



The State University  
of New York

2019 ANNUAL

# FINANCIAL REPORT





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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 respective financial position of the business-type activities of the State University of New York as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended, and the financial position of the aggregate discretely presented component units of the State University of New York as of June 30, 2019, and the respective changes in net assets thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

***Emphasis of Matter – Financial Presentation of the University***

As discussed in note 1, the financial statements of the University are intended to present the financial position, the changes in financial position, the changes in net assets, and, where applicable, cash flows of only that portion of the State of New York that is attributable to the transactions of the University and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the State of New York as of June 30, 2019 or 2018, the changes in its financial position and, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

***Report on Summarized Comparative Information***

We have previously audited the University's 2018 financial statements and, based on our audit and the reports of the other auditors, we expressed unmodified audit opinions on those audited financial statements in our report dated November 26, 2018. In our opinion, based on our audit and the reports of the other auditors, the summarized comparative information related to the aggregate discretely presented component units presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters – Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5 to 11 and the required supplementary information on pages 54 to 60 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 management's discussion and analysis and 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.



**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

November 7, 2019

# Management's Discussion and Analysis

(Unaudited)

Management's discussion and analysis (MD&A) provides a broad overview of the State University of New York's (State University) financial condition as of June 30, 2019 and 2018, the results of its operations for the years then ended, and significant changes from the previous years. Management has prepared the financial statements and related note disclosures along with this MD&A. The MD&A should be read in conjunction with the audited financial statements and related notes of the State University, which directly follow the MD&A.

For financial reporting purposes, the State University's reporting entity consists of all sectors of the State University including the university centers, health science centers (including hospitals), colleges of arts and sciences, colleges of technology and agriculture, specialized colleges, statutory colleges (located at the campuses of Cornell and Alfred Universities), and central services, but excluding community colleges. The financial statements also include the financial activity of The Research Foundation for The State University of New York (Research Foundation), which administers the sponsored program activity of the State University; the State University Construction Fund (Construction Fund), which administers the capital program of the State University; and the auxiliary services corporations, foundations, and student housing corporations located on its campuses.

The auxiliary services corporations, foundations, and student housing corporations meet the criteria for component units under the Governmental Accounting Standards Board (GASB) accounting and financial reporting requirements for inclusion in the State University's financial statements. For financial statement presentation purposes, these component units are not included in the reported amounts of the State University, but the combined totals of these component units are discretely presented on pages 16 and 17 of the State University's financial statements, in accordance with display requirements prescribed by the Financial Accounting Standards Board (FASB) for not-for-profit organizations.

The focus of the MD&A is on the State University financial information contained in the balance sheets, the statements of revenues, expenses, and changes in net position, and the statements of cash flows, which generally exclude the auxiliary services corporations, foundations, and student housing corporations.

## Overview of the Financial Statements

The financial statements of the State University have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the GASB.

The financial statement presentation consists of comparative balance sheets, statements of revenues, expenses, and changes in net position, statements of cash flows, and accompanying notes for the June 30, 2019 and 2018 fiscal years. These statements provide information on the financial position of the State University and the financial activity and results of its operations during the years presented. A description of these statements follows:

The *Balance Sheets* present information on all of the State University's assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State University is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Position* present information showing the change in the State University's net position during each fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in these statements include items that will result in cash received or disbursed in future fiscal periods.

The *Statements of Cash Flows* provide information on the major sources and uses of cash during the year. The cash flow statements portray net cash provided by or used in operating, investing, capital, and noncapital financing activities.

## Financial Highlights

The State University's net position of \$(10.84) billion is comprised of \$21.44 billion in total assets and deferred outflows of resources, less \$32.29 billion in total liabilities and deferred inflows of resources. The net position increased \$14 million in 2019 as a result of this year's operations. The State University's total revenues increased \$413 million and total expenses increased \$324 million in 2019 compared to 2018. The growth in revenues is primarily due to increases in hospital revenues of \$170 million, State appropriation revenue of \$144 million, net tuition and fee revenue of \$49 million, and private grants and contracts of \$41 million. Expense growth was driven by an overall increase in operating expenses of \$483 million, or 4% compared to the prior year, mainly due to increases of \$251 million in hospital expenses and \$77 million in instruction expenses. This increase was offset by a decrease of \$159 million in nonoperating expenses primarily due to a \$166 million transfer to the State in the prior year for the non-federal share of Medicaid Disproportionate Share Hospital (DSH) matching funds.

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**Management's Discussion and Analysis**  
*(Unaudited)*

**Balance Sheets**

The balance sheets present the financial position of the State University at the end of its fiscal years. The State University's net position was \$(10.84) billion and \$(10.86) billion at June 30, 2019 and 2018, respectively, and experienced an increase of \$14 million in 2019, and a decrease of \$75 million in 2018. The State University's total assets and deferred outflows of resources increased \$542 million and \$1.75 billion in 2019 and 2018, respectively. Total liabilities and deferred inflows of resources during 2019 and 2018 increased \$528 million and \$1.82 billion, respectively. The following table reflects the financial position at June 30, 2019, 2018, and 2017 (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 4,929,749	4,361,225	3,789,995
Capital assets, net	13,371,618	12,848,335	12,458,133
Other noncurrent assets	2,522,252	3,207,380	2,338,237
Deferred outflows of resources	620,013	484,563	567,291
Total assets and deferred outflows of resources	<u>21,443,632</u>	<u>20,901,503</u>	<u>19,153,656</u>
Current liabilities	2,981,446	3,333,929	3,210,280
Noncurrent liabilities	27,024,047	26,050,662	25,524,388
Deferred inflows of resources	2,280,300	2,373,562	1,200,905
Total liabilities and deferred inflows of resources	<u>32,285,793</u>	<u>31,758,153</u>	<u>29,935,573</u>
Net investment in capital assets	1,162,357	1,038,833	1,126,096
Restricted - nonexpendable	524,574	498,348	466,739
Restricted - expendable	435,421	433,512	388,883
Unrestricted	<u>(12,964,513)</u>	<u>(12,827,343)</u>	<u>(12,763,635)</u>
Total net position	<u>\$ (10,842,161)</u>	<u>(10,856,650)</u>	<u>(10,781,917)</u>

*Current Assets*

Current assets at June 30, 2019 increased \$569 million compared to the previous year. In general, current assets are those assets that are available to satisfy current liabilities (i.e., those that will be paid within one year). Current assets

at June 30, 2019 and 2018 consist primarily of cash and cash equivalents of \$2.62 billion and \$2.42 billion and receivables of \$1.29 billion and \$1.14 billion, respectively. The increase in current assets during 2019 is primarily due to increases of \$198 million in cash and cash equivalents, \$177 million in deposits with bond trustees, and \$153 million in receivables.

*Current Liabilities*

Current liabilities decreased \$352 million compared to the previous year. Current liabilities at June 30, 2019 and 2018 consist principally of accounts payable and accrued expenses of \$1.32 billion and \$1.79 billion, the current portion of long-term debt and long-term liabilities of \$694 million and \$717 million, and unearned revenue of \$749 million and \$576 million, respectively. The decrease of \$352 million in current liabilities during 2019 is primarily due to a decrease of \$528 million in liabilities owed to the State for project costs funded by the State in advance. This decrease was offset by an increase of \$173 million in unearned revenue.

*Capital Assets, net*

The State University's capital assets are substantially comprised of State-operated campus educational, residence, and hospital facilities. Personal Income Tax (PIT) revenue bonds support the majority of the funding for construction and critical maintenance projects on State University facilities.

During the 2019 and 2018 fiscal years, capital assets (net of depreciation) increased \$523 million and \$390 million, respectively. The majority of the increase occurred at the State University campuses due to the completion of new building construction, renovations, and rehabilitation totaling \$967 million and \$1.30 billion for the 2019 and 2018 fiscal years, respectively. Equipment additions during 2019 and 2018 of \$257 million and \$198 million, respectively, also contributed to the increase.

A summary of capital assets, by major classification, and related accumulated depreciation for the 2019, 2018, and 2017 fiscal years is as follows (in thousands):

# Management's Discussion and Analysis

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 779,385	741,844	689,587
Infrastructure and land improvements	1,467,683	1,329,006	1,245,684
Buildings	15,080,830	14,182,163	12,969,695
Equipment, library books and other	3,373,321	3,199,238	3,121,639
Construction in progress	1,334,922	1,539,148	2,163,764
Total capital assets	<u>22,036,141</u>	<u>20,991,399</u>	<u>20,190,369</u>
Less accumulated depreciation:			
Infrastructure and land improvements	667,102	620,032	582,994
Buildings	5,340,958	4,969,421	4,642,879
Equipment, library books and other	2,656,463	2,553,611	2,506,363
Total accumulated depreciation	<u>8,664,523</u>	<u>8,143,064</u>	<u>7,732,236</u>
Capital assets, net	<u>\$ 13,371,618</u>	<u>12,848,335</u>	<u>12,458,133</u>

Significant projects completed and capitalized during the 2019 fiscal year included construction of the Medical and Research Translation Building and a new residence hall at Stony Brook University, a new residence hall at the College at Brockport, a new School of Pharmacy at Binghamton University and a new athletics field house at the University at Buffalo. Other significant projects included renovations to MacKenzie Commons residence hall at Alfred State College, renovations to Bishop Hall at Buffalo State College, renovations to the campus-wide electrical infrastructure and HVAC controls at Stony Brook University, site renovations at the College at New Paltz and improvements to Animal Safety Lab at Stony Brook University.

### Other Noncurrent Assets

Other noncurrent assets decreased \$685 million compared to the previous year. Noncurrent assets at June 30, 2019 and 2018 include long-term investments of \$1.08 billion and \$1.03 billion, noncurrent portion of receivables of \$855 million and \$825 million, deposits with trustees of \$331 million and \$1.05 billion, restricted cash of \$139 million and \$137 million, and other noncurrent assets of \$118 million and \$159 million, respectively.

### Noncurrent Liabilities

Noncurrent liabilities at June 30, 2019 and 2018 of \$27.02 billion and \$26.05 billion, respectively, are largely

comprised of debt on State University facilities, other long-term liabilities accrued for postemployment and post-retirement benefits, and litigation reserves. The State University capital funding levels and bonding authority are subject to operating and capital appropriations of the State. Funding for capital construction and rehabilitation of educational and residence hall facilities of the State University is provided principally through the issuance of bonds by the Dormitory Authority of the State of New York (DASNY). The debt service for the educational facilities is paid by, or provided through a direct appropriation from, the State. The debt service on residence hall bonds is funded primarily from room rents.

A summary of noncurrent liabilities at June 30, 2019, 2018, and 2017 is as follows (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Educational facilities	\$ 8,978,511	8,854,257	7,774,668
Unamortized bond premium - educational facilities	797,235	805,522	618,048
Residence hall facilities	345,995	367,930	619,945
Unamortized bond premium - residence hall facilities	35,232	37,040	55,634
Postemployment and post-retirement	12,824,130	12,518,211	13,056,346
Litigation	761,741	710,035	656,836
Collateralized borrowings	1,461,758	1,372,250	1,019,399
Pension	522,216	303,426	709,440
Other obligations	1,297,229	1,081,991	1,014,072
Total noncurrent liabilities	<u>\$ 27,024,047</u>	<u>26,050,662</u>	<u>25,524,388</u>

During the year, Sales Tax Revenue Bonds were issued with a par amount of \$369 million at a premium of \$34 million for the purpose of financing capital construction and major rehabilitation for educational facilities. PIT bonds were also issued with a par amount of \$31 million at a premium of \$4 million in order to refund \$34 million of the State University's existing educational facilities obligations. There was no new debt issued during the year for the residence hall facilities.

The State University's credit ratings for PIT bonds were downgraded from AAA to AA+ in 2019 by Standard & Poor's. The educational and residence hall bonds were unchanged in the 2019 and 2018 fiscal years. The credit ratings at June 30, 2019 are as follows:

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	PIT Bonds	Educational Facilities	Residence Halls
Moody's Investors Service	Aa1	Aa2	Aa2
Standard & Poor's	AA+	AA	AA-
Fitch	AA+	AA	AA-

The long-term portion of postemployment and post-retirement benefit obligations as reported under GASB Statement No. 75 increased \$306 million in 2019 and decreased \$538 million in 2018 primarily due to changes in the discount rate. The State, on behalf of the State University, provides health insurance coverage for eligible retired State University employees and their qualifying dependents as part of the New York State Health Insurance Program (NYSHIP). The State University, as a participant in the plan, recognizes these other postemployment benefits (OPEB) on an accrual basis. The State University's OPEB plan is financed annually on a pay-as-you-go basis. There are no assets set aside to fund the plan.

The Research Foundation sponsors a separate defined benefit OPEB plan and has established a Voluntary Employee Benefit Association (VEBA) trust. Legal title to all the assets in the trust is vested for the benefit of the participants. Contributions are made by the Research Foundation pursuant to a funding policy established by its board of directors.

The long-term portion of pension liabilities increased \$219 million in 2019 and decreased \$406 million in 2018, respectively, mainly due to changes in expected earnings on pension plan investments and other actuarial changes.

The State University has recorded a long-term litigation liability and a corresponding appropriation receivable of \$762 million and \$710 million at June 30, 2019 and 2018, respectively (almost entirely related to hospitals and clinics) for unfavorable judgments, both anticipated and awarded but not yet paid.

In March 2013, the State enacted legislation to authorize the State University to assign to DASNY all of the State University's rights, title and interest in dormitory facilities revenues derived from payments made by students and others for use and occupancy of certain dormitory facilities. The legislation authorized DASNY to issue State University of New York Dormitory Facilities Revenue Bonds payable from and secured by the dormitory facilities revenues assigned to it by the State University. These bonds are special obligations of DASNY payable solely from the dormitory facilities revenues collected by the State University as agent for DASNY. The outstanding obligations under these bonds is reported as collateralized borrowing in the State University's financial statements. The credit ratings

assigned to these bonds in 2019 were as follows: Moody's (Aa3), S&P (A+), and Fitch (A+). These ratings were unchanged in 2019 and 2018.

**Statements of Revenues, Expenses, and Changes in Net Position**

The statements of revenues, expenses, and changes in net position present the State University's results of operations, as well as nonoperating activities. Revenues, expenses, and changes in net position for the 2019, 2018 and 2017 fiscal years are summarized as follows (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 7,446,839	7,180,950	6,516,170
Nonoperating revenues	4,654,680	4,500,523	4,314,963
Other revenues	81,356	88,639	145,309
Total revenues	<u>12,182,875</u>	<u>11,770,112</u>	<u>10,976,442</u>
Operating expenses	11,614,887	11,132,115	10,657,806
Nonoperating expenses	553,499	712,730	474,884
Total expenses	<u>12,168,386</u>	<u>11,844,845</u>	<u>11,132,690</u>
Change in net position	<u>\$ 14,489</u>	<u>(74,733)</u>	<u>(156,248)</u>

Total operating revenues of the State University increased \$266 million in 2019 and \$665 million in 2018. Nonoperating and other revenues, which include State appropriations, increased \$147 million in 2019 and \$129 million in 2018. Total expenses for 2019 and 2018 increased \$324 million and \$712 million, respectively.

*Revenue Overview*

<b>Revenues (in thousands):</b>			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Tuition and fees, net	\$ 1,712,322	1,663,538	1,671,367
Hospitals and clinics	3,425,004	3,255,196	2,722,639
Grants and contracts	1,332,643	1,286,692	1,202,469
Auxiliary enterprises	729,160	714,847	694,007
Other operating	247,710	260,677	225,688
Operating revenues	<u>7,446,839</u>	<u>7,180,950</u>	<u>6,516,170</u>
State appropriations	3,708,124	3,564,190	3,288,473
Federal and State nonoperating grants	688,154	669,433	574,947
Other nonoperating	339,758	355,539	596,852
Nonoperating and other revenues	<u>4,736,036</u>	<u>4,589,162</u>	<u>4,460,272</u>
Total revenues	<u>\$ 12,182,875</u>	<u>11,770,112</u>	<u>10,976,442</u>

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*Tuition and Fees, Net*

Tuition and fee revenue, net of scholarship allowances, increased \$49 million and \$8 million in 2019 and 2018, respectively. Gross tuition and fees increased \$83 million in 2019. This increase was offset by an increase in scholarship allowances of \$34 million. These increases were mainly driven by a tuition rate increase for professional and nonresident tuition rates in 2019 and 2018 and also a \$200 tuition rate increase for resident undergraduates in 2019. Annual average full-time equivalent students, including undergraduate and graduate, were approximately 197,400, 198,400, and 196,600 for the fiscal years ended June 30, 2019, 2018, and 2017, respectively.

