Total	1,710,255	771,202	771,118	771,202	771,369	771,537	-	-	-	5,566,683
AU	Principal	395,351	415,708	436,065	458,564	481,064	1,036,055	-	-	-	3,222,807
	Interest	161,140	141,373	120,587	98,784	75,856	78,320	-	-	-	676,060
	Total	556,491	557,081	556,652	557,348	556,920	1,114,375	-	-	-	3,898,867
AV	Principal	289,178	178,003	198,787	79,713	-	-	-	-	-	745,681
	Interest	37,284	22,825	13,925	3,986	-	-	-	-	-	78,020
	Total	326,462	200,828	212,712	83,699	-	-	-	-	-	823,701
AW	Principal	96,232	115,321	121,028	126,341	132,639	438,848	-	-	-	1,030,409
	Interest	51,520	46,709	40,943	34,891	28,574	44,603	-	-	-	247,240
	Total	147,752	162,030	161,971	161,232	161,213	483,451	-	-	-	1,277,649
AX	Principal	1,995,000	2,092,500	2,200,000	2,310,000	2,425,000	14,062,500	15,840,000	16,615,000	3,535,000	61,075,000
	Interest	2,061,500	1,961,750	1,875,125	1,747,125	1,631,625	6,214,500	3,162,100	1,459,113	79,537	20,192,375
	Total	4,056,500	4,054,250	4,075,125	4,057,125	4,056,625	20,277,000	19,002,100	18,074,113	3,614,537	77,652,838
AY	Principal	507,126	510,098	514,260	518,422	524,367	2,746,088	-	-	-	5,320,361
	Interest	74,119	70,949	67,124	62,624	56,792	159,371	-	-	-	490,979
	Total	581,245	581,047	581,384	581,046	581,159	2,905,459	-	-	-	5,811,340
Total	Principal	5,625,266	4,577,773	4,704,953	4,768,780	4,865,401	19,018,288	15,840,000	16,615,000	3,535,000	79,550,461
	Interest	2,777,318	2,530,135	2,345,088	2,113,054	1,894,703	6,533,534	3,162,100	1,459,113	79,537	22,894,582
	Total	$ 8,402,584	$ 7,107,908	$ 7,050,041	$ 6,881,834	$ 6,760,104	$ 25,551,822	$ 19,002,100	$ 18,074,113	$ 3,614,537	$ 102,445,043

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 ($3,888,247 and $5,548,428 was outstanding at June 30, 2021 and 2020, 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.

NOTE 6 BONDS PAYABLE (CONTINUED)

Changes in the balance under the AFRP pool of funding were as follows:

	2021	2020
Balance at July 1	$ 367,112	$ 610,587
Repayments	(109,847)	(243,475)
Balance at June 30	$ 257,265	$ 367,112

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, 2021 for leases with initial or remaining terms of one year or more are as follows:

Year Ending June 30,	Amount
2022	$ 288,363
2023	139,268
2024	50,153
2025	26,515
2026	10,651
Thereafter	-
Total	$ 514,950

Total rent expense for operating leases in 2021 and 2020 was $376,956 and $1,454,665, respectively.

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	2021	2020
Student Tuition and Fees	$ 2,464,765	$ 2,336,550
Grants	237,725	2,403,989
Federal Appropriation	-	1,273,687
Sales and Services and Other	13,297	48,582
Total	$ 2,715,787	$ 6,062,808

NOTE 9 COMPENSATED ABSENCES

Changes in the compensated absences liability were as follows during 2021 and 2020:

	2021	2020
Balance at July 1	$ 8,205,136	$ 7,120,855
Current Changes in Estimate	3,212,520	1,487,509
Payouts	(1,957,708)	(403,228)
Balance at June 30	$ 9,459,948	$ 8,205,136

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.

