State Public School Building Authority

(A Component Unit of the Commonwealth of Pennsylvania)

Financial Statements and Required Supplementary Information

Year Ended June 30, 2020
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

MaherDuessel

Independent Auditor's Report

The Board of Directors
State Public School
Building Authority

We have audited the accompanying financial statements of the business-type activities and each major fund of the State Public School Building Authority (Authority), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 auditor's 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Authority's June 30, 2019 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated September 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and historical pension and other post-employment benefit information on pages i through vi and 32 through 39, respectively, 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.

Maher Duessel

Harrisburg, Pennsylvania
September 3, 2020

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

This discussion and analysis of the financial performance of the State Public School Building Authority (Authority) is supplementary information required by the Governmental Accounting Standards Board. It introduces the basic financial statements and provides an analytical overview of the Authority's financial activities. Read it in conjunction with the financial statements that follow this discussion.

The Authority is a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania, created by the Act of July 5, 1947 (P.L. 1217, No. 498), known as the State Public School Building Authority Act (24 P.S. § 791.1 *et seq.*), for the purpose of financing the construction and improvement of public school facilities. The Authority is governed by a nine-member body composed of the Governor, State Treasurer, Auditor General, Secretary of Education, Secretary of General Services, President Pro Tempore of the Senate, Speaker of the House of Representatives, Minority Leader of the Senate, and Minority Leader of the House of Representatives. The Authority finances projects through the issuance of bonds, the principal and the interest of which are paid by the annual lease/loan payments collected from public schools. The Authority has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together. The goal of the Authority is to make lower-cost tax-exempt financings available to school districts, career centers, intermediate units, and community colleges.

The Authority does not receive an appropriation from the Commonwealth of Pennsylvania. The Authority's two primary revenue sources are management fees charged to the Pennsylvania Higher Educational Facilities Authority (PHEFA) and investment income. PHEFA is operated by Authority staff and issues bonds for higher educational institutions. Administrative fees collected by PHEFA are remitted to the Authority's Administrative Fund in exchange for all management and administrative services and operating expenses. Since management fees alone do not cover the Authority's cost of operation, the Authority requires a sufficient net position balance to maintain the desired level of investment income.

The Authority's longer-term investments are Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit with maturities limited to five years. The Authority uses the State Treasurer's Investment Pool for liquid investments.

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

The following table summarizes the financial position and results of operations of the Authority as of and for the years ended June 30, 2020 and 2019:

	2020	2019
Assets:		
Current assets	$ 13,318,805	$ 11,998,103
Noncurrent assets	19,259,087	20,357,924
Total assets	32,577,892	32,356,027
Deferred outflows of resources	522,630	623,611
Liabilities:		
Current liabilities	132,288	129,160
Long-term liabilities	3,354,577	4,143,199
Total liabilities	3,486,865	4,272,359
Deferred inflows of resources	1,979,643	1,541,219
Net position:		
Net investment in capital assets	59,834	85,634
Unrestricted	27,574,180	27,080,426
Total net position	$ 27,634,014	$ 27,166,060
Operating revenues:		
Management fees	$ 1,001,434	$ 1,039,413
Investment income	395,346	427,445
Total operating revenues	1,396,780	1,466,858
Operating expenses:		
Administration and depreciation	1,183,907	1,238,164
Total operating expenses	1,183,907	1,238,164
Operating income (loss)	212,873	228,694
Nonoperating revenues:		
Investment income - Administrative Fund, including other income	255,081	235,717
Total nonoperating revenues	255,081	235,717
Change in Net Position	467,954	464,411
Total net position - beginning of year	27,166,060	26,701,649
Total net position - end of year	$ 27,634,014	$ 27,166,060

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Overview of the Financial Statements

The three basic statements presented within the financial statements are as follows:

- Statement of Net Position – This statement presents information reflecting the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within one year of the statement date.

- Statement of Revenues, Expenses, and Changes in Fund Net Position – This statement reflects the operating revenues and expenses, as well as nonoperating revenues and expenses during the year. Major sources of operating revenues include management fees charged to PHEFA and interest earned on revolving loans. Major operating expenses are personnel, legal fees for bond issues, and office rent. The change in net position for an enterprise fund is similar to net profit or loss for any other business enterprise. Nonoperating activity consists primarily of the return on the Authority's investments.

- Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the year.

Program Description and Highlights

The Authority issues bonds on behalf of schools and makes low-interest loans from a revolving loan fund. As an added service, the Authority prepares federal arbitrage rebate calculations for tax-exempt bond financings. The Authority does not charge an initial or annual fee for bond financings. Authority counsel fees are paid from bond proceeds.

Program highlights for the fiscal year ended June 30, 2020 include the following:

- Issued five financings on behalf of schools totaling \$229,395,000. The bond proceeds are used by the schools to construct and acquire new facilities as well as to refund prior bond issues.
- Completed four revolving loans for \$1,683,442. The Authority makes low-interest loans to schools for construction, renovation, and equipment purchases. Revolving loans are generally made for a term not to exceed ten years. Loan disbursements totaled \$5,308,714 for all active loans during the year ended June 30, 2020.

Financial Highlights

Net Position

Net position increased by \$467,954 or 1.7% primarily from lower expense for other post-employment benefits.

Operating Revenues

The Authority derives its operating revenues from two sources: management fees charged to PHEFA and investment income from the Revolving Loan Fund. Fees collected this year from PHEFA decreased by \$37,979 or 3.7% as PHEFA bonds were refunded by local authorities. Revolving Loan Fund earnings decreased by \$32,099 or 7.5% as interest rates declined and the Authority lowered rates on new loans.

Operating Expenses

Operating expenses declined in 2020 by \$54,257 or 4.4% from lower expense for other post-employment benefits.

Nonoperating Revenues

The Authority's investment income increased by \$19,364 or 8.2%. The Authority's laddered investment portfolio benefitted when a certificate of deposit matured and was reinvested at a higher rate.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2020, the Authority had invested approximately $420,000 in capital assets, including furniture, equipment, and automobiles. Net of accumulated depreciation, the Authority's net capital assets as of June 30, 2020 totaled approximately $60,000. During the fiscal year ended June 30, 2020, the Authority did not purchase any capital assets or dispose of any assets. As of June 30, 2019, the Authority had invested approximately $420,000 in capital assets, including furniture, equipment, and automobiles. Net of accumulated depreciation, the Authority's net capital assets as of June 30, 2019 totaled approximately $86,000. During the fiscal year ended June 30, 2019, the Authority purchased capital assets of approximately $44,000 and disposed of assets of approximately $19,000.

Debt Administration

As of June 30, 2020, the Authority had approximately $2.57 billion of conduit debt outstanding (nonrecourse debt to the Authority that is repaid solely from revenues derived from the related facilities acquired). This is a decrease of approximately $65 million from June 30, 2019. The outstanding conduit debt is not recorded on the statement of net position. A schedule of conduit debt outstanding is included in Note 12 of the notes to the financial statements. The Authority has no outstanding debt financing for its operation.