*Hospitals and Clinics*

The State University has three hospitals (each with academic medical centers) – the State University Hospitals at Brooklyn (UHB), Stony Brook, and Upstate Medical.

Hospital and clinic revenue increased \$170 million in 2019 due to an increase in net patient revenues of \$223 million due to volume and rate increases. This increase was offset by a \$53 million decrease in Medicaid Disproportionate Share Hospital (DSH) program revenue. Hospital and clinic revenue increased \$533 million in 2018 mainly due to an increase in net patient revenues of \$381 million due to volume and rate increases, including a \$168 million increase due to the affiliation agreement with Southampton Hospital. DSH revenue also increased \$152 million.

*Grants and Contracts*

Grants and contracts revenue increased \$46 million in 2019 driven by increases in private grants and contracts of

\$41 million, federal grants of \$2 million, and state and local grants of \$2 million.

*Auxiliary Enterprises*

The State University's auxiliary enterprise activity is comprised of sales and services for residence halls, food services, intercollegiate athletics, student health services, parking, and other activities. The residence halls are operated and managed by the State University and its campuses.

Auxiliary enterprise sales and services revenue increased \$14 million and \$21 million for fiscal years 2019 and 2018, respectively. These increases were largely due to modest increases in room and board rates.

The residence hall operations and capital programs are financially self-sufficient. Each campus is responsible for the operation of its residence halls program including setting room rates and covering operating, maintenance, capital and debt service costs. Any excess funds generated by residence halls operating activities are separately maintained for improvements and maintenance of the residence halls. Revenue producing occupancy at the residence halls was 67,990 for the fall of 2018, a decrease of 1221 students compared to the previous year. The overall utilization rate for the fall of 2018 was reported at 96 percent.

*State Appropriations*

The State University's single largest source of revenues are State appropriations, which for financial reporting purposes are classified as nonoperating revenues. State appropriations totaled \$3.71 billion and \$3.56 billion and represented approximately 30 percent of total revenues for both fiscal years 2019 and 2018. State support (both direct support for operations and indirect support for fringe benefits, debt service, and litigation) for State University campus operations, statutory colleges, and hospitals and clinics increased \$144 million in 2019 and \$276 million in 2018, compared to the prior year. In 2019, indirect State support for fringe benefits and litigation increased \$178 million and \$13 million respectively, and debt service decreased \$48 million, compared to the previous year. State support for operating expenses increased \$1 million.

*Federal and State Nonoperating Grants*

Major scholarships and grants revenue includes the federal Pell Program revenue of \$328 million and \$320 million during fiscal years 2019 and 2018, respectively, and the State Tuition Assistance and Excelsior Programs of \$263 million and \$253 million during fiscal years 2019 and 2018,

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respectively. Beginning in fiscal year 2018 the State University received funding from the new Excelsior Scholarship Program, which provides tuition-free college to families making up to \$125,000 a year phased in over three years.

*Other Nonoperating Revenues*

Other nonoperating revenues decreased \$16 million in 2019 and \$241 million in 2018. The fluctuation in nonoperating revenues in fiscal year 2018 was primarily due to a \$184 million gain related to the Research Foundation OPEB plan in 2017. The Research Foundation amended their OPEB plan which lowered their OPEB liability and resulted in a gain in 2017.

*Expense Overview*

**Expenses (in thousands):**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Instruction	\$ 2,675,621	2,598,574	2,599,491
Research	707,372	685,738	660,346
Public service	323,769	326,487	310,312
Support services	2,858,718	2,821,628	2,727,104
Scholarships and fellowships	306,580	263,895	236,728
Hospitals and clinics	3,416,823	3,165,556	2,859,555
Auxiliary enterprises	664,872	638,778	656,066
Depreciation and amortization	661,132	631,459	608,204
Other nonoperating	553,499	712,730	474,884
<b>Total expenses</b>	<b>\$ 12,168,386</b>	<b>11,844,845</b>	<b>11,132,690</b>

Support services, which include expenses for academic support, student services, institutional support, operation and maintenance of plant and other operating expenses, increased \$37 million between fiscal years 2019 and 2018. This increase was mainly due to increases of \$51 million in fringe benefit and OPEB expenses and \$25 million in personal service costs. These increases were offset by decreases of \$26 million for costs associated with issuing new debt and \$13 million in other than personal service costs.

In the State University's financial statements, scholarships used to satisfy student tuition and fees (residence hall, food service, etc.) are reported as an allowance (offset) to the respective revenue classification up to the amount of the student charges. The amount reported as expense represents amounts provided to the student in excess of State University charges.

Expenses at the State University's hospitals and clinics increased \$251 million in 2019 and \$306 million in 2018. The increase during 2019 is mainly due to increases of \$161 million in supplies and contractual service expenses, \$78 million in personal service costs, and \$12 million in fringe benefit and OPEB expenses.

Depreciation and amortization expense recognized in fiscal years 2019 and 2018 totaled \$661 million and \$631 million, respectively. Other nonoperating expenses were \$553 million and \$713 million for the years ended June 30, 2019 and 2018, respectively. The decrease in nonoperating expenses in 2019 was due to a \$166 million transfer made to the State for DSH in the prior year.

**Economic Factors That Will Affect the Future**

The State University is one of the largest public universities in the nation, with headcount enrollment of approximately 223,400 for fall 2019, on twenty nine State-operated campuses and five statutory colleges. Full-time equivalent (FTE) enrollment, excluding community colleges, for the fiscal year ended June 30, 2019 is approximately 197,400, a decrease of 1,000 FTE compared to June 30, 2018.

The State University's student population is directly influenced by State demographics, as the majority of students attending the State University are New York residents. During the 2018 fiscal year, legislation was passed enacting the Excelsior Scholarship Program to provide tuition-free college at New York's public colleges and universities to families making up to \$125,000 a year phased in over three years.

**2019 Expenses (in thousands)**



During the 2019 fiscal year, instruction expenses increased \$77 million predominately from increases of \$68 million in fringe benefit and OPEB expenses. The State fringe benefit rate increased from 61.48 percent in 2018 to 63.89 percent in 2019.

# Management's Discussion and Analysis

*(Unaudited)*

New York State appropriations remain the largest single source of revenues. The State University's continued operational viability is substantially dependent upon a consistent and proportionate level of ongoing State support. For the most recent fiscal year, State appropriations totaled \$3.71 billion which represented 30 percent of the total revenues of the State University. State appropriations consisted of direct support (\$1.12 billion), fringe benefits for State University employees (\$1.88 billion), debt service on educational facilities (\$628 million), and litigation support (\$80 million). Debt service on educational facilities is paid by the State in an amount sufficient to cover annual debt service requirements; pursuant to annual statutory provisions, each of the State University's three teaching hospitals must reimburse the State for their share of debt service costs to finance their capital projects.

The State University depends on the State to provide appropriations in support of its capital program. While the increased level of support planned for the Educational Facilities Program (\$550 million planned annually) will provide much needed funding to address the significant needs of over 1,800 aging academic buildings and the State University's vast infrastructure, the \$550 million planned for each of the next four years will be subject to annual appropriation by the Executive and the Legislature. In addition, the planned level of new support, as well as prior year unspent appropriations totaling \$2.30 billion, must be accommodated within significantly reduced annual spending limits established in the 2019-20 Enacted State Five-Year Capital Program and Financing Plan. Managing the disbursements associated with this level of appropriation will require careful monitoring and accurate predicting of project disbursements to ensure minimal disruption to the capital program.

The State University hospitals, which are all part of larger State University Academic Health Centers at Brooklyn, Stony Brook and Upstate Medical, serve large numbers of patients who are uninsured, under-insured or covered by Medicare and Medicaid programs. As a result, the Hospital's continued viability is directly linked to appropriate levels of funding from Medicare, Medicaid and the Medicaid DSH Programs.

The New York State Department of Health has proposed limits on funds it will contribute towards DSH funding for the State's public hospitals. The cuts being discussed are material in nature and would adversely impact the Hospital's revenue stream and income if enacted. The Affordable Care Act and renewed health care reform efforts at the Federal level also pose threats to future DSH funding. At this time, however, the outcome of these deliberations is uncertain.

With the pressure to reduce the federal budget deficit, it is also anticipated that both the federal and state governments will be under pressure to reduce their overall spending in future years. These spending reductions could result in significant cuts to the hospitals' Medicare and Medicaid rates and the State's support for costs of State sponsorship, having a negative impact on overall revenue.

## Balance Sheets

*June 30, 2019 and 2018*

*In thousands*

<u>Assets and Deferred Outflows of Resources</u>	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and cash equivalents	\$ 2,620,379	2,422,419
Deposits with bond trustees	499,715	322,371
Short-term investments	419,250	388,252
Accounts, notes, and loans receivable, net	853,243	723,296
Appropriations receivable	171,632	167,240
Grants receivable	265,925	247,430
Other assets	99,605	90,217
Total current assets	<u>4,929,749</u>	<u>4,361,225</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	139,497	137,295
Deposits with bond trustees	331,179	1,052,209
Accounts, notes, and loans receivable, net	91,777	113,172
Appropriations receivable	763,183	711,620
Long-term investments	1,078,935	1,034,380
Other noncurrent assets	117,681	158,704
Capital assets, net	<u>13,371,618</u>	<u>12,848,335</u>
Total noncurrent assets	<u>15,893,870</u>	<u>16,055,715</u>
<b>Total assets</b>	<b><u>20,823,619</u></b>	<b><u>20,416,940</u></b>
Deferred outflows of resources	620,013	484,563
<b>Total assets and deferred outflows of resources</b>	<b><u>\$ 21,443,632</u></b>	<b><u>20,901,503</u></b>
 <u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current Liabilities:		
Accounts payable and accrued liabilities	1,315,958	1,785,817
Unearned revenue	748,553	575,561
Long-term debt - current portion	378,626	415,594
Long-term liabilities - current portion	315,251	301,205
Other liabilities	223,058	255,752
Total current liabilities	<u>2,981,446</u>	<u>3,333,929</u>
Noncurrent Liabilities:		
Long-term debt	10,698,019	10,570,470
Long-term liabilities	15,872,285	15,202,865
Refundable government loan funds	139,052	137,767
Other noncurrent liabilities	314,691	139,560
Total noncurrent liabilities	<u>27,024,047</u>	<u>26,050,662</u>
<b>Total liabilities</b>	<b><u>30,005,493</u></b>	<b><u>29,384,591</u></b>
Deferred inflows of resources	2,280,300	2,373,562
<b>Total liabilities and deferred inflows of resources</b>	<b><u>32,285,793</u></b>	<b><u>31,758,153</u></b>
Net Position:		
Net investment in capital assets	1,162,357	1,038,833
Restricted - nonexpendable:		
Instruction and departmental research	270,329	256,614
Scholarships and fellowships	125,394	121,871
General operations and other	128,851	119,863
Restricted - expendable:		
Instruction and departmental research	144,772	149,491
Scholarships and fellowships	70,541	72,564
General operations and other	220,108	211,457
Unrestricted	<u>(12,964,513)</u>	<u>(12,827,343)</u>
<b>Total net position</b>	<b><u>(10,842,161)</u></b>	<b><u>(10,856,650)</u></b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b><u>\$ 21,443,632</u></b>	<b><u>20,901,503</u></b>

*See accompanying notes to the financial statements.*

## 2019 ANNUAL FINANCIAL REPORT

## Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2019 and 2018

In thousands

	<u>2019</u>	<u>2018</u>
<b>Operating revenues:</b>		
Tuition and fees	\$ 2,435,560	2,352,266
Less: scholarship allowances	(723,238)	(688,728)
Net tuition and fees	<u>1,712,322</u>	<u>1,663,538</u>
Federal grants and contracts	685,220	682,721
State and local grants and contracts	182,590	180,354
Private grants and contracts	464,833	423,617
Hospitals and clinics	3,425,004	3,255,196
Sales and services of auxiliary enterprises:		
Residence halls, net	495,061	487,562
Food service and other, net	234,099	227,285
Other sources	<u>247,710</u>	<u>260,677</u>
<b>Total operating revenues</b>	<b><u>7,446,839</u></b>	<b><u>7,180,950</u></b>
<b>Operating expenses:</b>		
Instruction	2,675,621	2,598,574
Research	707,372	685,738
Public service	323,769	326,487
Academic support	601,884	574,418
Student services	402,374	393,564
Institutional support	1,138,600	1,091,684
Operation and maintenance of plant	696,888	715,509
Scholarships and fellowships	306,580	263,895
Hospitals and clinics	3,416,823	3,165,556
Auxiliary enterprises:		
Residence halls	386,034	368,539
Food service and other	278,838	270,239
Depreciation and amortization expense	661,132	631,459
Other operating expenses	<u>18,972</u>	<u>46,453</u>
<b>Total operating expenses</b>	<b><u>11,614,887</u></b>	<b><u>11,132,115</u></b>
<b>Operating loss</b>	<b><u>(4,168,048)</u></b>	<b><u>(3,951,165)</u></b>
<b>Nonoperating revenues (expenses):</b>		
State appropriations	3,708,124	3,564,190
Federal and State nonoperating grants	688,154	669,433
Investment income, net	136,718	91,030
Net realized and unrealized gains	16,898	54,817
Gifts	104,786	121,053
Interest expense on capital related debt	(517,256)	(510,336)
Loss on disposal of plant assets	(27,970)	(14,752)
Other nonoperating expenses, net	<u>(8,273)</u>	<u>(21,810)</u>
<b>Net nonoperating revenues</b>	<b><u>4,101,181</u></b>	<b><u>3,953,625</u></b>
<b>(Loss) income before other revenues, gains and transfers</b>	<b><u>(66,867)</u></b>	<b><u>2,460</u></b>
Capital appropriations	25,377	26,170
Capital gifts and grants	30,838	36,995
Additions to permanent endowments	25,141	25,474
Transfers to State	<u>—</u>	<u>(165,832)</u>
<b>Increase (decrease) in net position</b>	<b><u>14,489</u></b>	<b><u>(74,733)</u></b>
<b>Net position at the beginning of year</b>	<b><u>(10,856,650)</u></b>	<b><u>(10,781,917)</u></b>
<b>Net position at the end of year</b>	<b><u>\$ (10,842,161)</u></b>	<b><u>(10,856,650)</u></b>

See accompanying notes to the financial statements.