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:

	SSHE Plan		REHP		PSERS		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Net OPEB liabilities	$ 84,912,001	$ 74,003,092	$ 30,885,646	$ 25,933,505	$ 188,158	$ 196,657	$ 115,985,805	$ 100,133,254
Deferred outflows of resources:								
Net difference between expected and actual experience	-	-	26,859	-	1,740	1,128	28,599	1,128
Net difference between projected and actual investment earnings on OPEB plan investments	-	-	11,025	-	329	343	11,354	343
Changes in proportion	-	-	1,192,245	1,581,343	4,984	6,325	1,197,229	1,587,668
Changes in assumptions	13,629,633	-	4,006,951	829,706	7,664	6,472	4,014,615	836,178
Contributions after the measurement date	1,705,454	2,118,936	605,104	1,147,482	10,341	10,344	2,320,899	3,276,762
Total deferred outflows of resources	15,335,087	2,118,936	5,842,184	3,558,531	25,058	24,612	7,572,696	5,702,079
Deferred inflows of resources:								
Net difference between expected and actual experience	12,163,641	6,780,668	14,819,372	19,287,821	-	-	14,819,372	26,068,489
Net difference between projected and actual investment earnings on OPEB plan investments	-	-	-	45,930	-	-	-	45,930
Changes in assumptions	5,803,806	7,897,889	2,393,403	3,592,070	4,137	5,835	8,201,346	11,495,794
Changes in proportion	-	-	1,772,826	1,107,966	3,855	1,324	1,776,681	1,109,290
Total deferred inflows of resources	17,967,447	14,678,557	18,985,601	24,033,787	7,992	7,159	24,797,399	38,719,503
OPEB expense	2,687,104	(726,604)	(1,774,594)	(5,333,991)	12,101	58,128	924,611	(6,002,467)
Contributions recognized by OPEB plans	1,705,454	-	605,104	1,147,482	10,341	10,344	2,320,899	1,157,826

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $1,705,454 for the System (SSHE) Plan, $605,104 for the REHP plan, and $10,341 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Amortization		
Fiscal Year Ended	SSHE	REHP	PSERS
June 30, 2022	$ (2,238,338)	$ 4,930,955	$ 940
June 30, 2023	(2,238,338)	4,643,186	893
June 30, 2024	(843,234)	3,388,368	846
June 30, 2025	982,095	1,168,200	2,492
June 30, 2026	-	(382,187)	1,458
Thereafter	-	-	96

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 11,872 individuals are covered by the benefit terms (down from 12,122 in the prior actuarial valuation), including 6,897 active employees that may be entitled to receive benefit payments upon retirement, 53 retired participants entitled to but not yet receiving benefits, and 4,922 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.

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, 2021:

- Plan members who retired prior to July 1, 2005, are not required to make contributions.

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

System Plan (Continued)

Funding Policy (Continued)

- 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, 2021 is based is dated July 1, 2020, which is the measurement date. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Healthcare cost trend rate of 5.5% in 2020 through 2023, with rates gradually decreasing from 5.4% in 2024 to 4.0% 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.
- Retiree premium cost sharing for retired participants covered under "Other Less Subsidized Health Coverage" is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate. Otherwise, retiree premium cost sharing is not assumed to increase after retirement.
- 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-2020 to reflect mortality improvement.
- The discount rate decreased from 3.36% to 1.86%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2020.
- Participant data is based on census information as of July 1, 2020.
- Rates of withdrawal vary by age and years of service.

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all eligible retirees, regardless of employee bargaining unit when active, and including those not represented when active, who meet years of service and/or age criteria.

The following presents the System Plan's net OPEB liability at June 30, 2021 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 3.0%) or one percentage point higher (6.5% decreasing to 5.0%) than the current healthcare cost trend rates (5.5% decreasing to 4.0%).

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 3.0%)	Healthcare Cost Trend Rates (5.5% decreasing to 4.0%)	1% Increase (6.5% decreasing to 5.0%)
2021	$ 69,828,108	$ 84,912,001	$ 104,677,738

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 June 30, 2020, 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%)
2020	$ 61,722,675	$ 74,003,093	$ 89,906,111

The following presents the University's net OPEB liability at June 30, 2021, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (0.86%) or one percentage point higher (2.86%) than the current discount rate (1.86%).