Contacting the Authority's Management

This financial report is designed to provide interested parties with a general overview of the Authority's finances. If you have any questions about this report or need additional information, contact:

State Public School Building Authority
1035 Mumma Road, Suite 300
Wormleysburg, PA 17043

Phone – 717-975-2200
Email – fmgmt@spsba.org

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

STATEMENT OF NET POSITION

JUNE 30, 2020

(with comparative totals as of June 30, 2019)

	Business-type Activities - Enterprise Funds			
	Administrative	Revolving Loan	2020	2019
Assets				
Current assets:				
Cash and cash equivalents	$ 737,842	$ 10,488,519	$ 11,226,361	$ 9,879,475
Receivables:				
Accrued interest - investments	63,638	7,234	70,872	107,568
Accrued interest - revolving loans	-	20,476	20,476	19,827
Revolving loans - current	-	1,942,324	1,942,324	1,976,639
Management fees and other	58,772	-	58,772	14,594
Due from (to) other funds	79,973	(79,973)	-	-
Total current assets	940,225	12,378,580	13,318,805	11,998,103
Noncurrent assets:				
Investments	11,577,833	2,928,667	14,506,500	16,506,500
Revolving loans	-	4,692,753	4,692,753	3,765,790
Capital assets:				
Capital assets not being depreciated	-	-	-	44,199
Capital assets	419,794	-	419,794	375,595
Less accumulated depreciation	(359,960)	-	(359,960)	(334,630)
Total noncurrent assets	11,637,667	7,621,420	19,259,087	20,357,454
Total Assets	12,577,892	20,000,000	32,577,892	32,355,557
Deferred Outflows of Resources				
Deferred outflows of resources for pension	446,364	-	446,364	563,011
Deferred outflows of resources for other post-employment benefits	76,266	-	76,266	60,600
Total Deferred Outflows of Resources	522,630	-	522,630	623,611

(Continued)

	Business-type Activities - Enterprise Funds			
	Administrative	Revolving Loan	2020	2019
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	44,317	-	44,317	66,452
Trustee fee payable	3,000	-	3,000	5,000
Compensated absences	84,971	-	84,971	57,708
Total current liabilities	132,288	-	132,288	129,160
Noncurrent liabilities:				
Trustee fee payable	19,000	-	19,000	20,000
Compensated absences	175,016	-	175,016	163,025
Net other post-employment benefit liability	1,074,000	-	1,074,000	1,740,000
Net pension liability	2,086,561	-	2,086,561	2,220,174
Total noncurrent liabilities	3,354,577	-	3,354,577	4,143,199
Total Liabilities	3,486,865	-	3,486,865	4,272,359
Deferred Inflows of Resources				
Deferred inflows of resources for pension	429,643	-	429,643	355,219
Deferred inflows of resources for other post-employment benefits	1,550,000	-	1,550,000	1,186,000
Total Deferred Inflows of Resources	1,979,643	-	1,979,643	1,541,219
Net Position				
Net investment in capital assets	59,834	-	59,834	85,634
Unrestricted	7,574,180	20,000,000	27,574,180	27,080,426
Total Net Position	$ 7,634,014	$ 20,000,000	$ 27,634,014	$ 27,166,060

(Concluded)

The accompanying notes are an integral part of these financial statements.

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION

YEAR ENDED JUNE 30, 2020

(with comparative totals for the year ended June 30, 2019)

	Business-type Activities - Enterprise Funds			
	Administrative	Revolving Loan	2020	2019
Operating Revenues:				
Management fees	$ 1,001,434	$ -	$ 1,001,434	$ 1,039,413
Interest income - from revolving loans	-	192,573	192,573	172,137
Investment income - Revolving Loan Fund	-	202,773	202,773	255,308
Total operating revenues	1,001,434	395,346	1,396,780	1,466,858
Operating Expenses:				
Administration	1,158,107	-	1,158,107	1,219,288
Depreciation expense	25,800	-	25,800	18,876
Total operating expenses	1,183,907	-	1,183,907	1,238,164
Operating Income (Loss)	(182,473)	395,346	212,873	228,694
Non-Operating Revenues (Expenses):				
Investment income	255,081	-	255,081	233,217
Other income	-	-	-	2,500
Total non-operating revenues (expenses)	255,081	-	255,081	235,717
Change in net position before transfers	72,608	395,346	467,954	464,411
Transfers in (out)	395,346	(395,346)	-	-
Change in Net Position	467,954	-	467,954	464,411
Net Position:				
Beginning of year	7,166,060	20,000,000	27,166,060	26,701,649
End of year	$ 7,634,014	$ 20,000,000	$ 27,634,014	$ 27,166,060

The accompanying notes are an integral part of these financial statements.

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

(with comparative totals for the year ended June 30, 2019)

	Business-type Activities - Enterprise Funds			
	Administrative	Revolving Loan	2020	2019
Cash Flows From Operating Activities:				
Receipts from PHEFA	$ 957,256	$ -	$ 957,256	$ 1,023,944
Payments to suppliers	(264,306)	-	(264,306)	(245,500)
Payments to employees	(1,139,890)	-	(1,139,890)	(1,105,571)
Proceeds from loan repayments	-	4,416,066	4,416,066	4,335,393
Loan disbursements	-	(5,308,714)	(5,308,714)	(1,840,009)
Interest and investment earnings from Revolving Loan Fund	-	408,746	408,746	392,833
Net cash provided by (used in) operating activities	(446,940)	(483,902)	(930,842)	2,561,090
Cash Flows From Non-Capital and Related Financing Activities:				
Transfer to administrative fund from Revolving Loan Fund	439,906	(439,906)	-	-
Net cash provided by (used in) non-capital and related financing activities	439,906	(439,906)	-	-
Cash Flows From Capital and Related Financing Activities:				
Purchase of capital assets	-	-	-	(44,199)
Sale of capital assets	-	-	-	2,500
Net cash used in capital and related financing activities	-	-	-	(41,699)
Cash Flows From Investing Activities:				
Proceeds from sales and maturities of investments	3,500,000	2,250,000	5,750,000	5,000,000
Purchases of investments	(3,750,000)	-	(3,750,000)	(2,000,000)
Interest received	277,728	-	277,728	211,279
Net cash provided by investing activities	27,728	2,250,000	2,277,728	3,211,279
Net Increase (Decrease) in Cash and Cash Equivalents	20,694	1,326,192	1,346,886	5,730,670
Cash and Cash Equivalents:				
Beginning of year	717,148	9,162,327	9,879,475	4,148,805
End of year	$ 737,842	$ 10,488,519	$ 11,226,361	$ 9,879,475

(Continued)

The accompanying notes are an integral part of these financial statements.