## Statements of Cash Flows

*For the Years Ended June 30, 2019 and 2018*

*In thousands*

	2019	2018
<b>Cash flows from operating activities:</b>		
Tuition and fees	\$ 1,712,897	1,664,163
Grants and contracts:		
Federal	672,267	679,819
State and local	356,882	302,887
Private	439,425	454,139
Hospitals and clinics	3,076,724	3,250,540
Personal service payments	(4,747,804)	(4,477,636)
Other than personal service payments	(2,866,762)	(2,758,164)
Payments for fringe benefits	(620,740)	(622,301)
Payments for scholarships and fellowships	(307,906)	(260,237)
Loans issued to students	(3,329)	(21,975)
Collection of loans to students	24,328	26,340
Auxiliary enterprise charges:		
Residence halls	508,238	475,471
Food service and other	230,279	218,871
Other receipts	242,505	181,629
<b>Net cash used by operating activities</b>	<b>(1,282,996)</b>	<b>(886,454)</b>
<b>Cash flows from noncapital financing activities:</b>		
State appropriations:		
Operations	1,133,425	1,117,508
Debt service	813,421	590,314
Federal and State nonoperating grants	693,770	663,874
Private gifts and grants	106,918	119,393
Proceeds from short-term loans	71,874	106,597
Repayment of short-term loans	(85,854)	(103,522)
Direct loan receipts	1,111,892	1,154,171
Direct loan disbursements	(1,111,892)	(1,154,171)
Other receipts (payments)	104,686	(151,619)
<b>Net cash provided by noncapital financing activities</b>	<b>2,838,240</b>	<b>2,342,545</b>
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from capital debt	698,010	2,552,220
Capital appropriations	23,533	23,371
Capital grants and gifts received	31,596	35,134
Proceeds from sale of capital assets	3,512	10,426
Purchases of capital assets	(363,300)	(186,782)
Payments to contractors	(805,533)	(882,225)
Principal paid on capital debt and leases	(453,420)	(1,162,491)
Interest paid on capital debt and leases	(567,654)	(515,477)
Capital funds paid to State	(546,341)	(39,402)
Deposits with bond trustees	544,316	(815,340)
<b>Net cash used by capital and related financing activities</b>	<b>(1,435,281)</b>	<b>(980,566)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	415,667	332,953
Interest, dividends, and realized gains on investments	134,506	100,402
Purchases of investments	(469,974)	(526,069)
<b>Net cash provided (used) by investing activities</b>	<b>80,199</b>	<b>(92,714)</b>
<b>Net change in cash</b>	<b>200,162</b>	<b>382,811</b>
<b>Cash - beginning of year</b>	<b>2,559,714</b>	<b>2,176,903</b>
<b>Cash - end of year</b>	<b>\$ 2,759,876</b>	<b>2,559,714</b>
<b>End of year cash comprised of:</b>		
<b>Cash and cash equivalents</b>	<b>2,620,379</b>	<b>2,422,419</b>
<b>Restricted cash and cash equivalents</b>	<b>139,497</b>	<b>137,295</b>
<b>Total cash and cash equivalents</b>	<b>\$ 2,759,876</b>	<b>2,559,714</b>

## Statements of Cash Flows (continued)

*For the Years Ended June 30, 2019 and 2018*

*In thousands*

	<b>2019</b>	<b>2018</b>
<b>Reconciliation of net operating loss to net cash used by operating activities:</b>		
Operating loss	\$ (4,168,048)	(3,951,165)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	661,132	631,459
State appropriations for fringe benefits and litigation	1,884,766	1,709,906
Change in assets and liabilities:		
Receivables, net	(126,463)	(79,709)
Other assets	(141,656)	89,938
Accounts payable and accrued liabilities	37,531	287,764
Unearned revenue	157,852	17,045
Other liabilities	411,890	408,308
<b>Net cash used by operating activities</b>	<b><u><u>\$ (1,282,996)</u></u></b>	<b><u><u>(886,454)</u></u></b>
 <b>Supplemental disclosures for noncash transactions:</b>		
Noncash gifts	<u><u>\$ 2,401</u></u>	<u><u>2,462</u></u>
Unrealized gains on investments	<u><u>\$ 18,315</u></u>	<u><u>39,899</u></u>
Assets from Southampton Hospital affiliation	<u><u>\$ —</u></u>	<u><u>83,975</u></u>
Liabilities from Southampton Hospital affiliation	<u><u>\$ —</u></u>	<u><u>80,135</u></u>

*See accompanying notes to the financial statements.*

## State University of New York Component Units Balance Sheet

*June 30, 2019 (with comparative financial information as of June 30, 2018)  
In thousands*

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 245,777	253,581
Accounts and notes receivable, net	61,939	46,579
Pledges receivable, net	202,474	190,595
Investments	2,705,107	2,546,692
Assets held for others	35,841	38,772
Other assets	79,514	95,215
Capital assets, net	535,291	528,488
<b>Total assets</b>	<b>\$ 3,865,943</b>	<b>3,699,922</b>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued liabilities	89,921	64,578
Deferred revenue	19,076	23,873
Deposits held in custody for others	169,380	180,731
Other liabilities	90,120	82,803
Long-term debt, net	351,780	366,029
<b>Total liabilities</b>	<b>720,277</b>	<b>718,014</b>
Net Assets:		
Net assets without donor restrictions:		
Board designated for:		
Fixed Assets	222,970	199,174
Campus programs	88,147	119,411
Investments	280,414	255,815
General operations and other	124,120	99,610
Undesignated	217,693	200,391
Total net assets without donor restrictions	933,344	874,401
Net assets with donor restrictions:		
Scholarships and fellowships	664,345	633,640
Campus programs	1,033,817	993,762
Research, general operations and other	514,160	480,105
Total net assets with donor restrictions	2,212,322	2,107,507
<b>Total net assets</b>	<b>3,145,666</b>	<b>2,981,908</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,865,943</b>	<b>3,699,922</b>

*See accompanying notes to the financial statements.*

## State University of New York Component Units Statement of Activities

*For the Year Ended June 30, 2019 (with summarized financial information for the year ended June 30, 2018)  
In thousands*

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
<b>Revenues:</b>				
Contributions, gifts and grants	\$ 38,778	183,996	222,774	211,389
Food service	328,043	—	328,043	321,471
Other auxiliary services	76,718	—	76,718	75,990
Rental income	75,880	282	76,162	72,595
Sales and services	123,507	1,135	124,642	13,196
Program income and special events	41,272	1,832	43,104	44,533
Investment income, net	39,491	88,223	127,714	213,227
Change in value of split interest agreements	2,033	1,186	3,219	3,743
Other sources	6,974	3,670	10,644	12,535
Net assets released from restrictions	175,723	(175,723)	—	—
<b>Total revenues</b>	<b>908,419</b>	<b>104,601</b>	<b>1,013,020</b>	<b>968,679</b>
<b>Expenses:</b>				
Food service	274,660	—	274,660	270,427
Other auxiliary services	64,105	—	64,105	63,734
Program expenses	233,060	—	233,060	119,404
Support to the State University:				
Scholarships and fellowships	64,868	—	64,868	62,278
Other	65,149	—	65,149	66,571
Real estate expenses	56,672	—	56,672	50,329
Management and general	54,493	—	54,493	58,508
Fundraising	32,230	—	32,230	27,477
Other expenses	4,025	—	4,025	16,548
<b>Total expenses</b>	<b>849,262</b>	<b>—</b>	<b>849,262</b>	<b>735,276</b>
<b>Change in net assets</b>	<b>59,157</b>	<b>104,601</b>	<b>163,758</b>	<b>233,403</b>
Net asset reclassification	(214)	214	—	—
<b>Total change in net assets</b>	<b>58,943</b>	<b>104,815</b>	<b>163,758</b>	<b>233,403</b>
Net assets at the beginning of year	874,401	2,107,507	2,981,908	2,748,505
Net assets at the end of year	<b>\$ 933,344</b>	<b>2,212,322</b>	<b>3,145,666</b>	<b>2,981,908</b>

*See accompanying notes to the financial statements.*

## Notes to Financial Statements

*June 30, 2019 and 2018*

### 1. Summary of Significant Accounting Policies and Basis of Presentation

#### Reporting Entity

For financial reporting purposes, the State University of New York (State University) consists of all sectors of the State University including the university centers, health science centers (including hospitals), colleges of arts and sciences, colleges of technology and agriculture, specialized colleges, statutory colleges (located at the campuses of Cornell and Alfred Universities), central services and other affiliated entities determined to be includable in the State University's financial reporting entity.

Inclusion in the reporting entity is based primarily on the notion of financial accountability, defined in terms of a primary government (State University) that is financially accountable for the organizations that make up its legal entity. Separate legal entities meeting the criteria for inclusion in the blended totals of the State University reporting entity are described below. The State University is included in the financial statements of the State of New York (State) as an enterprise fund, as the State is the primary government of the State University.

The Research Foundation for The State University of New York (Research Foundation) is a separate, private, nonprofit educational corporation that administers the majority of the State University's sponsored programs. These programs are for the exclusive benefit of the State University and include research, training, and public service activities of the State-operated campuses supported by sponsored funds other than State appropriations. The Research Foundation provides sponsored programs administration and innovation support services to State University faculty performing research in life sciences and medicine; engineering and technology; physical sciences and energy; social sciences; and computer and information services. The activity of the Research Foundation has been included in these financial statements using GASB measurements and recognition standards. The financial activity was primarily derived from audited financial statements of the Research Foundation for the years ended June 30, 2019 and 2018.

The State University Construction Fund (Construction Fund) is a public benefit corporation that designs, constructs, reconstructs and rehabilitates facilities of the State University pursuant to an approved master plan. Although the Construction Fund is a separate legal entity, it carries out operations which are integrally related to and for the exclusive benefit of the State University and, therefore, the financial activity as of and for each of the Construction Fund's fiscal years ended March 31, 2019 and 2018 is included in the State University's 2019 and 2018 financial statements, respectively.

The State statutory colleges at Cornell University and Alfred University are an integral part of, and are administered by, those universities. The statutory colleges are fiscally dependent on State appropriations through the State University. The financial statement information of the statutory colleges of Cornell University and Alfred University has been included in the accompanying financial statements.

Most of the State University's campuses maintain auxiliary services corporations and some campuses maintain student housing corporations. These corporations are legally separate, nonprofit organizations which, as independent contractors, operate, manage, and promote educationally related services for the benefit of the campus community. All of the State University campuses also maintain foundations, which are legally separate, nonprofit, affiliated organizations that receive and hold economic resources that are significant to, and that are entirely for the benefit of the State University, and are required to be included in the reporting entity using discrete presentation requirements. As a result, the combined totals of the campus-related auxiliary services corporations, student housing corporations and foundations are separately presented as an aggregate component unit on pages 16 and 17 of these financial statements in accordance with display requirements prescribed by the Financial Accounting Standards Board (FASB). All of the financial data for these organizations was derived from each entity's individual audited financial statements, the majority of which have a May 31 or June 30 fiscal year end. The combined totals are also included in the financial statements of the State's discretely presented component unit combining statements.

The operations of certain related but independent organizations, i.e., clinical practice management plans, alumni associations and student associations, do not meet the criteria for inclusion, and are not included in the accompanying financial statements.

# Notes to Financial Statements

June 30, 2019 and 2018

## 1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

The State University administers State financial assistance to the community colleges in connection with its general oversight responsibilities pursuant to New York State Education Law. However, since these community colleges are sponsored by local governmental entities and are included in their financial statements, the community colleges are not considered part of the State University's financial reporting entity and, therefore, are not included in the accompanying financial statements.

The accompanying financial statements of the State University have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as prescribed by the GASB. The State University reports its financial statements as a special purpose government engaged in business-type activities, as defined by the GASB. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The financial statements of the State University consist of classified balance sheets, which separately classify deferred outflows of resources and deferred inflows of resources; statements of revenues, expenses, and changes in net position, which distinguish between operating and nonoperating revenues and expenses; and statements of cash flows, using the direct method of presenting cash flows from operations and other sources.

The State University's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions, i.e., the payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities and include the State University's operating and capital appropriations from the State, federal and State financial aid grants (e.g., Pell and TAP), investment income gains and losses, gifts, and interest expense.

### ***Net Position***

Resources are classified for accounting and financial reporting purposes into the following four net position categories:

#### Net investment in capital assets

Capital assets, net of accumulated depreciation and amortization and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

#### Restricted – nonexpendable

Net position component subject to externally imposed conditions that the State University is required to retain in perpetuity.

#### Restricted – expendable

Net position component whose use is subject to externally imposed conditions that can be fulfilled by the actions of the State University or by the passage of time.

#### Unrestricted component of net position

The unrestricted component of net position includes amounts provided for specific use by the State University's colleges and universities, hospitals and clinics, and separate legal entities included in the State University's reporting entity that are designated for those entities and, therefore, not available for other purposes.

The State University has adopted a policy of generally utilizing restricted – expendable funds, when available, prior to unrestricted funds.

### ***Revenues***

Revenues are recognized in the period earned. State appropriations are recognized when they are made legally available for expenditure. Revenues and expenses arising from nonexchange transactions are recognized when all eligibility requirements, including time requirements, are met. Promises of private donations are recognized at fair value. Net patient service revenue for the hospitals is reported at the estimated net realizable amounts from patients, third party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors.

## Notes to Financial Statements

June 30, 2019 and 2018

### 1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

Tuition and fees and auxiliary sales and service revenues are reported net of scholarship discounts and allowances. Auxiliary sales and service revenue classifications for 2019 and 2018 were reported net of scholarship discount and allowance amounts of \$108.4 million and \$100.7 million for residence halls and \$51.6 million and \$48.9 million for food service and other auxiliary services, respectively.

#### *Cash and Cash Equivalents*

Cash and cash equivalents are defined as current operating assets and include investments with original maturities of less than 90 days, except for cash and cash equivalents held in investment pools, which are included in short-term and long-term investments on the accompanying balance sheets.

#### *Restricted Cash and Cash Equivalents*

Restricted cash and cash equivalents represent unspent funds under various capital financing arrangements, cash held for others, and cash restricted for loan and residence hall programs.

#### *Investments*

Investment income is recorded on the accrual basis, and purchases and sales of investment securities are reflected on a trade date basis. Any net earnings not expended are included as increases in restricted – nonexpendable net position if the terms of the gift require that such earnings be added to the principal of a permanent endowment fund, or as increases in restricted – expendable net position as provided for under the terms of the gift, or as unrestricted. At June 30, 2019 and 2018, the State University had \$292 million and \$295 million available for authorization for expenditure, including \$194 million and \$196 million from restricted funds and \$98 million and \$99 million from unrestricted funds, respectively.

The Investment Committee of the Cornell Board of Trustees establishes the investment policy for Cornell University as a whole, including investments that support the statutory colleges. Distributions from the pool are approved by the Cornell Board of Trustees and are provided for program support independent of the cash yield and appreciation of investments in that year. The Board applies the “prudent person” standard when making its decision whether to appropriate or accumulate endowment funds in compliance with the New York Prudent Management of Institutional Funds Act (NYPMIFA). Investments in the pool are stated at fair value and include limited use of derivative instruments including futures, forward, options and swap contracts designed to manage market exposure and to enhance the total return.

Investments in marketable securities are stated at fair value based upon quoted market prices. Alternative investments are valued using current estimates of fair value obtained from the investment managers in the absence of readily determinable fair values. The estimated fair value of these investments is based on the most recent valuations provided by the external investment managers. Because of the inherent uncertainty of valuation for these investments, the investment managers' estimates may differ from the values that would have been used had a ready market existed.

#### *Capital Assets*

Capital assets are stated at cost, or in the case of gifts, fair value at the date of receipt. Building renovations and additions costing over \$100,000 and equipment items with a unit cost of \$5,000 or more are capitalized. Intangible assets, including internally generated computer software with costs of \$1 million or more are capitalized. Library materials are capitalized and amortized over a ten-year period. Works of art or historical treasures that are held for public exhibition, education, or research in furtherance of public service are capitalized. Capital assets, with the exception of land, construction in progress, and inexhaustible works of art or intangible assets, are depreciated on a straight-line basis over their estimated useful lives, using historical and industry experience, ranging from 2 to 50 years.

#### *Compensated Absences*

Employees accrue annual leave based primarily on the number of years employed up to a maximum rate of 21 days per year up to a maximum total of 40 days.

# Notes to Financial Statements

June 30, 2019 and 2018

## 1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

### *Fringe Benefits*

Employee fringe benefit costs (e.g., health insurance, workers' compensation, and post-retirement benefits) for State University and statutory employees are paid by the State on behalf of the State University (except for the State University hospitals and Research Foundation, which pay their own fringe benefit costs) at a fringe benefit rate determined by the State. The State University records an expense and corresponding State appropriation revenue for fringe benefit costs based on the fringe benefit rate applied to total eligible personal service costs incurred.