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

	1% Decrease 0.86%	Current Rate 1.86%	1% Increase 2.86%
2021	$ 100,879,657	$ 84,912,001	$ 72,318,069

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 (436%) than the discount rate used (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

OPEB Liability

The University's share of the System Plan's total OPEB liability of $84,912,002 at June 30, 2021 was measured and determined by an actuarial valuation as of July 1, 2020. The University's share of the System'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.

Changes in the System Plan Total OPEB Liability	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020
Total OPEB Liability - Beginning Balance	$ 74,003,092	$ 76,848,605
Service Cost	1,916,623	2,081,766
Interest	2,504,297	2,312,620
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(8,690,431)	-
Changes in Assumptions	16,860,846	(4,014,637)
Benefit Payments	(1,682,425)	(3,225,262)
Net Changes	10,908,910	(2,845,513)
Total OPEB Liability - Ending Balance	$ 84,912,002	$ 74,003,092

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

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.

The REHP provides eligible retirees and their eligible dependents with subsidized healthcare for the retiree's lifetime. Benefits include healthcare, including hospital, medical/surgical, prescription drugs, and major medical coverage, as well as a Medicare supplement for individuals over age 65. Retirees receive varying coverages based on the plan they choose. Spouse benefits cease upon the retiree's death, but the surviving spouse may continue coverage at full cost. 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, 2021:

- 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.

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

REHP (Continued)

Plan Description (Continued)

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 $230 per pay period for each current REHP eligible active employee during the period July 1, 2020 through January 15, 2021, and $-0- from January 16, 2021 through June 30, 2021. The rate during the period July 1, 2019, through June 30, 2020 was $230 per pay period.

Actuarial Assumptions and Other Inputs

The State System records its REHP pension liability annually utilizing a measurement date one year prior to its fiscal year-end. The Commonwealth's State Employees' Retirement System (SERS) performs experience studies periodically to determine reasonable and appropriate economic and demographic assumptions for purposes of valuing the defined benefit pension plan. The most recent SERS experience study covered the years 2015 through 2019 and was presented to the SERS Board in July 2020. The approved recommendations from that study were used to determine the assumptions in the REHP annual valuations, where applicable. The inflation assumption was selected by the SERS Board during a July 2020 meeting based on a review of actual plan experience and the prevalent economic outlook.

The total OPEB liability in the June 30, 2020 and 2019 actuarial valuations 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 6.6%, with rates gradually decreasing to 4.1% in 2075 and later, based on the SOA-Getzen trend rate model version 2020_b for the December 31, 2020 measurement date and 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.
- 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, 2019, for the June 30, 2020, measurement date; and as of December 31, 2018, for the June 30, 2019, measurement date.

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

- Discount rate of 2.21% as of June 30, 2020, and 3.50% as of June 30, 2019.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the index rate for the 20-year tax-exempt general obligation municipal bond index with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	40.0%	5.6%
International Equity	27.0%	5.8%
Fixed Income	23.0%	1.7%
Real Estate	8.0%	4.6%
Cash and Cash Equivalents	1.5%	0.9%
Private Equity	0.5%	10.4%
Total	100.00%	

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 4.275% for the measurement date of June 30, 2020 and 4.37% for the measurement date of June 30, 2019.

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the REHP net OPEB liability at June 30, 2021, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.6% decreasing to 3.1%) or one percentage point higher (7.6% decreasing to 5.1%) than the current healthcare cost trend rates (6.6% decreasing to 4.1%).

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

	1% Decrease (5.6% decreasing to 3.1%)	Healthcare Cost Trend Rates (6.6% decreasing to 4.1%)	1% Increase (7.6% decreasing to 5.1)
2021	$ 26,250,964	$ 30,885,646	$ 36,677,152

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 healthcare cost trend rate used (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, 2021, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (1.21%) or one percentage point higher (3.21%) than the current discount rates (2.21%).

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

	1% Decrease 1.21%	Current Rate 2.21%	1% Increase 3.21%
2021	$ 35,243,761	$ 30,885,646	$ 27,258,067

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the REHP net OPEB liability at June 30, 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 discount rate used (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

Fiduciary Net Position

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, 2020, there were no assumed future benefit increases to participating eligible retirees. Plan members receiving benefits are not required to make contributions.