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

(with comparative totals for the year ended June 30, 2019)

(Continued)

	Business-type Activities - Enterprise Funds			
	Administrative	Revolving Loan	2020	2019
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating income (loss)	$ (182,473)	$ 395,346	$ 212,873	$ 228,694
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	25,800	-	25,800	18,876
Investment income - realized gain / unrealized loss	-	-	-	(22,617)
Changes in:				
Accrued interest receivable	-	13,400	13,400	(11,995)
Revolving loans receivable	-	(892,648)	(892,648)	2,495,384
Management fees and other receivables	(44,178)	-	(44,178)	(15,469)
Deferred outflows of resources for pension	116,647	-	116,647	(110,168)
Deferred outflows of resources for other post-employment benefits	(15,666)	-	(15,666)	(2,046)
Accounts payable and accrued expenses	(22,135)	-	(22,135)	14,685
Trustee fee payable	(3,000)	-	(3,000)	(63,000)
Compensated absences	39,254	-	39,254	26,101
Net pension liability	(133,613)	-	(133,613)	(23,726)
Net other post-employment benefit liability	(666,000)	-	(666,000)	(1,107,000)
Deferred inflows of resources for pension	74,424	-	74,424	208,371
Deferred inflows of resources for other post-employment benefits	364,000	-	364,000	925,000
Total adjustments	(264,467)	(879,248)	(1,143,715)	2,332,396
Net cash provided by (used in) operating activities	$ (446,940)	$ (483,902)	$ (930,842)	$ 2,561,090

(Concluded)

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

The State Public School Building Authority (Authority) is a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania (Commonwealth), created by the Act of July 5, 1947 (P.L. 1217, No. 498), known as the State Public School Building Authority Act (24 P.S. § 791.1 *et seq.*), for the purpose of financing the construction and improvement of public school facilities. The Authority is governed by a nine-member Board of Directors (Board). The Authority finances projects through the issuance of bonds, the principal and interest of which are paid by the annual lease/loan payments collected from public schools. The Authority provides for the financing needs of school districts, career centers, intermediate units, and community colleges (schools).

(a) Reporting Entity

The Authority is a component unit of the Commonwealth. Criteria considered in making this determination include the Commonwealth's appointment of the Authority's Board pursuant to statute and the Commonwealth's ability to impose its will on the Authority.

(b) Measurement Focus and Basis of Accounting

The accounts of the Authority are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. The Authority's funds are enterprise funds and, accordingly, utilize the accrual basis of accounting and follow the economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. The Authority reports the following major enterprise funds:

<u>Administrative Fund</u>

The Administrative Fund is used to account for the unrestricted revenue, primarily management fees and expenses of the Authority's operations, as well as for payment of bond issue trustee fees the Authority has agreed to pay on behalf of certain schools.

<u>Revolving Loan Fund</u>

The Revolving Loan Fund is used to account for loans to schools.

(c) Cash and Cash Equivalents

The Authority considers money market pools and investments with a maturity date of 90 days or less from the purchase date to be cash and cash equivalents.

(d) Due from Other Funds/Due to Other Funds

During the course of its operations, the Authority has numerous transactions between funds to finance operations and provide services. To the extent that certain transactions between funds had not been paid or received as of June 30, 2020, balances of interfund amounts receivable or payable have been recorded.

(e) Investments

Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit are recorded at cost.

The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

(f) Capital Assets and Depreciation

Capital assets are reported at cost. Depreciation is calculated using the straight-line basis and assets have estimated useful lives ranging from three to seven years.

In conjunction with certain conduit debt issuances, the Authority takes title to property on behalf of the borrower and leases such property back to the borrower. The agreements entered into as part of these transactions are not deemed to have any economic value to the Authority and, therefore, the Authority does not report the related property in the financial statements.

(g) Deferred Inflows and Outflows of Resources

In conjunction with pension and other post-employment benefits (OPEB) accounting requirements, differences in the Authority's expected and actual experience, difference between projected and actual earnings on pension and OPEB plan investments, changes of assumptions, changes in proportion, and Authority contributions subsequent to the measurement date are recorded as deferred inflows or outflows of resources related to pension and OPEB on the statement of net position. These amounts are determined based on the actuarial valuations performed for the pension and OPEB plans.

(h) Trustee Fees

The Authority has agreed to pay trustee fees on certain pre-1986 pooled bonds issued by PHEFA and reimburse schools for payment of trustee fees up to $1,000 annually for bonds issued under the October 17, 2001 School Subsidy Program Resolution. A liability is recorded for the estimated future payment of trustee fees.

(i) Compensated Absences

Employees earn annual leave based on 2.7% to 10% of regular hours paid. A maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement. Employees earn sick leave based on 4.24% or 5% of regular hours paid. A maximum of 300 sick days may be carried forward at the end of each calendar year. Retiring employees that meet service, age, or disability requirements are paid from 30% to 50% of their days available at retirement. Employees are paid 100% of sick days earned in their last year of employment if they are above the 300-day maximum limit.

Accumulated annual and sick leave liability is calculated based on the salary rates in effect as of the statement of net position date. No liability is recorded for nonvesting accumulating rights to receive sick leave benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken upon retirement of the employees.

(j) Net Position

Net position is categorized as follows:

<u>Net Investment in Capital Assets</u> – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Unrestricted Net Position – This category represents the net position of the Authority not otherwise defined.

(k) Operating Revenues

Operating revenue for the Administrative Fund consists of management fees charged to the Pennsylvania Higher Educational Facilities Authority (PHEFA), relating to various bond, note, and lease issues outstanding. Management fees are recognized as revenue as of the periodic billing date. Operating revenue for the Revolving Loan Fund includes interest earned from revolving loans and investment income.

(l) Interfund Transfers

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported after nonoperating revenues/expenses.

(m) Conduit Debt Obligations

The Authority issues taxable and tax-exempt instruments (bonds, notes, or other obligations), which do not constitute a debt of the Authority or the Commonwealth. These debt instruments are limited obligations of the Authority, payable solely from payments made by the related borrowing institutions and related assets held by trustees. The Authority has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together. The Authority has elected to exclude these obligations and the related assets held by trustees from the financial statements. The Authority has disclosed the outstanding balance in Note 12.

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

(o) Reclassification

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

(p) Pending Changes in Accounting Principles

In June of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *"Leases."* This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the Authority's June 30, 2022 financial statements.

In May of 2019, the GASB issued Statement No. 91, *"Conduit Debt Obligations."* This Statement improves financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The provisions of GASB Statement No. 91 are effective for the Authority's June 30, 2023 financial statements.

The effects of these Statements have not yet been determined.

2. Cash and Cash Equivalents and Investments

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types, including U.S. Treasury bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, banker's acceptances, and insured or collateralized time deposits and certificates of deposit. The statutes allow pooling of governmental funds for investment purposes.

The deposit and investment policy of the Authority adhere to state statutes and prudent business practice. The governments' funds are either maintained in collateralized interest-bearing checking accounts, external investment pools, insured certificates of deposit, or U.S. Treasury Notes, which are considered permissible investments of the Authority. There were no deposit or investment transactions during the year that were in violation of either state statutes or the policy of the Authority.

Under the Authority's investment policy, any investment not expressly listed in the policy as permitted is prohibited. Prohibited investments include, but are not limited to, any type of swap, derivative instrument, or stock option of a corporation created by an act of Congress.

The Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Authority funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program (State Treasurer's Investment Pool), which separately issues audited financial statements that are available to the public. The fair value of the Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth provides external regulatory oversight for the external investment pool. The Authority is invested in INVEST - Daily Pool, which requires no minimum balance, no minimum initial investments, and has no required investment period.

At June 30, 2020, the Authority's cash and cash equivalents and investments, as presented on the statement of net position, consisted of the following:

	Administrative	Revolving Loan	Total	Effective Duration (in years)
Cash and cash equivalents:				
Collateralized interest-bearing checking account	$ 49,109	$ 18,588	$ 67,697	-
State Treasurer's Investment Pool	688,733	10,469,931	11,158,664	0.131
Total cash and cash equivalents	$ 737,842	$ 10,488,519	$ 11,226,361	
Investments:				
FDIC insured certificates of deposit	$ 11,577,833	$ 2,928,667	$ 14,506,500	2.624
Total investments	$ 11,577,833	$ 2,928,667	$ 14,506,500	
Portfolio effective duration				1.537

At June 30, 2020, the Authority's cash and cash equivalents and investments held in financial institutions consisted of the following:

	Administrative	Revolving Loan	Total
Cash and cash equivalents:			
Collateralized interest-bearing checking account	$ 49,109	$ 9,888	$ 58,997
State Treasurer's Investment Pool	688,733	10,469,931	11,158,664
Total cash and cash equivalents	$ 737,842	$ 10,479,819	$ 11,217,661
Investments:			
FDIC insured certificates of deposit	$ 11,577,833	$ 2,928,667	$ 14,506,500
Total investments	$ 11,577,833	$ 2,928,667	$ 14,506,500

The Authority's investment policy limits investment maturities as a means of managing its exposure to declines in fair values.

(a) Interest Rate Risk

The Authority's investment policy limits interest rate risk by investing in a laddered portfolio comprised of certificates of deposit. The maximum maturity is limited to five years. The certificates of deposit are noncallable.

(b) Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy minimizes credit risk by limiting investments to only those permissible, as defined previously. The Authority's fixed investments are FDIC insured certificates of deposit. The State Treasurer's Investment Pool carries Standard & Poor's highest money market funds rating of AAAm.

(c) Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The Authority's investment policy limits custodial credit risk by depositing in certificates of deposit that are FDIC insured or collateralized. Collateral for the Authority's certificates of deposit shall be held at the Federal Reserve in either the name of the Authority or the Commonwealth. Short-term deposits, not qualified for FDIC insurance, shall be collateralized with securities held by third-party in accordance with Act 72 of 1971.

The Authority's FDIC insured certificates of deposit are in the custody of a local bank and insured through the Certificate of Deposit Account Registry Service (CDARS). CDARS distributes deposits over banks in its network in increments of less than the standard FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC protection while working with a single participating bank in the network. Authority deposits not qualified for FDIC insurance are collateralized with securities held by a third-party trust in accordance with state law concerning public deposits, which allows pooling of public accounts into a single collateral pool. The Authority's checking account balance of $58,997 as of June 30, 2020 is covered under FDIC insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investment policy limits credit risk by investing in financial institutions that have a minimum capital (equity) balance of $25,000,000 and at least five years of operation. Investments in the State Treasurer's Investment Pool are uninsured, uncollateralized, and not held in the Authority's name.

(d) Fair Value of Investments

As of June 30, 2020, the Authority's FDIC insured certificates of deposits in the amount of $14,506,500 are classified as Level 1 investments.

3. Revolving Loans Receivable

Revolving loans receivable relate to the Revolving Loan Fund, which makes loans to schools for construction, renovation, and equipment purchases. These fixed rate loans are for up to $3,000,000 with a maximum term of ten years. The Authority sets the interest rates for new loans on a quarterly basis.

At June 30, 2020, the Authority had revolving loans receivable of $6,635,077 with interest rates ranging from 1.5% to 2.75%.

Maturities of revolving loans receivable for each of the following fiscal years are as follows:

	Principal	Interest	Total
2021	$ 1,942,324	$ 159,449	$ 2,101,773
2022	1,541,457	109,746	1,651,203
2023	938,793	74,633	1,013,426
2024	476,743	56,796	533,539
2025	490,119	43,420	533,539
2026	503,718	29,821	533,539
2027	334,308	16,794	351,102
2028	220,423	9,739	230,162
2029	187,192	3,614	190,806
	$ 6,635,077	$ 504,012	$ 7,139,089

Unfunded commitments on loans issued as of June 30, 2020 are $4,901,195.

4. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2020 were as follows:

	Due from Other Funds	Due to Other Funds
Administrative Fund	$ 79,973	$ -
Revolving Loan Fund	-	79,973
	$ 79,973	$ 79,973

This balance represents the fourth quarter interest transfer from the Revolving Loan Fund to the Administrative Fund.

Interfund transfers for the year ended June 30, 2020 were as follows:

	Transfers In	Transfers Out
Administrative Fund	$ 395,346	$ -
Revolving Loan Fund	-	395,346
	$ 395,346	$ 395,346

Interest earned from investments and revolving loans is transferred from the Revolving Loan Fund to the Administrative Fund quarterly to fund the general operations of the Authority.

5. Capital Assets

The Authority's capital assets include furniture, equipment, and vehicles. A summary of changes in capital assets for the year ended June 30, 2020 follows:

	Capital Assets (at cost)	Capital Assets (in progress)	Accumulated Depreciation	Capital Assets (net)
Balance, July 1, 2019	$ 375,595	$ 44,199	$ 334,160	$ 85,634
Additions	44,199	-	25,800	18,399
Disposals/Transfers Out	-	(44,199)	-	(44,199)
Balance, June 30, 2020	$ 419,794	$ -	$ 359,960	$ 59,834

6. Long-Term Liabilities

The following represents the changes in the Authority's long-term liabilities for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Compensated absences liability	$ 220,733	$ 71,573	$ 32,319	$ 259,987	$ 84,971
Trustee fee payable	$ 25,000	$ -	$ 3,000	$ 22,000	$ 3,000

7. Related-Party Transactions – Administrative Fund

The Administrative Fund provides for the operation of both the Authority and PHEFA.

Administrative fees collected by PHEFA are deposited directly into the Authority's Administrative Fund in exchange for all management and administrative services and operating expenses. During the year ended June 30, 2020, the amount received from PHEFA was $1,001,434. The management and board members are identical for both the Authority and PHEFA.

8. Operating Lease

The Authority leases its office facilities under a noncancelable operating lease that expires June 30, 2022. Total rental expense was $75,214 for the year ended June 30, 2020. The minimum lease payments until expiration in 2022 are $155,711 with lease payments as follows:

2021	$ 76,705
2022	79,006
	$ 155,711

9. Pension Plan

Plan Description

All full-time employees of the Authority contribute to the Commonwealth of Pennsylvania State Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan (Plan). Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the Plan to the General Assembly. SERS issues a publicly available financial report that can be obtained at www.SERS.pa.gov.

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pension, and pension expense, information about the fiduciary net position of SERS, as well as additions to and deductions from SERS fiduciary net position have been determined on the same basis as they are reported in the financial statements of SERS. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value.