### *Deferred Outflows and Deferred Inflows of Resources*

Deferred outflows of resources are defined as a consumption of net assets by a college or university that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets by the college or university that is applicable to a future reporting period. Deferred inflows and deferred outflows of resources include amounts related to changes in the net pension and OPEB liabilities of the State University's cost sharing pension plans and the OPEB plans due to changes between expected and actual claims experience and changes in actuarial assumptions such as the discount rate used to determine the respective liability. Deferred outflows of resources also include losses resulting from refinancing of debt which represents the difference between the reacquisition price and the net carrying amount of the old debt and is amortized over the life of the related debt. The composition of deferred outflows and deferred inflows of resources at June 30, 2019 and 2018 is as follows (in thousands):

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB activities	\$ 244,590	2,041,993	103,965	1,952,089
Pension activities	302,330	201,028	303,620	385,714
Deferred loss on refunding	73,093	—	76,978	—
Other	—	37,279	—	35,759
Total	<u>\$ 620,013</u>	<u>2,280,300</u>	<u>484,563</u>	<u>2,373,562</u>

### *Pensions*

For the cost-sharing multiple employer pension plans the State University participates in, a portion of the Plan's net pension liability (asset), as well as deferred inflows and outflows from pension activities are reflected in the reported amounts on the balance sheet. The State University is considered a participating employer of the New York State and Local Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS), and New York State Teachers' Retirement System (TRS) pension plans. As a result, the State University has recorded a participating proportion of the net pension liability (asset) and related deferrals of the ERS, PFRS, and TRS plans. Also, the State University administers a single-employer defined benefit plan for which the State University reports the entire net pension liability and related deferred inflows and deferred outflows. This plan is frozen and is further described in note 8 to the financial statements. For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to and deductions from the pension plans' fiduciary net position have been determined on the same basis as they are reported by those plans.

### *Postemployment and Post-retirement Benefits*

In addition to providing pension benefits, the State University provides health insurance coverage and survivor benefits for retired employees and their survivors. Postemployment benefits other than pensions are recognized on an actuarially determined basis as employees earn benefits that are expected to be used in the future. Substantially all of the State University employees may become eligible for these benefits if they reach normal retirement age while working for the State University. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing postemployment benefits is shared between the State University and the retired employee. The amounts earned include employee sick leave credits expected to be used to pay for a share of post-retirement health insurance.

## Notes to Financial Statements

June 30, 2019 and 2018

### 1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

#### *Tax Status*

The State University and the Construction Fund are political subdivisions of the State and are, therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations. The Research Foundation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally tax-exempt on related income, pursuant to Section 501(a) of the Code.

#### *Reclassifications*

Certain amounts displayed in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

#### *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. The most significant estimates relate to the actuarial valuations and assumptions that affect the postemployment benefit liabilities, pension obligations and medical malpractice claims. Other significant estimates include the allowance for uncollectible receivables and the valuation of certain investments measured at net asset value. Actual results could differ from those estimates.

### 2. Cash and Cash Equivalents

Cash and cash equivalents and restricted cash represent State University funds held in the State treasury, in the short-term investment pool (STIP), in State bank accounts, unexpended escrow funds for equipment financing, and cash held by affiliated organizations. Cash held in the State treasury beyond immediate need is pooled with other State funds for short-term investment purposes. The pooled balances are limited to legally-stipulated investments which include obligations of, or are guaranteed by, the United States; obligations of the State and its political subdivisions; commercial paper; and repurchase agreements. These investments are reported at cost (which approximates fair value) and are held by the State's agent in its name on behalf of the State University.

The custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the State University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

For campus State bank accounts the State requires that its depository banks pledge collateral or provide a surety bond based on actual and average daily available bank balances. All securities pledged as collateral are held by the State's fiscal agent in its name on behalf of the State University and are valued on a monthly basis.

The New York State Comprehensive Annual Financial Report contains the GASB Statement No. 40 risk disclosures for deposits held in the State treasury. Deposits not held in the State treasury that are not covered by depository insurance and are (a) uncollateralized; (b) collateralized with securities held by a pledging financial institution; or (c) collateralized with securities held by a pledging financial institution's trust department or agency, but not in the State University or affiliates' name at June 30, 2019 and 2018, are as follows (in thousands):

		<u>Category (a)</u>	<u>Category (b)</u>	<u>Category (c)</u>
2019	\$	42,162	121,620	3,282
2018	\$	65,019	95,327	2,725

## Notes to Financial Statements

June 30, 2019 and 2018

### 3. Deposits with Bond Trustees

Deposits with bond trustees primarily represent DASNY bond proceeds needed to finance capital projects, equipment replacement, and debt service reserves. Pursuant to financing agreements with DASNY, bond proceeds, including interest income, are restricted for capital projects or debt service. Also included are non-bond proceeds that have been designated for capital projects and equipment.

The State University's deposits with bond trustees, which include cash and investments, are registered in the State University's name and held by an agent or in trust accounts in the State University's name. Cash and short-term investments held in the State treasury and money market accounts were approximately \$198 million and \$150 million at June 30, 2019 and 2018, respectively.

The market value of investments held and maturity period are displayed in the following table (in thousands):

<b>Fiscal Year 2019</b>					
<b><u>Type of Investments</u></b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Less than 1 year</b>	<b>1-5 years</b>
U.S. Treasuries	\$ 276,089	1,321	274,768	276,089	—
Federal Agencies*	357,096	—	357,096	357,096	—
Total	<u>\$ 633,185</u>	<u>1,321</u>	<u>631,864</u>	<u>633,185</u>	<u>—</u>
<b>Fiscal Year 2018</b>					
<b><u>Type of Investments</u></b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Less than 1 year</b>	<b>1-5 years</b>
U.S. Treasuries	\$ 1,177,471	6,185	1,171,286	1,172,344	5,127
Federal Agencies*	47,195	—	47,195	17,623	29,572
Total	<u>\$ 1,224,666</u>	<u>6,185</u>	<u>1,218,481</u>	<u>1,189,967</u>	<u>34,699</u>

\*Rating on investments are AA / Aaa / AAA

### 4. Investments

Investments of the State University are recorded at fair value. Investments include those held by the statutory colleges at Cornell University and Alfred University (Alfred Ceramics), the Research Foundation, the Construction Fund, and State University campuses.

For financial reporting purposes, assets attributable to the statutory colleges at Cornell University and Alfred University are held in Cornell University's and Alfred University's entire portfolio of investments and are invested in external investment pools. The assets are not managed by, or attributable to, any individual college and the statutory colleges do not have the authority to manage investment assets independently. The fair value of the statutory colleges' investments is primarily based on the unit value of the pools and the number of shares owned in the various investment pools. The table below presents the unit value of each external investment pool, in addition to the fair value (in thousands) of assets attributable to the statutory colleges at June 30.

## Notes to Financial Statements

June 30, 2019 and 2018

### 4. Investments (continued)

	2019		2018	
	Unit Value	Fair Value	Unit Value	Fair Value
Cornell Statutory Colleges:				
Endowments:				
Long-term investment pool	\$ 58.37	972,652	58.27	927,877
Charitable gift annuities master trust units	1.91	9,460	1.81	9,809
Charitable trusts:				
Endowment strategy	57.29	26,591	56.82	25,844
Common trust fund - growth	43.80	6,511	41.96	6,402
Common trust fund - income	12.77	2,533	12.29	2,431
Common trust fund - premier	8.50	612	8.20	591
Pooled life income funds:				
PLIF A	1.38	391	1.34	407
PLIF B	2.65	526	2.56	685
Alfred Ceramics:				
Endowment long-term investment pool	7.41	22,988	7.24	22,237
Total external investment pools		<u>\$ 1,042,264</u>		<u>996,283</u>

The Research Foundation maintains a diverse investment portfolio and follows an investment policy and asset guidelines approved and monitored by its board of directors. The portfolio is mainly comprised of mutual funds, exchange-traded funds and alternative investments of high quality and liquidity. Investments are held with the investment custodian in the Research Foundation's name.

Investments of the Construction Fund are made in accordance with the applicable provisions of the laws of the State and the Construction Fund's investment policy and consist primarily of obligations of the United States government and its agencies. These investments are held by the State's agent in the Construction Fund's name.

Except for investments reported at net asset value (NAV) or its equivalent as a practical expedient to estimate fair value, fair value is measured using three levels:

Level 1: Investments include cash and money market funds, equity and fixed income securities with observable market prices. Fair value is readily determinable based on quoted market prices in active markets for those securities.

Level 2: Investments whose inputs are other than quoted prices in active markets that are observable either directly or indirectly and fair value is determined through the use of models or other valuation methodologies.

Level 3: Investments have significant unobservable inputs. The inputs into the determination of fair value are based on the best information available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for investments measured at fair value:

Mutual funds and exchange traded funds are reported at current quoted fair values as of the balance sheet date.

Investments in limited liability partnerships and corporations represent investments measured at NAV or its equivalent and consist of hedge funds of funds, real estate, domestic and foreign equity funds, fixed income securities and private equity funds in various investment vehicles. These investments, which are not exchange traded, do not have readily determinable fair values. These investments are typically redeemable at NAV under the terms of the investment agreements. Estimates of fair value are made using NAV per share or its equivalent as a practical expedient and are not required to be categorized in the fair value hierarchy.

## Notes to Financial Statements

June 30, 2019 and 2018

### 4. Investments (continued)

External investment pools represent ownership in Cornell University's and Alfred University's long-term investment pools (LTIP) or other split interest agreement pools. The objective of the LTIP investment policy is to maximize total return within a reasonable risk parameter - specifically, to achieve a total return, net of investment expenses, of at least 5% in excess of inflation as measured by a rolling average of the Consumer Price Index.

Private equity fund investments include non-controlling shares or interests in funds where the controlling general partner serves as the investment's manager. Such investments are generally not eligible for redemption from the fund or general partner, but can potentially be sold to third-party buyers in private transactions. It is the intent to hold these investments until the fund has fully distributed all proceeds to the investors. The State University has unfunded commitments to private equity investments as of June 30, 2019 and 2018 of approximately \$22.9 million and \$10.5 million, respectively.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the State University believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a materially different fair value measurement at the reporting dates.

Investment income is reported net of investment fees of approximately \$6 million for both the June 30, 2019 and 2018 fiscal years. The State University did not have any exposure to foreign currency risk for investments held at June 30, 2019 and 2018.

The composition of investments at June 30, 2019 and 2018 is as follows (in thousands):

<b><u>Investments at June 30, 2019</u></b>	<b><u>Total</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Investments by fair value level:				
Cash and money market funds	\$ 124,759	124,759	—	—
U.S. Treasury bills	30,580	30,580	—	—
Municipal bonds	105	—	105	—
Mutual funds - non-equities	44,425	43,814	611	—
U.S. equities	32,867	32,867	—	—
Foreign equities	17,548	17,548	—	—
Real estate	19,322	19,086	—	236
Other	1,550	—	—	1,550
Total investments by fair value level	<u>271,156</u>	<u>268,654</u>	<u>716</u>	<u>1,786</u>
Investments measured at NAV:				
External investment pools	1,042,264			
Global equities	45,702			
Private equity	17,840			
Hedged equities	57,732			
Multi-strategy funds	39,568			
Credit securities	8,206			
Other	15,717			
Total investments measured at NAV	<u>1,227,029</u>			
Total investments	<u>\$ 1,498,185</u>			

**Notes to Financial Statements***June 30, 2019 and 2018***4. Investments (continued)**

2019 redemption disclosures for investments measured at NAV (in thousands):

	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
External investment pools	\$ 1,042,264	Monthly	Two months
Global equities	45,702	Monthly, quarterly, annually	30 to 90 days
Private equity	17,840	N/A	N/A
Hedged equities	57,732	Quarterly	90 days
Multi-strategy funds	39,568	Monthly, Quarterly	45 to 95 days
Credit securities	8,206	Monthly, Quarterly	30 to 45 days
Other	15,717	N/A	N/A
Total investments measured at NAV	<u>\$ 1,227,029</u>		

**Investments at June 30, 2018**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Cash and money market funds	\$ 147,767	147,767	—	—
U.S. Treasury bills	30,541	30,541	—	—
U.S. Treasury notes and bonds	165	165	—	—
Municipal bonds	106	—	106	—
U.S. fixed income	759	756	3	—
Mutual funds - non-equities	44,730	43,839	891	—
U.S. equities	25,077	25,077	—	—
Global equities	15,377	15,377	—	—
Hedged equities	3,374	3,374	—	—
Real estate	13,144	12,922	—	222
Multi-strategy funds	1,105	1,105	—	—
Other	1,343	8	1	1,334
Total investments by fair value level	<u>283,488</u>	<u>280,931</u>	<u>1,001</u>	<u>1,556</u>
Investments measured at NAV:				
External investment pools	996,283			
Global equities	30,116			
Private equity	16,772			
Hedged equities	41,412			
Multi-strategy funds	27,651			
Credit securities	14,761			
Other	12,149			
Total investments measured at NAV	<u>1,139,144</u>			
Total investments	<u>\$ 1,422,632</u>			

## Notes to Financial Statements

June 30, 2019 and 2018

### 4. Investments (continued)

2018 redemption disclosures for investments measured at NAV (in thousands):

	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
External investment pools	\$ 996,283	Monthly	Two months
Global equities	30,116	Monthly, quarterly, annually	30 to 90 days
Private equity	16,772	N/A	N/A
Hedged equities	41,412	Monthly, Quarterly	30 to 90 days
Multi-strategy funds	27,651	Monthly, Quarterly	45 to 95 days
Credit securities	14,761	Monthly, Quarterly	30 to 45 days
Other	12,149	N/A	N/A
Total investments measured at NAV	<u>\$ 1,139,144</u>		

At June 30, 2019 and 2018, the State University had non-equity investments and maturities as summarized in Table A.

Table A (in thousands)

Investment Type	Fiscal Year 2019					Fiscal Year 2018				
	Market Value	Less than 1 yr	1-5 yrs	6-10 yrs	More than 10 yrs	Market Value	Less than 1 yr	1-5 yrs	6-10 yrs	More than 10 yrs
U.S. Treasury bills	\$ 30,580	30,580	—	—	—	30,541	30,541	—	—	—
U.S. Treasury notes/bonds	—	—	—	—	—	165	4	54	72	35
Municipal bonds	105	—	105	—	—	106	—	106	—	—
Fixed income	—	—	—	—	—	888	41	373	316	158
Mutual funds - non-equities	44,425	—	—	43,886	539	44,730	—	—	43,839	891
Total investments	<u>\$ 75,110</u>	<u>30,580</u>	<u>105</u>	<u>43,886</u>	<u>539</u>	<u>76,430</u>	<u>30,586</u>	<u>533</u>	<u>44,227</u>	<u>1,084</u>

Credit quality ratings of the State University's investments in debt securities, as described by Moody's, S&P, and Fitch as of June 30, 2019 and 2018, are summarized in Table B.