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

Premium Assistance (Continued)

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 0.84% of covered payroll for the fiscal years ended June 30, 2021 and 0.83% of covered payroll for the fiscal year ended June 30, 2020. 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 0.42% of covered payroll.

Actuarial Assumptions and Other Inputs

The State System records its PSERS OPEB liability annually utilizing a measurement date one year prior to its fiscal year-end. The total OPEB liability, as of the June 30, 2020 measurement date, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2019 to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

- Valuation Date - June 30, 2019.
- Actuarial cost method was entry age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at $1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2018, determined the employer contribution rate for fiscal year 2019/20.
- 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.

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs

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

- The discount rate used to measure the total OPEB liability was 2.66% at June 30, 2020, and 2.79% at June 30, 2019.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 2.66%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2020, 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, 2020.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	50.3%	-1.0%
US Core Fixed Income	46.5%	-0.1%
Non-US Developed Fixed	3.2%	-0.1%
Total	100.00%	

The net OPEB liability was measured as of June 30, 2020, 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, 2019, to June 30, 2020. 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 0.1852% and 0.1886% for the measurement dates of June 30, 2021 and 2020, respectively.

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2021, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4% and 6.50%) or one percentage point higher (between 6% and 8.50%) than the current healthcare cost trend rates (between 5% and 7.50%).

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

	1% Decrease (Between 4% and 6.50%)	Healthcare Cost Trend Rates (Between 5% and 7.50%)	1% Increase (Between 6% and 8.50%)
2021	$ 188,112	$ 188,159	$ 188,159

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 healthcare cost trend rate used (between 5% and 7.50%).

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, 2021, 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%
2021	$ 214,488	$ 188,159	$ 166,296

NOTE 10 POSTEMPLOYMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 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 discount rate used (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

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.

NOTE 11 PENSION BENEFITS (CONTINUED)

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.

	SERS		PSERS		ARP		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Net Pension Liabilities	$ 33,849,900	$ 35,512,487	$ 4,330,271	$ 4,300,051	$ -	$ -	$38,180,171	$ 39,812,538
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	317,810	442,788	11,325	23,686	-	-	329,135	466,474
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	-	190,292	-	-	-	190,292	-
Changes in Assumptions	3,763,955	1,368,469	-	41,084	-	-	3,763,955	1,409,553
Difference Between Employer Contributions and Proportionate Share of Contributions	81,097	-	10,477	12,490	-	-	91,574	12,490
Changes in Proportion	139,489	367,612	69,796	114,773	-	-	209,285	482,385
Contributions After the Measurement Date	2,232,045	2,255,561	424,178	415,587	-	-	2,656,223	2,671,148
Total Deferred Outflows of Resources	$ 6,534,396	$ 4,434,430	$ 706,068	$ 607,620	$ -	$ -	$ 7,240,464	$ 5,042,050
Deferred Inflows of Resources:								
Difference Between Expected and Actual Experience	$ 37,964	$ 240,532	$ 103,770	$ 142,503	$ -	$ -	$ 141,734	$ 383,035
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	4,330,917	2,532,710	-	12,330	-	-	4,330,917	2,545,040
Difference Between Employer Contributions and Proportionate Share of Contributions	112,301	185,688	-	-	-	-	112,301	185,688
Changes in Proportion	2,845,891	826,495	60,414	27,536	-	-	2,906,305	854,031
Total Deferred Inflows of Resources	$ 7,327,073	$ 3,785,425	$ 164,184	$ 182,369	$ -	$ -	$ 7,491,257	$ 3,967,794
Pension Expense	$ 3,598,513	$ 2,339,285	$ 778,658	$ 1,056,546	$ 2,963,172	$ 3,234,427	$ 7,340,343	$ 6,630,258
Contributions Recognized by Pension Plans	$ 3,819,417	$ 4,063,377	$ 424,178	$ 415,587	N/A	N/A	$ 4,243,595	$ 4,478,964

The University will recognize the $2,232,045 reported as 2021 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $424,178 reported as 2021 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Amortization	
Fiscal Year Ended	SERS	PSERS
June 30, 2022	$ (882,566)	$ (2,741)
June 30, 2023	(221,311)	21,610
June 30, 2024	(1,571,507)	41,382
June 30, 2025	(394,613)	57,457
2026 and Thereafter	45,274	-
Total	$ (3,024,723)	$ 117,708

NOTE 11 PENSION BENEFITS (CONTINUED)

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.