Benefits Provided

Membership in SERS is mandatory for all full-time Authority employees. SERS provides retirement, death, and disability benefits according to statute. Retirement benefits vest after five years of credited service.

Employees who retire at age 60, or with 35 years of service if under age 60, are entitled to an unreduced annual retirement benefit. For employees hired prior to January 1, 2011, the general annual benefit provided by statute is 2.5% of the member's highest three-year average salary times years of service. Effective January 1, 2011, the general annual benefit required by statute was reduced to 2.0%.

Contributions

Covered employees are required by statute to contribute to SERS at a rate of 6.25% of their gross pay. The employees' contributions are recorded in an individually identified account, which is also credited with interest, calculated quarterly to yield 4% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits. Authority employee contributions to SERS for the year ended June 30, 2020 approximated $45,000.

The Authority's contractually required contribution rate of annual payroll for the year ended June 30, 2020 was 36.04% for AA employees and 24.92% for A3 employees. The SERS funding policy 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 employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. The Authority's contributions to SERS for the years ended June 30, 2020 and 2019 were $241,670 and $222,271, respectively.

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

At June 30, 2020, the Authority reported a liability of $2,086,561 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's portion of the net pension liability was allocated by SERS to each employer based on a projected-contribution method. At December 31, 2019, the Authority's proportion of the net pension liability was approximately 0.0115 percent, which is an increase of 0.00082 percent from its proportion measured as of December 31, 2018.

At June 30, 2020, the Authority reported deferred outflows and inflows of resources related to pension from the following sources:

Deferred Outflows of Resources for Pension	
Differences between expected and actual experience	$ 26,018
Changes of assumptions	80,407
Changes in proportion and differences between Authority contributions and proportionate share of contributions	215,440
Contributions subsequent to the measurement date	124,499
Total deferred outflows of resources for pension	$ 446,364
Deferred Inflows of Resources for Pension	
Differences between expected and actual experience	$ 14,132
Net difference between projected and actual earnings on pension plan investments	148,809
Changes in proportion and differences between Authority contributions and proportionate share of contributions	266,702
Total deferred inflows of resources for pension	$ 429,643

For the year ended June 30, 2020, the Authority recognized pension expense of $292,535.

Deferred outflows of resources related to Authority pension contributions subsequent to the measurement date totaling $124,499 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources for pension will be recognized in pension expense as follows:

2021	$ (7,384)
2022	(39,427)
2023	(15,689)
2024	(56,603)
2025	11,325
	$ (107,778)

Actuarial Methods and Assumptions

The following methods and assumptions were used in the December 31, 2019 actuarial valuation. These methods and assumptions were applied to all periods included in the measurement period:

Actuarial cost method	Entry age
Amortization method	Straight-line amortization of difference between projected and actual earnings on pension plan investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits
Investment rate of return	7.125% net of expenses, including inflation
Projected salary increases	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan experiences and future improvement
Cost-of-living adjustments (COLAs)	Ad hoc

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience*, which was published in March of 2016, analyzed experience from 2011 through 2015. The SERS Board accepted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting.

In addition to the five-year experience study, SERS reviews its investment return assumption in light of economic conditions every year. In June 2019, SERS approved a reduction in the Defined Benefit Plan investment rate of return to 7.125% for 2019 from 7.25% for 2018.

The long-term expected real rate of return on pension plan investments is 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 current and target asset allocation, as of December 31, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Private equity	16.00%	7.25%
Global public equity	48.00%	5.15%
Real estate	12.00%	5.26%
Multi-strategy	10.00%	4.44%
Fixed income	11.00%	1.26%
Cash	3.00%	0.00%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was reduced to 7.125% in 2019 from 7.25% in 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active 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.

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

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.125%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.125%) or 1-percentage-point higher (8.125%) than the current rate.

	1% Decrease (6.125%)	Current Discount Rate (7.125%)	1% Increase (8.125%)
Authority's proportionate share of the net pension liability	$ 2,651,317	$ 2,086,561	$ 1,603,063

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued SERS financial report.

10. OPEB

Plan Description

The Authority contributes to the Commonwealth's Retired Employees Health Program (REHP), a single-employer defined benefit post-employment healthcare plan administered by the Pennsylvania Employee Benefits Trust Program (PEBTF) acting as a third-party administrator on behalf of the Commonwealth Office of Administration. Nearly all Commonwealth agencies and several of the Commonwealth's discretely presented component units participate in REHP. REHP provisions are established and may be amended by the Commonwealth's Executive Board, Secretary of Administration and through the collective bargaining process. The REHP does not issue a stand-alone financial statement; however, detail of the REHP is included in the Commonwealth's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019.

Summary of Significant Accounting Policies

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Commonwealth's REHP and additions to/deductions from REHP's fiduciary net position have been determined on the same basis as they are reported by REHP. Employer benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided

The REHP provides medical benefits to retired employees and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy.

Eligible employees who retire from the state and meet one of the following eligibility criteria are eligible to receive REHP benefits:

- 25 or more years of service
- 20 or more years of service and superannuation age – 60 for general employees (age 55 or 65 for employees subject to Act 120 of 2010)
- Disability retirement – requires five years of service

Spouses and dependents are eligible for subsidized post-employment medical coverage while the retiree is alive. The Patient Protection and Affordable Care Act (PPACA), signed into law on March 23, 2010, increased the dependent child age limit to age 26 and applied to the Commonwealth effective January 1, 2011.

Contributions

The Commonwealth created the OPEB investment pool, a trust equivalent arrangement, during the fiscal year ended June 30, 2008. The Commonwealth plans to contribute $50 million annually until assets cover the present value of future benefits, subject to annual evaluation.

REHP employer contribution requirements are established by the Commonwealth's Office of Administration and the Office of Budget. All employing agencies and certain plan members contributed $230 per biweekly pay period for each current REHP eligible active employee during fiscal year ended June 30, 2020 to the REHP Trust. During the year ended June 30, 2019, the Authority's required contribution to REHP was $300 biweekly per employee. The Authority's contributions to REHP for the year ended June 30, 2020 and 2019 were $42,266 and $60,600, respectively.

For employees who retired after June 30, 2005 and before July 1, 2007, the retiree contribution is set at 1% of employee's final annual salary. For employees who retired on or after July 1, 2007 but before July 1, 2011, retiree contributions are 3% for non-Medicare and 1.5% for Medicare of either final gross annual base salary or final average salary, whichever is less. For employees who retire on or after July 1, 2011, retiree contributions are 3% of their final average salary for non-Medicare and 1.5% of final average salary for Medicare.

Surviving spouses of deceased retirees may continue to participate in the plan if they pay the full cost of the coverage.

Health Care Reform

PPACA was signed into law in 2010 with the purpose of increasing the number of Americans with health insurance coverage. There are several provisions within PPACA with potentially significant short- and long-term cost implications for employers. In future years, there may continue to be increased cost impact to the extent the health and welfare program experiences increased utilization due to these changes, all of which are assumed to be in place indefinitely.