Table B (in thousands)

Credit Rating	AAA	AA	A	BBB	BB	B	Not Rated
<u>Investment Type - 2019</u>							
Municipal bonds	\$ —	—	—	—	—	—	105
Mutual funds - non-equities*	43,886	—	450	89	—	—	—
Total	<u>\$ 43,886</u>	<u>—</u>	<u>450</u>	<u>89</u>	<u>—</u>	<u>—</u>	<u>105</u>
<u>Investment Type - 2018</u>							
Municipal bonds	\$ —	—	—	—	—	—	106
Fixed income	580	38	108	140	2	—	20
Mutual funds - non-equities*	43,909	—	662	159	—	—	—
Total	<u>\$ 44,489</u>	<u>38</u>	<u>770</u>	<u>299</u>	<u>2</u>	<u>—</u>	<u>126</u>

\*based on average credit quality of holdings

**Notes to Financial Statements***June 30, 2019 and 2018***5. Accounts, Notes, and Loans Receivable**

At June 30, accounts, notes, and loans receivable are summarized for years 2019 and 2018, as follows (in thousands):

	2019	2018
Tuition and fees	\$ 58,657	57,162
Allowance for uncollectible	(14,073)	(13,153)
Net tuition and fees	<u>44,584</u>	<u>44,009</u>
Room rent	24,209	23,986
Allowance for uncollectible	(5,288)	(4,703)
Net room rent	<u>18,921</u>	<u>19,283</u>
Patient fees, net of contractual allowances	1,079,326	1,047,278
Allowance for uncollectible	(399,890)	(474,695)
Net patient fees	<u>679,436</u>	<u>572,583</u>
Other	107,675	83,471
Allowance for uncollectible	(20,866)	(19,340)
Net other	<u>86,809</u>	<u>64,131</u>
Total accounts and notes receivable	<u>829,750</u>	<u>700,006</u>
Student loans	142,241	163,094
Allowance for uncollectible	(26,971)	(26,632)
Total student loans receivable	<u>115,270</u>	<u>136,462</u>
Total, net	<u>\$ 945,020</u>	<u>836,468</u>

## Notes to Financial Statements

June 30, 2019 and 2018

### 6. Capital Assets

Capital assets, net of accumulated depreciation, totaled \$13.37 billion and \$12.85 billion at fiscal year ends 2019 and 2018, respectively. Capital asset activity for fiscal years 2019 and 2018 is reflected in Table C. In the table, closed projects and retirements represent capital assets retired and assets transferred from construction in progress for projects completed and added to the related capital assets category.

*Table C (in thousands)*

	June 30, 2017	Additions	Closed Projects & Retirements	June 30, 2018	Additions	Closed Projects & Retirements	June 30, 2019
Capital assets:							
Land	\$ 689,587	52,570	313	741,844	37,575	34	779,385
Infrastructure and land improvements	1,245,684	108,116	24,794	1,329,006	170,630	31,953	1,467,683
Buildings	12,969,695	1,297,018	84,550	14,182,163	966,969	68,302	15,080,830
Equipment, library books and other	3,121,639	206,538	128,939	3,199,238	266,245	92,162	3,373,321
Construction in progress	2,163,764	869,693	1,494,309	1,539,148	938,798	1,143,024	1,334,922
Total capital assets	<u>20,190,369</u>	<u>2,533,935</u>	<u>1,732,905</u>	<u>20,991,399</u>	<u>2,380,217</u>	<u>1,335,475</u>	<u>22,036,141</u>
Less: accumulated depreciation:							
Infrastructure and land improvements	582,994	56,988	19,950	620,032	63,082	16,012	667,102
Buildings	4,642,879	395,772	69,230	4,969,421	427,888	56,351	5,340,958
Equipment, library books and other	2,506,363	178,699	131,451	2,553,611	171,084	68,232	2,656,463
Total accumulated depreciation	<u>7,732,236</u>	<u>631,459</u>	<u>220,631</u>	<u>8,143,064</u>	<u>662,054</u>	<u>140,595</u>	<u>8,664,523</u>
Capital assets, net	<u>\$12,458,133</u>	<u>1,902,476</u>	<u>1,512,274</u>	<u>12,848,335</u>	<u>1,718,163</u>	<u>1,194,880</u>	<u>13,371,618</u>

### 7. Long-term Liabilities

The State University has entered into capital leases and other financing agreements with DASNY to finance most of its capital facilities. The State University has also entered into financing arrangements with the New York Power Authority under the statewide energy services program. Equipment purchases are also made through DASNY's Tax-exempt Equipment Leasing Program (TELP), various State sponsored equipment leasing programs, and private financing arrangements. The State University is responsible for lease debt service payments sufficient to cover the interest and principal amounts due under these arrangements.

The Research Foundation maintains unsecured lines of credit, with no fixed maturity date, in the amount of \$65.0 million of which \$17.8 million and \$31.8 million were outstanding as of June 30, 2019 and 2018, respectively. During the year ended June 30, 2019, the borrowing rates ranged between 2.85 percent and 3.68 percent. The terms of the lines include the specification that each draw must be repaid within one year, and that the bank has the right to demand full repayment of these lines of credit at any time. There has been no indication by the bank of its intent to exercise this right.

## Notes to Financial Statements

June 30, 2019 and 2018

## 7. Long-term Liabilities (continued)

Total obligations as of June 30, 2019 and 2018, other than facilities obligations, which are included as of March 31, 2019 and 2018, are summarized in Table D.

Table D (in thousands)

<i>For the 2019 Fiscal Year</i>	July 1, 2018	Additions	Reductions	June 30, 2019	Current Portion
Long-term debt:					
Educational facilities	\$ 9,125,839	400,450	306,027	9,220,262	241,751
Unamortized bond premium - educational facilities	850,253	38,781	46,194	842,840	45,605
Residence hall facilities	393,740	—	25,810	367,930	21,935
Unamortized bond premium - residence hall facilities	38,990	—	1,950	37,040	1,808
Capital lease arrangements	402,184	50,809	60,374	392,619	54,445
Other long-term debt	175,058	53,773	12,877	215,954	13,082
Total long-term debt	<u>10,986,064</u>	<u>543,813</u>	<u>453,232</u>	<u>11,076,645</u>	<u>378,626</u>
Other long-term liabilities:					
Postemployment and post-retirement	12,518,211	668,500	362,581	12,824,130	—
Collateralized borrowing	1,425,886	151,968	54,233	1,523,621	61,863
Litigation	740,583	69,360	17,392	792,551	30,810
Pension	325,734	444,122	224,180	545,676	23,460
Other long-term liabilities	493,656	169,492	161,590	501,558	199,118
Total other long-term liabilities	<u>15,504,070</u>	<u>1,503,442</u>	<u>819,976</u>	<u>16,187,536</u>	<u>315,251</u>
Total long-term liabilities	<u>\$26,490,134</u>	<u>2,047,255</u>	<u>1,273,208</u>	<u>27,264,181</u>	<u>693,877</u>
<hr/>					
<i>For the 2018 Fiscal Year</i>	July 1, 2017	Additions	Reductions	June 30, 2018	Current Portion
Long-term debt:					
Educational facilities	\$ 8,133,040	1,782,612	789,813	9,125,839	271,582
Unamortized bond premium - educational facilities	653,313	249,261	52,321	850,253	44,731
Residence hall facilities	649,780	—	256,040	393,740	25,810
Unamortized bond premium - residence hall facilities	58,033	—	19,043	38,990	1,950
Capital lease arrangements	419,836	48,108	65,760	402,184	58,906
Other long-term debt	78,347	107,505	10,794	175,058	12,615
Total long-term debt	<u>9,992,349</u>	<u>2,187,486</u>	<u>1,193,771</u>	<u>10,986,064</u>	<u>415,594</u>
Other long-term liabilities:					
Postemployment and post-retirement	13,056,346	737,660	1,275,795	12,518,211	—
Collateralized borrowing	1,061,257	408,695	44,066	1,425,886	53,636
Litigation	690,853	63,121	13,391	740,583	30,548
Pension	734,364	225,698	634,328	325,734	22,308
Other long-term liabilities	477,939	177,377	161,660	493,656	194,713
Total other long-term liabilities	<u>16,020,759</u>	<u>1,612,551</u>	<u>2,129,240</u>	<u>15,504,070</u>	<u>301,205</u>
Total long-term liabilities	<u>\$26,013,108</u>	<u>3,800,037</u>	<u>3,323,011</u>	<u>26,490,134</u>	<u>716,799</u>

## Notes to Financial Statements

June 30, 2019 and 2018

### 7. Long-term Liabilities (continued)

#### Educational Facilities

The State University, through DASNY, has entered into financing agreements to finance various educational facilities which have a maximum 30-year life. Athletic facility debt is aggregated with educational facility debt. Debt service is paid by, or from specific appropriations of, the State.

During the year, Sales Tax Revenue Bonds were issued with a par amount of \$369.3 million at a premium of \$34.3 million for the purpose of financing capital construction and major rehabilitation for educational facilities. Personal Income Tax (PIT) bonds were also issued with a par amount of \$31.1 million at a premium of \$4.5 million in order to refund \$34.4 million of the State University's existing educational facilities obligations. The result will produce an estimated savings of \$8.1 million in future cash flow, with an estimated present value gain of \$8.4 million.

In June 2019, PIT bonds were issued with a par amount of \$259.1 million at a premium of \$43.7 million for the purpose of financing capital construction and major rehabilitation for educational facilities. PIT bonds were also issued with a par amount of \$120.6 million at a premium of \$20.1 million in order to refund \$139.2 million of the State University's existing educational facilities obligations.

#### Residence Hall Facilities

The State University has entered into capital lease agreements for residence hall facilities. DASNY bonds for most of the residence hall facilities, and these bonds have a maximum 30-year life and are repaid from room rentals and other residence hall revenues. Upon repayment of the bonds, including interest thereon, and the satisfaction of all other obligations under the lease agreements, DASNY shall convey to the State University all rights, title, and interest in the assets financed by the capital lease agreements. Residence hall facilities revenue realized during the year from facilities for which there are bonds outstanding is pledged as a security for debt service and is assigned to DASNY to the extent required for debt service purposes. Any excess funds pledged to DASNY are available for residence hall capital and operating purposes.

In prior years, the State University defeased various obligations, whereby proceeds of new obligations were placed in an irrevocable trust to provide for all future debt service payments on the defeased obligations. Accordingly, the trust account assets and liabilities for the defeased obligations are not included in the State University's financial statements. As of March 31, 2019, \$92.1 million of outstanding educational facilities obligations and \$234.6 million of residence hall obligations were considered defeased.

Requirements of the long-term debt obligations as of June 30, 2019 are as follows (in thousands):

Fiscal Year(s)	Educational Facilities		Residential Facilities		Other		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 241,751	452,993	21,935	17,517	114,940	31,327	378,626	501,837
2021	264,100	443,048	19,095	16,572	111,043	28,357	394,238	487,977
2022	370,269	430,673	15,885	15,718	101,185	25,596	487,339	471,987
2023	467,344	413,284	7,050	15,146	95,455	23,007	569,849	451,437
2024	432,083	390,493	2,015	14,929	86,021	20,352	520,119	425,774
2025-29	1,970,969	1,611,435	5,135	73,832	397,654	63,671	2,373,758	1,748,938
2030-34	1,519,615	1,182,990	73,835	66,022	206,463	27,393	1,799,913	1,276,405
2035-39	1,706,955	794,629	125,970	40,478	181,908	22,348	2,014,833	857,455
2040-44	1,573,575	361,325	97,010	8,327	112,263	13,354	1,782,848	383,006
2045-49	673,601	61,663	—	—	81,521	5,550	755,122	67,213
Total	<u>\$ 9,220,262</u>	<u>6,142,533</u>	<u>367,930</u>	<u>268,541</u>	<u>1,488,453</u>	<u>260,955</u>	<u>11,076,645</u>	<u>6,672,029</u>
	Interest rates range from 1.7% to 5.63%		Interest rates range from 3.0% to 5.0%		Interest rates range from 1.06% to 8.28%			

## Notes to Financial Statements

June 30, 2019 and 2018

### 7. Long-term Liabilities (continued)

#### *Collateralized Borrowing*

In March 2013, the State enacted legislation amending the Public Authorities Law and Education Law of the State. The amendments, among other things, authorized the State University to assign to DASNY all of the State University's rights, title and interest in dormitory facilities revenues derived from payments made by students and others for use and occupancy of certain dormitory facilities. The amendments further authorize DASNY to issue State University of New York Dormitory Facilities Revenue Bonds payable from and secured by the dormitory facilities revenues assigned to it by the State University. The enacted legislation also created a special fund to be held by the State's Commissioner of Taxation and Finance on behalf of DASNY. All dormitory facilities revenues collected by the State University are required to be deposited in this special fund.

The outstanding obligations under these bonds are reported as collateralized borrowing in the State University's financial statements since these bonds are not payable from any money of the State University or the State and neither the State University nor the State has any obligation to make any payments with respect to the debt service on the bonds. The pledged revenues recognized during the fiscal years ended June 30, 2019 and 2018 amounted to \$587.4 million and \$564.4 million, respectively. There were principal payments of \$47.0 million and \$37.4 million and interest payments of \$60.8 million and \$57.2 million during fiscal years 2019 and 2018, respectively. Total principal and interest outstanding on the bonds at June 30, 2019 were \$1.35 billion and \$697.0 million, respectively, payable through July 1, 2048.

During 2019, bonds with a par amount of \$134.1 million at a premium of \$17.9 million were issued for the purpose of financing capital construction and major rehabilitation for residence hall facilities.

These bonds are special obligations of DASNY payable solely from the dormitory facilities revenues collected by the State University as agent for DASNY.

### 8. Retirement Plans

#### *Retirement Benefits*

The three major defined benefit retirement plans State University employees participate in are ERS, PFRS and TRS. ERS and PFRS are cost-sharing, multiple-employer, defined benefit pension plans administered by the State Comptroller. TRS is a cost-sharing, multiple-employer, defined benefit pension plan separately administered by a ten-member board. The State University reported amounts include the net pension liability (asset) for employees of the State University that participate in ERS, PFRS and TRS pension plans.

Obligations of employers and employees to contribute, and related benefits, are governed by the New York State Retirement and Social Security Law (NYSRSSL) and Education Law and may only be amended by the Legislature with the Governor's approval. These plans offer a wide range of programs and benefits. ERS, PFRS and TRS benefits vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, death and disability benefits, and optional methods of benefit payments. Each plan provides a permanent annual cost-of-living increase to both current and future retired members meeting certain eligibility requirements. Participating employers are required under law to contribute to these plans on an actuarially determined rate. For ERS and PFRS this rate is determined annually by the State Comptroller. The average contribution rate for the fiscal year ended March 31, 2019 for ERS and PFRS was approximately 14.9 percent and 23.5 percent of payroll, respectively. For TRS, this rate is determined by the TRS Board on an annual basis and was 9.8 percent of payroll for the year ended June 30, 2018.

ERS, PFRS and TRS provide retirement benefits as well as death and disability benefits through a range of programs. For those members joining prior to January 1, 2010 benefits generally vest after five years of credited service. For those joining after January 1, 2010 (ERS and TRS) and January 9, 2010 (PFRS) benefits generally vest after 10 years of credited service. The NYRSSL provides that all participating employers in ERS, PFRS and TRS are jointly and severally liable for any actuarial unfunded amounts. Such amounts are collected through annual billings to all participating employers. Employees who joined ERS and TRS after July 27, 1976 and before January 1, 2010 (January 9, 2010 PFRS), and have less than ten years of service or membership are required to contribute 3 percent of their salary. Those joining on or after January 1, 2010 (January 9, 2010 PFRS) and before April 1, 2012 are required to contribute 3.5 percent of their annual salary for their entire working career. Those joining on or after April 1, 2012

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

are required to contribute between 3 percent and 6 percent, dependent upon their salary, for their entire working career. Employee contributions are deducted from their salaries and remitted to ERS, PFRS and TRS.

The State University administers a single-employer defined benefit pension plan, “the Upstate Medical University Retirement Plan for Former Employees of Community General Hospital (CGH)” (Upstate Plan). This plan provides for retirement benefits for former employees of CGH, and can be amended subject to applicable collective bargaining and employment agreements. For those who opted out of this plan, benefit accruals were frozen. No new participants can enter this plan. The State University established a Pension Oversight Committee (Committee) which has the primary fiduciary responsibility and oversight of the Upstate Plan. The Committee is permitted to invest plan assets pursuant to various provisions of State law, including the NYSRSSL.

The Upstate Plan provides retirement, disability, termination and death benefits to plan participants and their beneficiaries. Pension benefits are generally based on the highest five-year average compensation of the final ten years of employment, and years of credited service as outlined in the plan. Covered employees with five or more years of service are entitled to a pension benefit beginning at normal retirement age (65). Participants with less than five years of service are not vested. Participants become fully vested after five years of service. The funding policy is to contribute enough to the plan to satisfy the annual required contributions (ARC) and the employer contributions. Employees do not contribute to the Plan.