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, through December 31, 2018. 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.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Contributions

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

For the SERS defined benefit plan, the State System's actuarially determined contribution rate for most active members was 36.804% of active members' annual covered payroll at June 30, 2021, with less common rates ranging between 25.47% and 29.48%, 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 17.59% or 17.34% 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 16.06% 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, 2021, 2020, and 2019 were $3,819,417, $4,063,377, and $3,989,222, 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.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Contributions (Continued)

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, 2021, depending upon the plan chosen by the employee. The University recognized $16,664 in SERS defined contribution pension expense for the year ended June 30, 2021, $11,750 for the year ended June 30, 2020, and $1,569 for the year ended June 30, 2019, the first year of the plan's implementation. The vesting period for employer contributions to the defined contribution plan, both for members who participate in the straight 401(a) defined contribution plan and those who participate in one of the defined benefit/defined contribution hybrid plans, is three years. Once money is contributed to the plan, it cannot be removed from the plan, except for making distribution payments to participants. Forfeitures of unvested employer contributions and earnings are invested in the PA Treasury short-term investment fund. The funds are forfeited to the employee's most recent employer and used to offset future contributions to the plan and correct funding discrepancies. Forfeitures seized under the Pension Forfeiture Act are used for administrative expenses of the plan.

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

Actuarial Methods and Assumptions

Actuarial valuations are performed annually using a December 31 measurement date. Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 19th Investigation of Actuarial Experience study for the period 2015–2019 was released in July 2020. 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 19th Investigation of Actuarial Experience at its September 2020 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its July 2020 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.125% to 7.00%. The next SERS actuarial experience review will occur in summer 2025 and will be used for its 2025 annual valuation.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions

The following methods and assumptions were used in the actuarial valuation for the December 31, 2020, measurement date.

- Entry age actuarial cost method.
- Investments amortized on a straight-line, closed-period basis over five years; assumption changes and noninvestment gains/losses amortized over the average expected remaining service lives of all employees who are provided benefits.
- Inflation of 2.50%.
- Investment return of 7.00%, net of manager fees and including inflation.
- Salary increases based on an average of 4.60%, with a range of 3.30% to 6.95%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected PubG-2010 and PubNS-2010 Mortality Tables, adjusted for actual plan experience and future improvement.
- No cost of living adjustments.

The long-term expected real rate of return on pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2020 and 2019 are summarized below:

Asset Class	2020 Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	14.0%	6.25%
Private Credit	4.0%	4.25%
Real Estate	8.0%	5.60%
U.S. Equity	25.0%	4.90%
International Developed Markets Equity	13.0%	4.75%
Emerging Markets Equity	4.0%	5.00%
Fixed Income - Core	22.0%	1.50%
Fixed Income - Opportunistic	4.0%	3.00%
Inflation Protection (TIPS)	4.0%	1.50%
Cash	2.0%	0.25%
Total	100.0%	

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

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 Assets	12.0%	5.26%
Multi-Strategy	10.0%	4.44%
Fixed Income	11.0%	1.26%
Cash	3.0%	0.00%
Total	100.0%	

The discount rate used to measure the total SERS pension liability was 7.00% as of December 31, 2020 and 7.25% as of December 31, 2019. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current 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.