OPEB Liabilities, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEB

At June 30, 2020, the Authority reported a liability of $1,074,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Authority's portion of the net OPEB liability was allocated to each employer based on a projected-contribution method. At June 30, 2019, the Authority's proportion of the net OPEB liability was approximately 0.010311 percent, which is a decrease of 0.0015 percent from its proportion measured as of June 30, 2018.

At June 30, 2020, the Authority reported deferred outflows and inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources for OPEB	
Changes of assumptions	$ 34,000
Contributions subsequent to the measurement date	42,266
Total deferred outflows of resources for OPEB	$ 76,266
Deferred Inflows of Resources for OPEB	
Net difference between projected and actual earnings on OPEB plan investments	$ 2,000
Differences between expected and actual experience	799,000
Changes of assumptions	149,000
Changes in proportion and differences between Authority contributions and proportionate share of contributions	600,000
Total deferred inflows of resources for OPEB	$ 1,550,000

For the year ended June 30, 2020, the Authority recognized OPEB expense of $(317,666).

Deferred outflows of resources related to Authority OPEB contributions subsequent to the measurement date totaling $42,266 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources for OPEB will be recognized in pension expense as follows:

2021	$ (379,000)
2022	(379,000)
2023	(367,000)
2024	(287,000)
2025	(103,000)
Thereafter	(1,000)
	$ (1,516,000)

Actuarial Methods and Assumptions

The following methods and assumptions were used in the June 30, 2019 actuarial valuation. These methods and assumptions were applied to all periods included in the measurement period:

Actuarial cost method	Entry age normal level percent of pay
Amortization method	Level percent of payroll, 30-year open amortization (fresh start each year)
Investment rate of return	5.00%
Projected salary increases	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
Mortality rate	Projected RP-2000 Mortality Tables (using projection scale AA) adjusted for actual plan experiences and future improvement
Healthcare trend increases:	
Initial rate for medical benefits	5.9% for medicare and 6.0% for non-medicare
Ultimate rate for medical benefits	4.1% for both medicare and non-medicare
Year ultimate trend rate reached	2075

The Commonwealth's SERS performs experience studies periodically to determine reasonable and appropriate economic and demographic assumptions for valuing the defined benefit pension plan. The inflation assumption selected by the SERS Board during an April 2017 meeting are also used for the retiree health benefit valuation.

One significant assumption where the recommendation of the experience study is not applicable to this retiree health benefit valuation is the discount rate. Since REHP has insufficient assets to meet future year's projected benefit payments, as prescribed by GASB Statements Nos. 74 and 75, the discount rate was based on the 20-year Bond Buyer GO Index municipal bond rate as of the measurement date. The discount rate was 3.50% as of June 30, 2019 and 3.87% as of June 30, 2018.

Medicare Part D subsidy payments are not reflected under GASB Statement No. 45 (predecessor statement to GASB No. 75) which is consistent with GASB technical bulletin 2006-1.

The long-term expected rate of return on OPEB 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic equity	47.00%	6.60%
International equity	20.00%	8.60%
Fixed income	25.00%	3.00%
Real estate	8.00%	6.90%
Cash and cash equivalents	0.00%	1.00%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50% as of June 30, 2019 and 3.87% as of June 30, 2018. This single discount rate was based on the 20-year Bond Buyer GO Index municipal bond rate as of the measurement date. Since REHP had insufficient assets to meet future year's projected benefit payments, the municipal bond rate was applied to all periods of the projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the single discount rate for each measurement period assumed that employer contributions will be made based on the current funding policy for future years.

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net OPEB liability calculated using the discount rate of 3.50% as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current rate.

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Authority's proportionate share of the net OPEB liability	$ 1,218,000	$ 1,074,000	$ 953,000

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

The following presents the Authority's proportionate share of the net OPEB liability calculated using the healthcare cost trend rate of 6.0%, grading down to 4.1%, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.0% grading down to 3.1%) or 1-percentage-point higher (7.0% grading down to 5.1%) than the current rate.

	1% Decrease (5.0%, grading down to 3.1%)	Current Trend Rate (6.0%, grading down to 4.1%)	1% Increase (7.0 %, grading down to 5.1%)
Authority's proportionate share of the net OPEB liability	$ 933,000	$ 1,074,000	$ 1,247,000

OPEB Plan Fiduciary Net Position

Detailed information about REHP's fiduciary net position is included in the Commonwealth's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019.

11. Board-Designated Net Position

The Board-designated net position is as follows:

Revolving Loan Fund

The Board-designated net position in the Revolving Loan Fund is $20 million. The Revolving Loan Fund makes loans to schools for construction, renovation, and equipment purchases. Interest earned in the Revolving Loan Fund is transferred quarterly to the Administrative Fund and is used to fund the general operations of the Authority.

12. Conduit Debt Obligations

As discussed in Note 1, the following 77 non-recourse bond issues and leases with an aggregate principal of $2,572,910,624 were outstanding at June 30, 2020:

School	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Community College of Allegheny County, Revenue Bonds, Series of 2020	2039	$ 18,920,000	$ 18,920,000
Westmoreland County Community College, Revenue Bonds, Series of 2020	2029	6,170,000	6,170,000
Community College of Allegheny County, Revenue Bonds, Series A & B of 2019	2025	9,640,000	9,640,000
Butler County Community College, Revenue Bonds, Series A & B of 2019	2037	6,375,000	6,020,000
The School District of Philadelphia, Lease Revenue Bonds, Series A & B of 2019 (Federally Taxable)	2032	188,290,000	186,550,000
Community College of Philadelphia, Revenue Bonds, Series A of 2019	2039	9,155,000	8,875,000
Butler County Community College, Revenue Bonds, Series A of 2018	2029	6,375,000	5,900,000
Community College of Allegheny County, Revenue Bonds, Series of 2018	2037	20,000,000	18,595,000
Community College of Philadelphia, Revenue Bonds, Series of 2018	2038	24,155,000	19,705,000
Clearfield County Career And Technology Center, Revenue Bonds, Series of 2017	2025	4,615,000	3,580,000
Chester Upland School District, Federally Taxable Revenue Bonds (Qualified Zone Academy Bonds), Series of 2017	2030	7,500,000	7,485,000
Lehigh Career and Technical Institute, Lease Revenue Bonds, Series A & B of 2017	2040	45,865,000	42,015,000
Delaware County Community College, Revenue Bonds, Series of 2017	2036	9,650,000	8,660,000
Chester Upland School District, Revenue Bonds, Series A (Federally Taxable) & B of 2016	2030	25,130,000	25,115,000
The School District of Philadelphia, Lease Revenue Bonds, Series A of 2016	2036	570,010,000	547,070,000
Community College of Allegheny County, Revenue Bonds, Series of 2016	2027	9,250,000	7,035,000
The School District of the City of Harrisburg, Revenue Bonds, Series A & B (Federally Taxable) of 2016	2033	128,680,000	128,665,000
Westmoreland County Community College, Revenue Bonds, Series A & B of 2016	2035	46,705,000	39,070,000
Community College of Philadelphia, Revenue Bonds, Series of 2015	2028	52,075,000	41,155,000
Montgomery County Community College, Revenue Bonds, Series of 2015	2035	51,640,000	43,755,000
Colonial Intermediate Unit No. 20, Lease Revenue Bonds, Series of 2015	2025	11,040,000	8,150,000
Community College of Allegheny County, Revenue Bonds, Series of 2015	2035	4,000,000	3,230,000
Upper Bucks County Area Vocational Technical School, Lease Revenue Bonds, Series of 2015	2025	2,933,000	1,340,000
Delaware County Community College, Revenue Bonds, Series of 2015	2032	40,395,000	35,540,000
School District of Philadelphia, Lease Revenue Bonds, Series 2015A	2026	80,000,000	54,735,000
North Montco Technical Career Center, Lease Revenue Bonds, Series of 2015	2030	8,815,000	6,605,000
Harrisburg Area Community College, Revenue Bonds, Series of 2015	2030	19,965,000	14,305,000
Dauphin County Technical School, Lease Revenue Bonds, Series of 2015	2030	19,405,000	15,915,000
Delaware County Community College, Revenue Bonds, Series of 2014	2034	14,410,000	11,755,000
Central Pennsylvania Institute of Science and Technology, Revenue Bonds, Series A & AA of 2014	2027	6,305,000	3,670,000
Venango County Area Vocational-Technical School, Lease Revenue Bonds, Series of 2014	2023	2,632,000	1,170,000
School District of the City of Harrisburg, Revenue Bonds, Series B-1, B-2, and C of 2014	2034	77,245,000	27,565,000
School District of the City of Harrisburg, Revenue Bonds, Series A of 2014	2020	23,880,000	1,545,000
Harrisburg Area Community College, Revenue Bonds, Series of 2014	2027	22,510,000	13,380,000
Upper Bucks County Technical School, Lease Revenue Bonds, Series of 2014	2043	17,765,000	15,925,000
Chester Upland School District, Revenue Bonds, Series of 2014	2023	7,155,000	4,050,000
Northampton County Area Community College, Revenue Bonds, Series A & B of 2014	2034	42,720,000	28,710,000
Montgomery County Intermediate Unit, Revenue Bonds, Series of 2013	2034	5,342,784	3,867,662
Montgomery County Community College, Revenue Bonds, Series of 2013	2038	51,605,000	36,675,000
Wilkes-Barre Area Career and Technical Center, Revenue Bonds, Series of 2013	2034	8,710,000	5,805,000
Central Montgomery County Area Vocational Technical School, Revenue Bonds, Series of 2013	2024	13,060,000	5,735,000
Lehigh Carbon Community College, Revenue Bonds, Series A & B of 2013	2033	5,290,000	2,645,000
Delaware County Community College, Revenue Bonds, Series of 2013	2023	2,400,000	720,000
Harrisburg Area Community College, Revenue Bonds, Series of 2013	2021	8,185,000	1,150,000
Community College of Philadelphia, Revenue Bonds, Series A & B of 2013	2020	4,975,092	322,284
Crawford County Career and Technical Center, Lease Revenue Bonds, Series of 2013	2039	11,950,000	10,640,000
School District of Philadelphia, Lease Revenue Bonds, Series of 2012	2032	264,995,000	25,440,000
Harrisburg Area Community College, Revenue Bonds, Series of 2012	2032	14,860,000	10,675,000
Jefferson County-Dubois Area Vocational-Technical School, Revenue Bonds, Series of 2012	2029	11,425,000	6,910,000
Community College of Allegheny County, Revenue Bonds, Series of 2012	2034	40,000,000	34,870,000
Westmoreland County Community College, Revenue Bonds, Series A & B of 2012	2031	21,875,000	12,975,000

(Continued)

School	Final Maturity	Indebtedness Issued	Indebtedness Outstanding	
Mon Valley Career & Technology Center, General Obligation Secured Bonds, Series of 2012	2026	$ 8,020,000	$ 4,445,000	
Indiana County Technology Center, Revenue Bonds, Series of 2012	2024	3,810,000	1,670,000	
Delaware County Community College, Revenue Bonds, Series of 2011	2021	2,000,000	332,299	
Harrisburg Area Community College, Revenue Bonds, Series of 2011	2031	51,010,000	34,805,000	
Federally Taxable Revenue Bonds (Qualified Zone Academy Bonds), Series D of 2011	2029	24,716,000	24,716,000	
Federally Taxable Revenue Bonds (Qualified School Construction Bonds), Series C of 2011	2029	185,436,000	185,436,000	
Butler County Community College, Revenue Bonds, Series A & B of 2011	2029	13,635,000	695,000	
Franklin County Career and Technology Center, Revenue Bonds, Series of 2011	2039	14,090,000	11,240,000	
Chester Upland School District, Revenue Bonds, Series A, B, C & D of 2011	2025	55,115,000	34,855,000	
Federally Taxable Revenue Bonds (Qualified Zone Academy Bonds), Series B of 2011	2026	40,308,000	40,308,000	
Federally Taxable Revenue Bonds (Qualified School Construction Bonds), Series A of 2011	2026	31,000,000	31,000,000	
Northampton County Area Community College, Revenue Bonds, Series of 2011	2031	70,585,000	46,275,000	
Federally Taxable Revenue Bonds (Qualified Zone Academy Bonds), Series C of 2010	2028	22,942,000	22,942,000	
Federally Taxable Revenue Bonds (Qualified School Construction Bonds), Series B of 2010	2028	57,473,000	57,473,000	
Federally Taxable Revenue Bonds (Qualified School Construction Bonds), Series A of 2010	2027	325,526,000	325,132,000	
Northern Westmoreland Career & Technology Center, Lease Purchase Financing, Series of 2010	2025	2,074,500	909,497	
South Park School District, Revenue Bonds, Series A of 2009	2030	9,850,000	9,685,000	
Bedford County Technical Center, Lease Revenue Bonds, Series of 2008	2023	1,705,000	450,000	
North Allegheny School District, Revenue Bonds, Series of 2008	2021	18,145,000	2,975,000	
Clarion County Career Center, Revenue Bonds, Series of 2008	2021	2,295,000	280,000	
School District of Philadelphia, Lease Revenue Bonds, Series A & B of 2006	2036	862,695,000	83,365,000	
Corry Area School District, Revenue Bonds, Series of 2006	2025	21,758,678	6,551,475	*
Delaware County Community College, Revenue Bonds, Series of 2005	2020	11,800,000	1,055,000	
Wattsburg Area School District, Revenue Bonds, Series of 2004	2031	14,069,133	16,292,778	*
School District of Philadelphia, Lease Revenue Bonds, Series of 2003	2033	588,140,000	43,505,000	
Butler County Community College, Revenue Bonds, Series G of 2000	2031	4,121,861	6,517,629	*
			$ 2,572,910,624	

* – Accreted bonds

A summary of changes in conduit debt outstanding for the year ended June 30, 2020 is presented below:

Conduit debt, July 1, 2019	$ 2,637,538,992
Additions:	
Revenue bonds issued	229,395,000
Accretion of interest	1,519,625
Reductions:	
Principal retirements	(94,872,993)
Refunding of principal	(200,670,000)
Conduit debt, June 30, 2020	$ 2,572,910,624