For ERS, PFRS, TRS and the Upstate Plan, the long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to the expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance. In addition, for each plan, the projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from participating employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the fiduciary net position for each plan 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each plan. ERS and PFRS used a discount rate of 7.0 percent for both years. TRS used a discount rate of 7.25 percent for both years. The Upstate Plan used a discount rate of 6.5 percent for both years. The total contributions made to the ERS, PFRS, TRS and Upstate Plan during 2019 and 2018 were \$194.4 million and \$200.3 million, \$8.7 million and \$8.0 million, \$12.9 million and \$15.0 million, and \$1.1 million and \$2.0 million, respectively. At June 30, 2019 and 2018, the total net pension liability, included in long-term liabilities, for these plans was \$428.3 million and \$188.4 million, respectively. Additionally, at June 30, 2019 and 2018, there were deferred outflows of resources of \$302.3 million and \$303.6 million, and deferred inflows of resources of \$201.0 million and \$385.7 million, respectively. There was also a pension asset, included in other noncurrent assets, of \$14.7 million and \$6.1 million at June 30, 2019 and 2018, respectively. For the fiscal years ended June 30, 2019 and 2018, the State University recognized pension expense of \$269.2 million and \$225.7 million, respectively.

**ERS and PFRS** – The State University recognized a net pension liability of \$395.3 million and \$175.8 million for its proportionate share of the ERS net pension liability at June 30, 2019 and 2018, respectively. The State University also recognized a net pension liability of \$19.7 million and \$11.2 million for its proportionate share of the PFRS net pension liability at June 30, 2019 and 2018, respectively. The State University’s proportionate share of the net pension liability was determined consistent with the manner in which contributions to the pension plan are determined and was based on the ratio of the State University’s total projected long-term contribution effort to the total ERS and PFRS projected long-term contribution effort from all employers. The net pension liability at June 30, 2019 was measured as of March 31, 2019, and was determined by an actuarial valuation as of April 1, 2018, with update procedures used to roll forward the total pension liability to March 31, 2019. The net pension liability at June 30, 2018 was measured as of March 31, 2018, and was determined by an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The proportionate share of the net pension liability for ERS was 5.58 percent measured at March 31, 2019 compared to 5.45 percent measured at March 31, 2018. The proportionate share of the net pension liability for PFRS was 1.17 percent measured as of March 31, 2019 compared to 1.10 percent measured as of March 31, 2018.

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

For the fiscal years ended June 30, 2019 and 2018, the State University recognized pension expense related to ERS of \$243.3 million and \$200.0 million, respectively. At June 30, 2019 and 2018, the State University reported deferred outflows and deferred inflows of resources related to ERS from the following sources (in thousands):

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 77,849	26,538	62,715	51,825
Changes of assumptions	99,371	—	116,594	—
Net difference between projected and actual earnings on pension plan investments	—	101,465	—	248,723
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,686	42,261	10,682	40,416
Total	<u>\$ 189,906</u>	<u>170,264</u>	<u>189,991</u>	<u>340,964</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS pensions will be recognized in pension expense as follows (in thousands):

Year Ended June 30:

2020	\$	69,836
2021		(86,597)
2022		(13,504)
2023		49,907

For the fiscal years ended June 30, 2019 and 2018, the State University recognized pension expense related to PFRS of \$12.3 million and \$10.2 million, respectively. At June 30, 2019 and 2018, the State University reported deferred outflows and deferred inflows of resources related to PFRS from the following sources (in thousands):

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,785	2,103	4,590	2,963
Changes of assumptions	7,156	—	8,449	—
Net difference between projected and actual earnings on pension plan investments	—	3,945	—	9,152
Changes in proportion and differences between employer contributions and proportionate share of contributions	601	2,604	431	2,398
Total	<u>\$ 12,542</u>	<u>8,652</u>	<u>13,470</u>	<u>14,513</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to PFRS pensions will be recognized in pension expense as follows (in thousands):

Year Ended June 30:

2020	\$	3,360
2021		(1,304)
2022		(437)
2023		1,929
2024		342

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

The actuarial valuation as of April 1, 2018, with update procedures used to roll forward the total pension liability to March 31, 2019, and the actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018, included the following actuarial assumptions:

Assumptions	2019	2018
Actuarial cost method	Entry age normal	Entry age normal
Inflation	2.5 percent	2.5 percent
Salary scale	4.2 percent (ERS), 5.0 percent (PFRS)	3.8 percent (ERS), 4.5 percent (PFRS)
Investment rate of return, including inflation	7 percent compounded annually, net of investment expenses	7 percent compounded annually, net of investment expenses
Cost of living adjustments	1.3 percent annually	1.3 percent annually
Decrement	Developed from each Plan's 2015 experience study for period April 1, 2010 through March 31, 2015	Developed from each Plan's 2015 experience study for period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014	Society of Actuaries Scale MP-2014
Discount rate	7.0 percent	7.0 percent

Best estimates of arithmetic real rates of return for each major asset class included in the ERS and PFRS target asset allocation as of March 31, 2019 and 2018 are as follows:

Asset Class	2019		2018	
	Target Allocation	Long-term expected real rate of return *	Target Allocation	Long-term expected real rate of return *
Domestic equities	36%	4.55%	36%	4.55%
International equities	14	6.35	14	6.35
Private equities	10	7.50	10	7.50
Real estate	10	5.55	10	5.55
Absolute return strategies	2	3.75	2	3.75
Opportunistic portfolio	3	5.68	3	5.68
Real assets	3	5.29	3	5.29
Bonds and mortgages	17	1.31	17	1.31
Cash	1	(0.25)	1	(0.25)
Inflation-indexed bonds	4	1.25	4	1.25
Total	100%		100%	

\*Real rates of return are net of a long-term inflation assumption of 2.5%.

*Sensitivity of the net pension liability (asset) to changes in the discount rate.* The following presents the net pension liability (asset) of the State University, calculated using the discount rate of 7.0 percent as well as what the State University's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) and 1 percentage point higher (8.0%) than the current year rate (in thousands):

	1% Decrease (6.0%)	Current Discount (7.0%)	1% Increase (8.0%)
ERS Net Pension Liability (Asset)	\$ 1,728,463	395,334	(724,589)
PFRS Net Pension Liability (Asset)	\$ 71,178	19,696	(23,298)

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

The ERS and PFRS retirement systems issue a publicly available financial report that includes financial statements and supplementary information and provides detailed information about the pension plan's fiduciary net position. The report may be obtained at [http://www.osc.state.ny.us/retire/about\\_us/financial\\_statements\\_index.php](http://www.osc.state.ny.us/retire/about_us/financial_statements_index.php).

The ERS plan allows participating employers to amortize a portion of their annual pension costs. The amounts amortized will be paid back with interest over 10 years. The State University participates in this program and the total pension payable included in long-term liabilities at June 30, 2019 and 2018 is \$117.4 million and \$137.3 million, respectively.

**TRS** – The State University recognized a net pension asset of \$14.7 million and \$6.1 million for its proportionate share of the TRS net pension asset at June 30, 2019 and 2018, respectively. The State University's proportionate share of the net pension asset was based on the ratio of the State University's actuarially determined employer contribution to the total TRS actuarially determined employer contribution. The net pension asset reported at June 30, 2019 was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension asset to June 30, 2018. The net pension asset reported at June 30, 2018 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension asset to June 30, 2017. The proportionate share of the net pension asset was 0.81% measured at June 30, 2018 and 2017.

For fiscal years ended June 30, 2019 and 2018, the State University recognized pension expense related to TRS of \$10.6 million and \$14.7 million, respectively. At June 30, 2019 and 2018, the State University reported deferred outflows and deferred inflows of resources related to TRS from the following sources (in thousands):

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,962	1,986	5,058	2,397
Changes in assumptions	51,277	—	62,553	—
Net difference between projected and actual earnings on pension plan investments	—	16,283	—	14,479
Changes in proportion and differences between employer contributions and proportionate share of contributions	393	3,722	470	4,396
Employer contributions subsequent to measurement date	30,129	—	27,430	—
Total	<u>\$ 92,761</u>	<u>21,991</u>	<u>95,511</u>	<u>21,272</u>

At June 30, 2019 and 2018, \$30.1 million and \$27.4 million were reported as deferred outflows of resources related to pensions resulting from the State University contributions subsequent to the measurement date that will be recognized as an increase of the net pension asset in the year ended June 30, 2020 and 2019, respectively. The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year Ended June 30:	
2020	\$ 13,922
2021	9,202
2022	272
2023	9,167
2024	6,551
Thereafter	1,527

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

The actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension asset to June 30, 2018, and the actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension asset to June 30, 2017, included the following actuarial assumptions:

Assumptions	2019	2018
Inflation	2.25 percent	2.5 percent
Projected salary increase	Rates differ based on service. They have been calculated based upon recent TRS member experience and range from 1.9 percent to 4.72 percent	Rates differ based on service. They have been calculated based upon recent TRS member experience and range from 1.9 percent to 4.72 percent
Investment rate of return, including inflation	7.25 percent compounded annually, net of expenses, including inflation	7.25 percent compounded annually, net of expenses, including inflation
Cost of living adjustments	1.5 percent compounded annually	1.5 percent compounded annually
Actuarial assumptions	Based on results of an actuarial experience study for the period July 1, 2009 to June 30, 2014	Based on results of an actuarial experience study for the period July 1, 2009 to June 30, 2014
Mortality improvement	Society of Actuaries' Scale MP-2014	Society of Actuaries' Scale MP-2014
Discount rate	7.25 percent	7.25 percent

Best estimates of arithmetic real rates of return for each major asset class included in TRS target asset allocation as of the valuation date of June 30, 2018 and June 30, 2017 for reporting at June 30, 2019 and 2018 were as follows:

Asset Class	2019		2018	
	Target Allocation	Long-Term Expected Real Rate of Return*	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equities	33%	5.8%	35%	5.9%
International equities	16	7.3	18	7.4
Global equities	4	6.7	—	—
Real estate	11	4.9	11	4.3
Private equities	8	8.9	8	9.0
Domestic fixed income securities	16	1.3	16	1.6
Global fixed income securities	2	0.9	2	1.3
Private debt	1	6.8	—	—
Real estate debt	7	2.8	—	—
High-yield fixed income securities	1	3.5	1	3.9
Mortgages	—	—	8	2.8
Short-term	1	0.3	1	0.6
Total	100%		100%	

\*Real rates of return are net of a long-term inflation assumption of 2.3% for 2019 and 2.2% for 2018.

*Sensitivity of the net pension liability (asset) to changes in the discount rate.* The following presents the net pension liability (asset) of the State University, calculated using the discount rate of 7.25% as well as what the State University's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) and 1 percentage point higher (8.25%) than the current year rate (in thousands):

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Net Pension Liability (Asset)	\$ 100,776	(14,669)	(111,379)

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

The TRS retirement system issues a publicly available financial report that includes financial statements and supplementary information and provides detailed information about the pension plan's fiduciary net position. The report may be obtained at: <https://www.nystrs.org/Library/Publications/Annual-Report>.

**Upstate Plan** – At June 30, 2019 and 2018, the State University recognized a net pension liability of \$13.3 million and \$1.5 million, respectively, based on the net pension liability as reported by the plan as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 106,873	105,135
Plan fiduciary net position	93,583	103,681
Net pension liability	<u>\$ 13,290</u>	<u>1,454</u>
Ratio of plan fiduciary net position to total pension liability	87.6%	98.6%

The total pension liability at June 30, 2019 and 2018 was measured as of January 1, 2019 and 2018 and was determined by using an actuarial valuation as of January 1, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, the State University recognized pension expense of \$3.0 million and \$0.7 million related to the Upstate Plan.

At June 30, 2019, the State University reported deferred outflows and deferred inflows of resources related to the Upstate Plan from the following sources (in thousands):

	<u>2019</u>		<u>2018</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 246	—	786	—
Net difference between projected and actual earnings on pension plan investments	4,425	—	2,732	8,677
Changes in assumptions	—	121	—	288
Employer contributions subsequent to measurement date	2,450	—	1,130	—
Total	<u>\$ 7,121</u>	<u>121</u>	<u>4,648</u>	<u>8,965</u>

At June 30, 2019 and 2018, \$2.5 million and \$1.1 million were reported as deferred outflows of resources related to pensions resulting from the State University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2020 and 2019, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year Ended June 30:

2020	\$ 1,612
2021	122
2022	447
2023	2,369

Membership of the Upstate Plan at January 1, 2019 totaled 1,390 members, comprised of 353 active members, 254 inactive vested members, and 783 retirees and beneficiaries currently receiving benefits. Membership of the Upstate Plan at January 1, 2018 totaled 1,413 members, comprised of 378 active members, 272 inactive vested members, and 763 retirees and beneficiaries currently receiving benefits. The actuarial assumptions included in the January 1, 2019 and 2018 measurements included an inflation factor of 3.0 percent, projected salary increases of 3.5 percent and investment rate of return of 6.5 percent. Mortality rates were based on the sex-distinct RP-2014 Mortality Tables for employees and healthy annuitants, adjusted back to 2006 using Scale MP-2014, and then projected with mortality improvements using Scale MP-2018 on a fully generational basis.

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

Best estimates of arithmetic real rates of return for each major asset class included in the Upstate Plan's target asset allocation as of December 31, 2018 and 2017 for reporting at June 30, 2019 and 2018 were as follows:

Asset Class	2019		2018	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
U.S. equities	50%	4.60%	50%	4.60%
Non-U.S. equities	15	4.50	15	4.50
Fixed income	30	0.75	30	0.75
Alternatives (real assets)	5	3.50	5	3.50
	<u>100%</u>		<u>100%</u>	

*Sensitivity of the net pension liability (asset) to changes in the discount rate:* The following presents the net pension liability (asset) calculated using the discount rate of 6.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.5%) or 1 percentage point higher (7.5%) than the current rate (in thousands):

	1% Decrease (5.5%)	Current Discount (6.5%)	1% Increase (7.5%)
Net Pension Liability	\$ 24,490	13,290	3,753

The Upstate Plan issues a stand-alone financial report on a calendar year basis (i.e., December 31) that includes disclosure about the elements of the pension plan's basic financial statements. These financial statements are prepared on the accrual basis of accounting in accordance with GAAP, with investments reported at fair value and benefits recognized when due and payable in accordance with the terms of the Upstate Plan. The pension plan fiduciary net position has been determined on the same basis used by the pension plan. The pension plan financial statements may be requested at [FOIL@upstate.edu](mailto:FOIL@upstate.edu). The Upstate Plan schedule of changes in the net pension liability at June 30, 2019 and 2018 were as follows (in thousands):

	2019	2018
Total pension liability:		
Service cost	\$ 590	640
Interest	6,649	6,594
Difference between expected and actual experience	554	1,769
Changes of assumptions	(273)	(648)
Benefit payments	(5,782)	(9,174)
Net change in total pension liability	1,738	(819)
Total pension liability, beginning	105,135	105,954
Total pension liability, ending (a)	106,873	105,135
Plan fiduciary net position:		
Employer contributions	1,130	2,017
Net investment (loss) income	(5,258)	15,577
Benefit payments	(5,783)	(9,174)
Administrative expenses	(187)	(198)
Net change in fiduciary net position	(10,098)	8,222
Fiduciary net position, beginning	103,681	95,459
Fiduciary net position, ending (b)	93,583	103,681
Net pension liability, ending (a) - (b)	\$ 13,290	1,454

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

**ORP** – State University employees may also participate in an Optional Retirement Program (ORP) under IRS Section 401(a), which is a multiple-employer, defined contribution pension plan administered by separate vendors – TIAA, Fidelity, AIG, and Voya. ORP employer and employee contributions are dictated by State law. The ORP provides benefits through annuity contracts and provides retirement and death benefits to those employees who elected to participate in an ORP. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits generally vest after the completion of one year of service if the employee is retained thereafter. Employer contributions are not remitted to an ORP plan until an employee is fully vested. As such there are no forfeitures reported by these plans if an employee is terminated prior to vesting. Employees who joined an ORP after July 27, 1976, and have less than ten years of service or membership are required to contribute 3 percent of their salary. Those joining on or after April 1, 2012 are required to contribute between 3 percent and 6 percent, dependent upon their salary, for their entire working career. Employer contributions range from 8 percent to 15 percent depending upon when the employee was hired. Employee contributions are deducted from their salaries and remitted on a current basis to the respective ORP. State University employer contributions of \$221.3 million and \$207.6 million and employee contributions of \$30.4 million and \$27.4 million were made during fiscal years 2019 and 2018, respectively.