The following presents the University's proportionate share of the SERS net pension liability at June 30, 2021 and June 30, 2020, calculated using a discount rate of 7.00% for 2021 and 7.25% for 2020, 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 (6.00% in 2021 and 6.125% in 2020) or one percentage point higher (8.00% in 2021 and 8.125% in 2020) 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 6.00%	Current Rate 7.00%	1% Increase 8.00%
2021	$ 42,317,368	$ 33,849,900	$ 23,037,292
	1% Decrease 6.125%	Current Rate 7.125%	1% Increase 8.125%
2020	$ 45,124,429	$ 35,512,487	$ 27,283,529

Proportionate Share

At June 30, 2021, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2020 was $33,849,900. 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.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Proportionate Share (Continued)

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the December 2020 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2021/22 from the December 31, 2020 funding valuation to the expected funding payroll. 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. At the December 31, 2020, measurement date, the State System's proportion was 4.419%, a decrease of 0.354% from its proportion calculated as of December 31, 2019, measurement date.

PSERS

Plan Description

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

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.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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 of 2010 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, through June 30, 2019, by creating two new membership classes: Class T-E and Class T-F. To qualify for normal retirement, Class T-E and Class T-F members must complete a minimum of 35 years of service with a combination of age and service that totals 92 or greater, or they must work until age 65 with a minimum of three years of service.

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

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

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

Member Contributions

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

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2021 was 33.51% 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 ended June 30, 2021, June 30, 2020, and June 30, 2019 was $424,178, $415,587, and $417,407, respectively, equal to the required contractual contribution.

For the PSERS defined contribution plan, the State System is required to contribute an actuarially determined average rate 0.09% of active members' annual covered payroll for the year ended June 30, 2021, 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 years ended June 30, 2020 and June 30, 2021 were immaterial.

Actuarial Assumptions

The State System records its PSERS pension liability annually utilizing a measurement date one year prior to its fiscal year-end. The total PSERS pension liability, as of the June 30, 2020 measurement date, was determined by rolling forward PSERS' total pension liability at June 30, 2019, to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement.

- Valuation date - June 30, 2019.
- Actuarial cost method is entry age normal, level percent of pay.
- Investment return of 7.25% with 2.75% inflation.
- Salary increases based on an effective average of 5.0%, which comprises a 2.75% allowance for inflation and 2.25% for real wage growth and merit or seniority increases.
- Mortality rates based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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, 2021 and 2020.

The following depicts asset allocation as of June 30, 2021:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	15.0%	5.2%
Private Equity	15.0%	7.2%
Fixed Income	36.0%	1.1%
Commodities	8.0%	1.8%
Absolute Return	10.0%	2.5%
Infrastructure/MLPs	6.0%	5.7%
Real Estate	10.0%	5.5%
Risk Parity	8.0%	3.3%
Cash	6.0%	(1.0)%
Financing (LIBOR)	(14.0)%	(0.7)%
Total	100.00%	

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%	

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, 2021 and June 30, 2020 , 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%
2021	$ 5,357,448	$ 4,330,271	$ 3,460,076
	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2020	$ 5,356,204	$ 4,300,051	$ 3,405,751

Proportionate Share

At June 30, 2021 and 2020, 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:

	2021	2020
Total PSERS Net Pension Liability Associated With the University	$ 8,660,542	$ 8,600,102
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated With the University	4,330,271	4,300,051
University's Proportionate Share of the PSERS Net Pension Liability	$ 4,330,271	$ 4,300,051

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Proportionate Share (Continued)

PSERS measured the 2021 and 2020 net pension liability as of June 30, 2020 and June 30, 2019, 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, 2020, the State System's proportion was .1856%, an increase of .0030% from its proportion calculated as of June 30, 2019.

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, 2021 and 2020 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2021 and 2020, were $2,963,172 and $3,234,427, respectively, from the University; and $1,594,819 and $1,740,811, respectively, from active members. No liability is recognized for the ARP.

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, 2021, contributed $49,524 to the Reserve Fund during the year ended June 30, 2020 and contributed $162,203 to the Reserve Fund in 2019.

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

	2021	2020	2019
Balance at July 1	$ 692,959	$ 608,918	$ 738,399
Current Year Claims and Changes in	281,162	438,312	451,595
Payments	(145,890)	(354,271)	(581,076)
Balance at June 30	$ 828,231	$ 692,959	$ 608,918

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.