REQUIRED SUPPLEMENTARY INFORMATION

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE
COLLECTIVE NET PENSION LIABILITY

COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES'
RETIREMENT SYSTEM PLAN

YEAR ENDED JUNE 30, 2020

	2019 *	2018	2017	2016	2015	2014
Authority's proportion of the collective net pension liability	0.01147850%	0.01065802%	0.01297674%	0.01222824%	0.01163241%	0.01184779%
Authority's proportionate share of the collective net pension liability	$ 2,086,561	$ 2,220,174	$ 2,243,900	$ 2,355,199	$ 2,115,218	$ 1,760,275
Authority's covered payroll	$ 715,149	$ 623,622	$ 746,811	$ 703,669	$ 689,113	$ 685,477
Authority's proportionate share of the collective net pension liability as a percentage of its covered payroll	291.8%	356.0%	300.5%	334.7%	306.9%	256.8%
Plan fiduciary net position as a percentage of the total pension liability	63.1%	56.4%	63.0%	57.8%	58.9%	64.8%

* The amount presented for this fiscal year was determined as of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

See accompanying notes to required supplementary information - pension information.

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

SCHEDULE OF AUTHORITY'S PENSION CONTRIBUTIONS

COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM PLAN

YEAR ENDED JUNE 30, 2020

	2019 *	2018	2017	2016	2015	2014
Contractually required contribution	$ 218,278	$ 248,407	$ 240,602	$ 193,165	$ 155,720	$ 127,020
Contributions in relation to the contractually required contribution	241,670	222,271	260,719	218,844	174,149	139,541
Contribution deficiency (excess)	$ (23,392)	$ 26,136	$ (20,117)	$ (25,679)	$ (18,429)	$ (12,521)
Authority's covered payroll	$ 692,215	$ 642,756	$ 757,246	$ 726,061	$ 699,542	$ 693,021
Contributions as a percentage of covered payroll	34.9%	34.6%	34.4%	30.1%	24.9%	20.1%

* The amount presented for this fiscal year was determined as of the calendar year-end that occurred within the fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

See accompanying notes to required supplementary information - pension information.

1. Changes of Assumptions

The actuarial valuation uses assumptions regarding future rates of investment return (discount rate) and rates of retirement, withdrawal, death, and disability among State Employees' Retirement Board (SERS) members and their beneficiaries. The current set of assumptions used in the December 31, 2019 actuarial valuation was adopted by the SERS Board based upon actual experience of SERS during the years 2011 through 2015. As a result of the review undertaken during June of 2019, the SERS Board approved a reduction in the annual discount rate assumption from 7.25% to 7.125%. This change became effective with the December 31, 2019 actuarial valuation. SERS will continue to closely monitor these assumptions and will recommend changing them if conditions warrant such change.

2. Factors and Trends Used in the Actuarial Valuation for Pension Benefits

The actuarially determined contributions are calculated as the Authority's percentage of the total of (1) the employer normal cost percentage and (2) the net amortization of the unfunded liability, but not less than any applicable minimum contribution as prescribed by the Pennsylvania State Employees' Retirement Code. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

Valuation date	December 31, 2019
Actuarial cost method	Entry age
Amortization method	Straight-line amortization of difference between projected and actual earnings on pension plan investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits
Investment rate of return	7.125% net of expense, including inflation

Projected salary increases	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan experiences and future improvement

The following was updated in the December 31, 2019 actuarial valuation: investment rate of return decreased from 7.25% for December 31, 2018 to 7.125% for December 31, 2019.

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE
COLLECTIVE OPEB LIABILITY

COMMONWEALTH OF PENNSYLVANIA
RETIRED EMPLOYEES HEALTH PROGRAM

YEAR ENDED JUNE 30, 2020

	2019 *	2018	2017
Authority's proportion of the collective net OPEB liability	0.010311%	0.011852%	0.014196%
Authority's proportionate share of the collective net OPEB liability	$ 1,074,000	$ 1,740,000	$ 2,847,000
Authority's covered payroll	$ 608,000	$ 771,000	$ 739,000
Authority's proportionate share of the collective net OPEB liability as a percentage of its covered payroll	176.6%	225.7%	385.3%
Plan fiduciary net position as a percentage of the total OPEB liability	3.8%	2.2%	1.4%

* The amount presented for this fiscal year was determined as of the prior fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

See accompanying notes to required supplementary information - OPEB information.

STATE PUBLIC SCHOOL BUILDING AUTHORITY

(A Component Unit of the Commonwealth of Pennsylvania)

SCHEDULE OF AUTHORITY'S OPEB CONTRIBUTIONS

COMMONWEALTH OF PENNSYLVANIA
RETIRED EMPLOYEES HEALTH PROGRAM

YEAR ENDED JUNE 30, 2020

	2019 *	2018	2017
Contractually required contribution	$ 62,000	$ 59,000	$ 106,000
Contributions in relation to the contractually required contribution	58,000	71,000	94,000
Contribution deficiency (excess)	$ 4,000	$ (12,000)	$ 12,000
Authority's covered payroll	$ 608,000	$ 771,000	$ 739,000
Contributions as a percentage of covered payroll	9.5%	9.2%	12.7%

* The amount presented for this fiscal year was determined as of the prior fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years for which information is available.

See accompanying notes to required supplementary information - OPEB information.

1. Changes of Assumptions

Since REHP has insufficient assets to meet future year's projected benefit payments, as prescribed by GASB Nos. 74 and 75, the discount rate will be based on the 20-year Bond Buyer GO Index municipal bond rate as of the measurement date. The Commonwealth elected to determine the discount rate using Bond Buyer 20-Bond General Obligation Index. The discount rate was 3.50% as of June 30, 2019 and 3.87% as of June 30, 2018.

2. Factors and Trends Used in the Actuarial Valuation for OPEB Benefits

The actuarially determined contributions are calculated as the Authority's percentage of the total of (1) the employer normal cost percentage and (2) the net amortization of the unfunded liability, but not less than any applicable minimum contribution as prescribed by the Pennsylvania State Employees' Retirement Code. The following actuarial methods and assumptions were used to determine contribution rates reported in the pension required supplementary schedules:

Actuarial cost method	Entry age normal level percent of pay
Amortization method	Level percent of payroll, 30-year open amortization (fresh start each year)
Investment rate of return	5.00%
Projected salary increases	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
Mortality rate	Projected RP-2000 Mortality Tables (using projection scale AA) adjusted for actual plan experiences and future improvement
Healthcare trend increases:	
Initial rate for medical benefits	5.9% for medicare and 6.0% for non-medicare
Ultimate rate for medical benefits	4.1% for both medicare and non-medicare
Year ultimate trend rate reached	2075

The following was updated in the June 30, 2019 actuarial valuation: the initial rate for medical benefits changed from 5.9% for both Medicare and 6.2% for non-Medicare for June 30, 2018 to 5.9% for Medicare and 6.0% for non-Medicare for June 30, 2019.