Each retirement system issues a publicly available financial report that includes financial statements and supplementary information. The ORP financial reports can be obtained by requesting them from their respective corporate offices.

The Research Foundation maintains a separate non-contributory plan through TIAA for substantially all nonstudent employees. Contributions are based on a percentage of earnings and range from 7 percent to 15 percent, depending on date of hire. Employees become fully vested after completing one year of service. Contributions are allocated to individual employee accounts. The payroll for Research Foundation employees covered by TIAA for its fiscal years ended June 30, 2019 and 2018 was \$359.4 million and \$363.5 million, respectively. The Research Foundation contributions were \$30.4 million and \$31.3 million for 2019 and 2018, respectively. These contributions are equal to 100 percent of the required contributions for each year.

#### *Postemployment and Post-retirement Benefits*

**State University** - The State University provides health insurance coverage for eligible retired State University employees and their survivors through a single employer defined benefit plan. The State University, through the New York State Health Insurance Program (NYSHIP), offers comprehensive benefits through various providers consisting of hospital, medical, mental health, substance abuse and prescription drug programs. The State administers NYSHIP and has the authority under Article XI of Civil Service Law to establish and amend the benefit provisions offered. The State University recognizes these other postemployment benefit (OPEB) expenses on an accrual basis.

Employee and retiree contribution rates for NYSHIP are established by the State and are generally 12 percent for enrollee coverage and 27 percent for dependent coverage. The State University OPEB plan is not a separate trust and no assets are accumulated to satisfy premiums. The number of employees and participants covered by the benefit terms were:

Health care participants	2019	2018
Active employees	49,868	48,880
Inactive participants entitled to but not yet receiving benefits	101	104
Retirees and surviving spouses receiving benefit payments	27,221	26,567
Total participants	77,190	75,551

The State University recognized a net OPEB liability of \$12.78 billion and \$12.50 billion for the fiscal years ended June 30, 2019 and 2018, respectively. The net OPEB liability at June 30, 2019 was measured as of March 31, 2019, and was determined by an actuarial valuation as of April 1, 2018, with update procedures used to roll forward the net OPEB liability to March 31, 2019. The net OPEB liability at June 30, 2018 was measured as of March 31, 2018, and was determined by an actuarial valuation as of

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

April 1, 2017, with update procedures used to roll forward the net OPEB liability to March 31, 2018. The net OPEB liability was calculated using the Entry Age Normal cost method. The actuarial valuations included the following actuarial assumptions:

Assumptions	2019	2018
Inflation	2.5%	2.5%
Mortality improvement	Society of Actuaries' Scale MP-2014	Society of Actuaries' Scale MP-2014
Discount rate	3.79%	3.89%

The discount rate is based on the Bond Buyer 20-year general obligation municipal bond index rate at March 31, 2019 and 2018.

The salary increase rate varies by system. The salary increase rates for ERS varies by years of service, starting at 8% and decreasing to 3% after 18 years of service. The salary increase rates for PFRS varies by years of service, starting at 27% and decreasing to 3.3% after 18 years of service. The salary increase rates for TRS varies by duration, starting at 10% and decreasing to 1.76% after 38 years.

Health care trend rates were split to reflect separate trends for pre-65 and post-65 claims. The pre-65 trend assumption begins at 6.25 percent and decreases to a 4.50 percent long-term trend rate for all health care benefits after eight years. The trend assumption for post-65 begins at 5.10 percent and decreases to a 4.50 percent long-term trend rate after seven years. The drug assumption begins at 9.00 percent and decreases to a 4.50 percent long-term trend rate after seven years. Additionally, a trend starting at 9.00 percent per year and decreasing to 4.50 percent after seven years has been assumed for the employer group waiver plan benefits.

The State University's changes in the total OPEB liability at June 30, 2019 and 2018 were as follows (in thousands):

	2019	2018
Total OPEB Liability Beginning Balance	\$ 12,504,717	12,993,892
Service cost	503,015	531,047
Interest	499,144	515,756
Differences between expected and actual experience	138,552	(1,150,860)
Changes in assumptions	(508,542)	(55,236)
Benefit payments	(355,907)	(329,882)
Net Changes	276,262	(489,175)
Total OPEB Liability Ending Balance	\$ 12,780,979	12,504,717

Changes of assumptions and other inputs include a change in the discount rate from 3.89 percent in fiscal year 2018 to 3.79 percent in fiscal year 2019. The medical trend and excise tax assumptions were updated based on current anticipation of future costs and projected claim costs were updated based on the recent claims experience for the Preferred Provider Organization (PPO) plans and premium rates for the Health Maintenance Organization (HMO) plans. The discount rate measured as of March 31, 2019 was 3.79 percent compared to 3.50 percent if measured at June 30, 2019. The decrease in the discount rate would have the effect of increasing the 2019 OPEB liability by approximately 5 percent if the June 30, 2019 measurement date was used.

*Sensitivity of the net OPEB liability to changes in the discount rate.* The following presents the net OPEB liability of the State University at June 30, 2019 and 2018, as well as what the State University's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current year rate (in thousands):

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

	1% Decrease (2.79%)	Current Rate (3.79%)	1% Increase (4.79%)
Total OPEB Liability at June 30, 2019	<u>\$ 15,221,512</u>	<u>12,780,979</u>	<u>10,872,774</u>
	1% Decrease (2.89%)	Current Rate (3.89%)	1% Increase (4.89%)
Total OPEB Liability at June 30, 2018	<u>\$ 15,020,861</u>	<u>12,504,717</u>	<u>10,557,013</u>

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the net OPEB liability of the State University at June 30, 2019 and 2018, as well as what the State University's net OPEB liability would be if calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current year rate (in thousands):

	1% Decrease	Current Trend Rates	1% Increase
Total OPEB Liability at June 30, 2019	<u>\$ 10,617,810</u>	<u>12,780,979</u>	<u>15,633,778</u>
Total OPEB Liability at June 30, 2018	<u>\$ 10,305,527</u>	<u>12,504,717</u>	<u>15,433,193</u>

The State University recognized expense related to OPEB of \$615.5 million and \$715.6 million at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, the State University reported deferred outflows and deferred inflows of resources related to OPEB from the following sources (in thousands):

	<u>2019</u>		<u>2018</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 117,637	832,867	—	991,863
Changes of assumptions	—	1,173,211	—	913,240
Employer contributions subsequent to measurement date	90,110	—	87,435	—
Total	<u>\$ 207,747</u>	<u>2,006,078</u>	<u>87,435</u>	<u>1,905,103</u>

At June 30, 2019 and 2018, \$90.1 million and \$87.4 million were reported as deferred outflows of resources related to OPEB resulting from the State University contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020 and 2019, respectively. The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows (in thousands):

Year Ended June 30:

2020	\$ (386,652)
2021	(386,583)
2022	(385,908)
2023	(384,950)
2024	(251,893)
Thereafter	(92,455)

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

**Research Foundation** - The Research Foundation sponsors a separate single employer defined benefit post-retirement plan that covers substantially all nonstudent employees. The plan provides post-retirement medical benefits and is contributory for employees hired after 1985.

In fiscal years 2011 and 2013, the Research Foundation amended the plan to increase the participant contribution rates for those hired after 1985 with the specific rates to be determined based on an employee's years of service.

Contributions by the Research Foundation are made pursuant to a funding policy established by its Board of Directors. Assets are held in a Voluntary Employee Benefit Association (VEBA) trust and are considered plan assets in determining the funded status or funding progress of the plan under GASB reporting and measurement standards. The plan issued stand-alone financial statements for the 2018 calendar year.

Participants covered by benefit terms	July 1, 2018	July 1, 2017
Actives	4,623	4,716
Retirees	1,591	1,556
Surviving spouses	43	10
Disableds	26	15
Covered spouses	545	458
Total participants	6,828	6,755

The Research Foundation's net OPEB liability was \$43.2 million and \$13.5 million for the fiscal years ended June 30, 2019 and 2018, respectively. The Research Foundation's net OPEB liability at June 30, 2019 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2018, with update procedures used to roll forward the net OPEB liability to June 30, 2019. The net OPEB liability at June 30, 2018 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017, with update procedures used to roll forward the net OPEB liability to June 30, 2018. The net OPEB liability was calculated using the Entry Age Normal cost method. The actuarial valuations included the following actuarial assumptions:

Assumptions	2019	2018
Salary scale	3.0%	3.0%
Mortality rates	PUB-2010 amounts weighted mortality for healthy lives (general classification) with generational projection using scale MP-2018 as of June 30, 2019	Aggregate base rates from RP-2014 mortality study with a fully generational projection from 2006 using scale MP-2017 as of June 30, 2018
Discount rate	6.26%	6.75%

**Discount rate.** At June 30, 2019, the Research Foundation's OPEB plan fiduciary net position was projected to be fully depleted at the end of 2060. Therefore, the discount rate used at June 30, 2019 of 6.26 percent was developed by applying the long-term expected rate of return on plan investments of 6.75 percent through 2060 and the Bond Buyer GO 20-Bond Municipal Bond Index of 3.50 percent thereafter. At June 30, 2018, the plan's fiduciary net position was projected to be sufficient to cover all projected future benefit payments. Therefore, the long-term expected rate of return on OPEB plan investments of 6.75 percent was applied to all periods of projected benefit payments to determine the total OPEB liability.

Health care trend rates range from an initial health care cost trend rate of 6.50 percent grading down to 4.50 percent in 2026 and later. The drug assumption begins at 9.00 percent and decreases to 4.50 percent after seven years.

## Notes to Financial Statements

*June 30, 2019 and 2018*

### 8. Retirement Plans (continued)

The Research Foundation's changes in the total OPEB Liability at June 30, 2019 and 2018 were as follows (in thousands):

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2018	\$ 248,372	234,878	13,494
Service cost	4,240	—	4,240
Interest	16,721	—	16,721
Differences between expected and actual experience	10,486	—	10,486
Changes in assumptions	21,546	—	21,546
Benefit payments	(9,960)	(9,960)	—
Contributions from the employer	—	5,981	(5,981)
Net investment income	—	17,355	(17,355)
Net Changes	43,033	13,376	29,657
Balance at June 30, 2019	\$ 291,405	248,254	43,151
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2017	\$ 279,879	217,425	62,454
Service cost	5,790	—	5,790
Interest	16,257	—	16,257
Differences between expected and actual experience	(17,651)	—	(17,651)
Changes in assumptions	(27,955)	—	(27,955)
Benefit payments	(7,948)	(7,948)	—
Contributions from the employer	—	5,493	(5,493)
Net investment income	—	19,908	(19,908)
Net Changes	(31,507)	17,453	(48,960)
Balance at June 30, 2018	\$ 248,372	234,878	13,494

The long-term expected rate of return on the Research Foundation's OPEB plan investments was determined using a building block approach in which risk premium is calculated for each asset class and adjusted for current market conditions, including but not limited to current market valuations, yield, inflation, and various economic indicators. Best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	2019		2018	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global equities	38.1%	5.6%	35.0%	6.7%
Hedged equities	19.0	4.8	19.0	5.1
Absolute return	7.5	4.4	11.5	4.3
Private equity	6.9	9.5	6.0	10.5
Private equity real estate	4.6	8.9	5.6	9.0
Fixed income	5.0	2.8	5.0	2.7
Real estate - core commercial	5.4	4.9	4.4	5.0
Liquid credit	4.0	3.8	4.0	4.8
Inflation linked bonds	6.0	2.8	3.0	2.7
Commodities	—	—	3.0	3.0
Private debt	2.5	6.8	2.5	7.8
Cash	1.0	2.0	1.0	1.5
Total	100%		100%	

## Notes to Financial Statements

June 30, 2019 and 2018

### 8. Retirement Plans (continued)

*Sensitivity of the net OPEB liability to changes in the discount rate.* The following presents the net OPEB liability of the Research Foundation at June 30, 2019 and 2018, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current year rate (in thousands):

June 30, 2019	1% Decrease (5.26%)	Current Rate (6.26%)	1% Increase (7.26%)
Total OPEB liability	\$ 328,887	291,405	260,446
Plan fiduciary net position	(248,254)	(248,254)	(248,254)
Net OPEB liability	<u>\$ 80,633</u>	<u>43,151</u>	<u>12,192</u>

  

June 30, 2018	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Total OPEB liability	\$ 279,433	248,372	220,764
Plan fiduciary net position	(234,878)	(234,878)	(234,878)
Net OPEB liability (asset)	<u>\$ 44,555</u>	<u>13,494</u>	<u>(14,114)</u>

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the net OPEB liability of the Research Foundation at June 30, 2019 and 2018, as well as what the Research Foundation's net OPEB liability would be if calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current year rate (in thousands):

June 30, 2019	1% Decrease	Current Trend Rates	1% Increase
Total OPEB liability	\$ 256,277	291,405	334,149
Plan fiduciary net position	(248,254)	(248,254)	(248,254)
Net OPEB liability	<u>\$ 8,023</u>	<u>43,151</u>	<u>85,895</u>

  

June 30, 2018	1% Decrease	Current Trend Rates	1% Increase
Total OPEB liability	\$ 215,745	248,372	288,809
Plan fiduciary net position	(234,878)	(234,878)	(234,878)
Net OPEB liability (asset)	<u>\$ (19,133)</u>	<u>13,494</u>	<u>53,931</u>

The Research Foundation recognized pension expense related to OPEB of \$4.3 million and \$0.3 million at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, the Research Foundation reported deferred outflows and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,368	11,095	—	14,928
Net difference between expected and actual earnings on OPEB plan investments	—	8,160	—	9,750
Changes of assumptions	28,475	16,660	16,530	22,308
Total	<u>\$ 36,843</u>	<u>35,915</u>	<u>16,530</u>	<u>46,986</u>

**Notes to Financial Statements***June 30, 2019 and 2018***8. Retirement Plans (continued)**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows (in thousands):

Year Ended June 30:		
2020	\$	(985)
2021		(985)
2022		(2,924)
2023		5,822

**9. Commitments**

The State University has entered into contracts for the construction and improvement of various projects. At June 30, 2019 and 2018, these outstanding contract commitments totaled approximately \$741 million and \$690 million, respectively.

The State University is also committed under numerous operating leases covering real property and equipment. The Research Foundation also contracts with various entities to lease space as part of its mission to support the State University research and university-industry-government partnerships. Rental expenditures reported for the years ended June 30, 2019 and 2018 under such operating leases were \$67.2 million and \$60.9 million, respectively. The following is a summary of the future minimum rental commitments under real property and equipment leases with terms exceeding one year (in thousands):

Year(s) Ending June 30:		
2020	\$	61,879
2021		51,720
2022		40,452
2023		30,718
2024		22,191
2025-29		63,404
2030-34		39,957
2035-39		9,434
2040-44		4,779
Total	\$	<u>324,534</u>

**10. Contingencies**

The State is contingently liable in connection with claims and other legal actions involving the State University, including those currently in litigation, arising in the normal course of State University activities. The State University does not carry malpractice insurance and, instead, administers these types of cases in the same manner as all other claims against the State involving State University activities in that any settlements of judgments and claims are paid by the State from an account established for this purpose. With respect to pending and threatened litigation, the medical malpractice liability includes incurred but not reported (IBNR) loss estimates. The estimate of IBNR losses is actuarially determined based on historical experience using a discount rate of 2.6 percent to calculate the present value of estimated future cash payments. The State University has recorded a liability and a corresponding appropriation receivable of approximately \$793 million and \$741 million at June 30, 2019 and 2018, respectively (almost entirely related to hospitals and clinics).