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 significantly reduced 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 $1,761,000 and $883,372 as of June 30, 2021 and 2020, respectively.

Labor Concentration

Approximately 85% of PASSHE's employees are covered by nine collective bargaining agreements. During 2020/21, a new collective bargaining agreement was established for police supervisors with the International Union, Security, Police, and Fire Professionals of America (SPFPA) through August 31, 2022. Currently, agreements exist with all unions, except the Professional Doctors Association (PDA). The terms of the prior contracts remain in effect until a successor agreement is achieved.

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

COVID-19 Pandemic

COVID-19 may continue to impact various parts of the operations and financial results of the universities and component units, including overall enrollment, 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.

NOTE 14 RATINGS ACTIONS

In June 2021, Moody's Investors Service, Inc. maintained the State System's bond rating of Aa3 with an outlook of stable. This rating was affirmed again by Moody's in August 2021. In June 2021, Fitch Ratings affirmed the State System's rating of A+, with an outlook of stable.

NOTE 15 SUBSEQUENT EVENTS

On July 14, 2021, the Board approved the integration of the existing Bloomsburg University, Lock Haven University, and Mansfield University into a single Northeast integrated University, and the existing California University, Edinboro University, and Clarion University into a single Western Integrated University. These integrations have been designed to leverage the strength of these universities to position them to better serve students and to improve financial sustainability.

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, 2021 AND 2020
(UNAUDITED)

University System Plan OPEB Liability

Determined as of the July 1 measurement dates

Changes in the System Plan Total OPEB Liability	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018
Total OPEB Liability - Beginning Balance	$ 74,003,092	$ 76,848,605	$ 86,859,889	$ 92,599,171
Service Cost	1,916,623	2,081,766	2,520,306	2,816,946
Interest	2,504,297	2,312,620	2,751,532	2,284,346
Changes of Benefit Terms	-	-	(60,586)	-
Differences Between Expected and Actual Experience	(8,690,431)	-	(10,459,704)	-
Changes in Assumptions	16,860,846	(4,014,637)	(686,656)	(8,294,023)
Benefit Payments	(1,682,425)	(3,225,262)	(4,076,176)	(2,546,551)
Net Changes	10,908,910	(2,845,513)	(10,011,284)	(5,739,282)
Total OPEB Liability - Ending Balance	$ 84,912,002	$ 74,003,092	$ 76,848,605	$ 86,859,889
Covered Employee Payroll	$ 33,368,122	$ 33,716,976	$ 34,071,448	$ 33,716,976
OPEB Liability as a Percent of Covered Payroll	254.47%	219.48%	225.55%	257.61%

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%
2020/21	4.275%	$ 30,886	$ 6,809	453.6%	3.7%

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%
2020/21	$ 605	$ 605	$ -	$ 7,099	8.52%

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN
AND REHP (OPEB) (CONTINUED)
JUNE 30, 2021 AND 2020
(UNAUDITED)

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

	PSERS Net OPEB Liability						
Fiscal Year	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total OPEB Liability
2017/18	0.1811%	$ 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%
2020/21	0.1852%	$ 188	$ 188	$ 376	$ 2,444	7.70%	5.69%

PSERS Schedule of Contributions
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-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%
2020/21	$ 10	$ 10	$ -	$ 2,544	0.41%

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF SERS/PSERS CONTRIBUTIONS
JUNE 30, 2021 AND 2020
(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%
2020/21	$ 3,819	$ 3,819	$ -	$ 12,033	31.7%

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%
2020/21	$ 424	$ 424	$ -	$ 2,544	16.7%

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF PROPORTIONATE SHARE OF SERS/PSERS NET PENSION LIABILITY
JUNE 30, 2021 AND 2020
(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%
2020/21	4.4196%	$ 33,849	$ 12,470	271%	67.0%

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

	PSERS Net Pension Liability						
Fiscal Year	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	0.1785%	$ 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%
2020/21	0.1856%	$ 4,330	$ 4,330	$ 8,660	$ 410	1100%	54.3%