The State University is exposed to various risks of loss related to damage and destruction of assets, injuries to employees, damage to the environment or noncompliance with environmental requirements, and natural and other unforeseen disasters. The State University has insurance coverage for its residence hall facilities. However, in general, the State University does not insure its educational buildings, contents or related risks and does not insure its vehicles and equipment for claims and assessments arising from bodily injury, property damages, and other perils. Unfavorable judgments, claims, or losses incurred by the State University are covered by the State on a self-insured basis. The State does have fidelity insurance on State employees.

## Notes to Financial Statements

*June 30, 2019 and 2018*

### **10. Contingencies, (continued)**

In 2011 a separate entity, StaffCo of Brooklyn, LLC (StaffCo), was created as a single member Limited Liability Company of the Health Science Center at Brooklyn Foundation, Inc. to provide non-physician staffing to the State University. As of August 1, 2017, StaffCo became the employer of the former staff of Southampton Hospital in support of Stony Brook's expansion of its hospital operations to Southampton Hospital. The State University is responsible for reimbursing StaffCo for its direct and indirect costs relating to the non-physician staffing. StaffCo contributes to a multiemployer defined benefit pension plan (multiemployer plan) under the terms of a collective-bargaining agreement that covers union-represented employees. Under this multiemployer plan, assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If StaffCo were to stop participating in the multiemployer plan, StaffCo may be required to pay this multiemployer plan an amount based on the underfunded status of the multiemployer plan, referred to as a withdrawal liability. In this case, the State University may be required to pay StaffCo the amount of the withdrawal liability. Due to the restructure of StaffCo operations, the exposure to withdrawal liability is no longer an imminent or immediate possibility.

### **11. Related Parties**

The State University's single largest source of revenue is State appropriations. State appropriations take the form of direct assistance, debt service on educational facilities, fringe benefits for State University employees, and litigation expenses for which the State is responsible. State appropriations totaled \$3.71 billion and \$3.56 billion and represented approximately 30 percent of total revenues for both the 2019 and 2018 fiscal years. The State University's continued operational viability is substantially dependent upon a consistent and proportionate level of ongoing State support.

### **12. Federal Grants and Contracts and Third-Party Reimbursement**

Substantially all federal grants and contracts are subject to financial and compliance audits by the grantor agencies of the federal government. Disallowances, if any, as a result of these audits may become liabilities of the State University. State University management believes that no material disallowances will result from audits by the grantor agencies.

The State University hospitals have agreements with third-party payors, which provide for reimbursement to the hospitals at amounts different from the hospitals' established charges. Contractual service allowances and discounts (reflected through State University hospitals and clinics sales and services) represent the difference between the hospitals' established rates and amounts reimbursed by third-party payors. The State University has made provision in the accompanying financial statements for estimated retroactive adjustments relating to third-party payor cost reimbursement items.

## Notes to Financial Statements

*June 30, 2019 and 2018*

### 13. Condensed financial statement information of the Research Foundation

The condensed financial statement information of the Research Foundation, contained in the combined totals of the State University reporting entity in accordance with GASB accounting and reporting requirements, is shown below (in thousands):

#### Condensed Balance Sheets

	2019	2018
<u>Assets and Deferred Outflows of Resources:</u>		
Current assets	\$ 635,455	577,636
Capital assets	512,131	372,272
Other assets	41,149	33,990
Deferred outflows of resources	36,843	16,530
Total assets and deferred outflows of resources	\$ 1,225,578	1,000,428
<u>Liabilities and Deferred Inflows:</u>		
Total current liabilities	487,083	486,135
Total noncurrent liabilities	541,654	353,417
Deferred inflows of resources	35,915	46,986
Total liabilities and deferred inflows of resources	1,064,652	886,538
<u>Net Position:</u>		
Invested in capital assets, net	(26,966)	(21,571)
Restricted nonexpendable	12,404	7,979
Unrestricted	175,488	127,482
Total net position	160,926	113,890
Total liabilities, deferred inflows and net position	\$ 1,225,578	1,000,428

#### Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2019	2018
<u>Operating revenues:</u>		
Federal grants and contracts	\$ 552,104	544,131
State grants and contracts	124,038	125,334
Private grants and contracts	244,220	218,830
Other operating revenues	84,213	108,594
Total operating revenues	1,004,575	996,889
<u>Operating expenses:</u>		
Instruction	93,588	98,797
Research	496,810	473,505
Public service	114,872	113,932
Institutional support	133,766	144,531
Other operating expenses	46,694	34,915
Depreciation and amortization expense	56,792	60,978
Total operating expenses	942,522	926,658
Operating income	62,053	70,231
Net nonoperating expenses	(15,017)	(15,279)
Change in net position	47,036	54,952
Net position at the beginning of the year	113,890	58,938
Net position at the end of the year	\$ 160,926	113,890

## Notes to Financial Statements

June 30, 2019 and 2018

### 13. Condensed financial statement information of the Research Foundation (continued)

#### Condensed Statements of Cash Flows

	2019	2018
Cash flows from operating activities	\$ 241,675	226,295
Cash flows from noncapital financing activities	(13,980)	3,075
Cash flows from capital and related financing activities	(206,696)	(90,431)
Cash flows from investing activities	(15,883)	(138,657)
Net change in cash	5,116	282
Cash - beginning of year	433	151
Cash - end of year	\$ 5,549	433

### 14. Subsequent Events

The State University considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements covering the year ended June 30, 2019 were available to be issued on November 7, 2019 and subsequent events have been evaluated through that date.

In May 2016, the State University received Board approval to enter into an agreement with Eastern Long Island Hospital Association to affiliate with Eastern Long Island Hospital, a 90 bed acute care facility that provides inpatient and outpatient services on the northern fork of Suffolk County. The arrangement will have the State University leasing the Eastern Long Island Hospital building and current employees and transfer of beds, operations and non-fixed operating assets to the State University with Eastern Long Island Hospital operating under the State University's operating license. The affiliation was approved by the State of New York regulatory authorities and the Suffolk County Supreme Court and the transaction was closed on July 1, 2019.

### 15. Component Units

The reported totals of the discretely presented component units include campus-related foundations, auxiliary services corporations, and student housing corporations. These related entities are campus-based, legally separate, nonprofit organizations. The campus-related foundations are responsible for the fiscal administration of revenues and support received for the promotion, development and advancement of the welfare of campuses, the State University and its students, faculty, staff and alumni. The foundations receive the majority of their support and revenues through contributions, gifts and grants and provide benefits to their campus, students, faculty, staff and alumni. The auxiliary services corporations act as independent contractors, operate, manage, and promote educationally related services for the benefit of the campus community. In addition, the reported amounts include student housing corporations, nonprofit organizations that operate and administer certain housing and related services for students.

All these organizations are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. All of the financial data for these organizations was derived from each entity's individual audited financial statements, reported in accordance with generally accepted accounting principles promulgated by FASB, the majority of which have a May 31 or June 30 fiscal year end. The financial statements of the discretely presented component units were not audited in accordance with Government Auditing Standards.

Separately issued financial statements of the component unit entities may be obtained by writing to:

The State University of New York  
Office of the University Controller  
State University Plaza, N-514  
Albany, New York 12246

## Notes to Financial Statements

June 30, 2019 and 2018

### 15. Component Units (continued)

#### *Recently Adopted Accounting Pronouncements*

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14: *Presentation of Financial Statements of Not-For-Profit Entities*. The update addresses the complexity and understandability of net asset classification and the lack of consistency in the type of information provided about expenses and investment return. The significant requirements of the new ASU include the reduction of the number of net asset classes from three to two (without donor restrictions and with donor restrictions) and the presentation of expenses by their function and their natural classification in one location. ASU 2016-14 is effective for the year ending June 30, 2019 and was applied retrospectively. The effects of adoption are included in the discretely presented aggregate component unit financial statements.

#### *Net Asset Classifications*

Net assets without donor restrictions represent resources whose uses are not restricted by donor-imposed stipulations and are generally available for the support of the State University and affiliated entity programs and activities. Net assets with donor restrictions represent resources whose use is subject to donor-imposed restrictions. Some of these restrictions are temporary in nature, such as those that will be met with the passage of time or are removed by specific actions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The income derived from net assets with donor restrictions that are permanent in nature is permitted to be spent in part or in whole, restricted only by the donor's wishes.

#### *Investments*

All investments with readily determinable fair values have been reported in the financial statements at fair value. Realized and unrealized gains and losses are recognized in the statement of activities. Gains or losses on investments are recognized as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investments of the State University discretely presented component units were \$2.71 billion and \$2.55 billion as of June 30, 2019 and 2018, respectively.

The composition of investments is as follows (in thousands):

	2019	2018
Equities - domestic	\$ 763,128	687,483
Equities - international	420,667	476,544
Non-equities	680,601	608,722
Equity partnerships	308,641	256,482
Multi-strategy funds	191,428	202,333
Hedge funds	175,878	161,439
Real assets/real estate	145,886	135,878
Other investments	18,878	17,811
Total investments	<u>\$ 2,705,107</u>	<u>2,546,692</u>

## Notes to Financial Statements

June 30, 2019 and 2018

### 15. Component Units (continued)

#### Capital Assets

Capital assets are stated at cost, if purchased, or fair value at date of receipt, if acquired by gift. Land improvements, buildings, and equipment are depreciated over their estimated useful lives using the straight-line method. Capital assets, net of accumulated depreciation, totaled \$535.3 million and \$528.5 million at fiscal year end 2019 and 2018, respectively. Capital asset classifications are summarized as follows (in thousands):

	2019	2018
Land and land improvements	\$ 35,783	31,139
Buildings	691,089	684,793
Equipment	133,120	133,603
Artwork and library books	32,826	28,935
Construction in progress	34,717	22,292
Total capital assets	<u>927,535</u>	<u>900,762</u>
Less accumulated depreciation	392,244	372,274
Capital assets, net	<u>\$ 535,291</u>	<u>528,488</u>

#### Long-term Debt

The component units have entered into various financing arrangements, principally through the issuance of Industrial Development Agency, Local Development Corporation, and Housing Authority bonds, for the construction of student residence hall facilities. The following is a summary of the future minimum annual debt service requirements for the next five years and thereafter (in thousands):

Year ending June 30:	
2020	\$ 14,163
2021	13,880
2022	14,005
2023	14,319
2024	14,577
Thereafter	290,367
	<u>361,311</u>
Less: unamortized debt issuance costs	9,531
	<u>\$ 351,780</u>

## Notes to Financial Statements

*June 30, 2019 and 2018*

### 15. Component Units (continued)

#### *Condensed financial statement information*

The table below displays the combined totals of the foundations (including student housing corporations) and auxiliary services corporations (ASCs) (in thousands):

#### Combined Balance Sheets

	2019			2018		
	Foundations	ASC	Total	Foundations	ASC	Total
<b>Assets:</b>						
Investments	\$ 2,603,866	101,241	2,705,107	2,463,163	83,529	2,546,692
Capital assets, net	430,853	104,438	535,291	411,916	116,572	528,488
Other assets	432,305	193,240	625,545	418,224	206,518	624,742
Total assets	<u>\$ 3,467,024</u>	<u>398,919</u>	<u>3,865,943</u>	<u>3,293,303</u>	<u>406,619</u>	<u>3,699,922</u>
<b>Liabilities:</b>						
Other liabilities	265,747	102,750	368,497	234,066	117,919	351,985
Long-term debt, net	336,085	15,695	351,780	347,957	18,072	366,029
Total liabilities	<u>601,832</u>	<u>118,445</u>	<u>720,277</u>	<u>582,023</u>	<u>135,991</u>	<u>718,014</u>
<b>Net Assets:</b>						
Without Donor Restrictions	653,214	280,130	933,344	604,117	270,284	874,401
With Donor Restrictions	2,211,978	344	2,212,322	2,107,163	344	2,107,507
Total net assets	<u>2,865,192</u>	<u>280,474</u>	<u>3,145,666</u>	<u>2,711,280</u>	<u>270,628</u>	<u>2,981,908</u>
Total liabilities and net assets	<u>\$ 3,467,024</u>	<u>398,919</u>	<u>3,865,943</u>	<u>3,293,303</u>	<u>406,619</u>	<u>3,699,922</u>
<u>Combined Statements of Activities</u>						
<b>Revenues:</b>						
Contributions, gifts and grants	\$ 222,774	—	222,774	211,389	—	211,389
Food and auxiliary services	—	404,761	404,761	—	397,461	397,461
Other revenue	379,138	6,347	385,485	348,812	11,017	359,829
Total revenues	<u>601,912</u>	<u>411,108</u>	<u>1,013,020</u>	<u>560,201</u>	<u>408,478</u>	<u>968,679</u>
<b>Expenses:</b>						
Food and auxiliary services	—	338,765	338,765	—	334,161	334,161
Program expenses	233,060	—	233,060	119,404	—	119,404
Other expenses	214,940	62,497	277,437	232,996	48,715	281,711
Total expenses	<u>448,000</u>	<u>401,262</u>	<u>849,262</u>	<u>352,400</u>	<u>382,876</u>	<u>735,276</u>
Total change in net assets	153,912	9,846	163,758	207,801	25,602	233,403
Net assets at the beginning of year	2,711,280	270,628	2,981,908	2,503,479	245,026	2,748,505
Net assets at the end of year	<u>\$ 2,865,192</u>	<u>280,474</u>	<u>3,145,666</u>	<u>2,711,280</u>	<u>270,628</u>	<u>2,981,908</u>

## Notes to Financial Statements

June 30, 2019 and 2018

### 15. Component Units (continued)

#### Functional Expenses

Expenses are presented by functional classification in accordance with the overall service missions of the component units. Each functional classification displays all expenses related to the underlying operations by natural classification.

Expenses by functional classification for the year ended June 30, 2019 consist of the following:

	Food Service	Other Auxiliary Services	Program Expenses	Real Estate	Management and General	Fundraising	Other	Total
Salaries and wages	\$ 62,345	12,380	152,186	7,066	25,307	15,124	—	274,408
Employee benefits	24,880	4,627	11,228	100	9,181	3,743	—	53,759
Cost of goods sold	139,054	27,300	—	—	—	—	—	166,354
Professional and service fees	4,328	2,866	21,587	6,166	5,704	5,243	—	45,894
Depreciation expense	11,077	2,931	940	18,555	2,483	12	—	35,998
Supplies and materials	5,151	2,656	11,466	269	1,414	1,421	—	22,377
Travel and conferences	153	1,517	14,299	61	446	2,143	—	18,619
Rent and equipment	7,270	1,087	3,668	5,035	1,579	389	—	19,028
Maintenance and upgrades	4,615	1,326	1,530	678	316	66	—	8,531
Insurance	501	833	1,006	601	1,539	100	—	4,580
Utilities	2,577	983	580	2,672	341	20	—	7,173
Interest expense	83	73	714	11,278	542	—	—	12,690
Printing and postage	57	94	874	44	331	1,272	—	2,672
Activity and program support	33	547	6,174	131	751	946	—	8,582
Other expenses	12,536	4,885	6,808	4,016	4,559	1,751	4,025	38,580
Expenses	\$ <u>274,660</u>	<u>64,105</u>	<u>233,060</u>	<u>56,672</u>	<u>54,493</u>	<u>32,230</u>	<u>4,025</u>	719,245
Support to the State University:								
Scholarships and fellowships								64,868
Other								<u>65,149</u>
Total expenses								<u>849,262</u>

## Required Supplementary Information

(Unaudited)

### *Schedule of Changes in the Net OPEB Liability and Related Ratios for the State University Plan*

(Amounts in millions)

	2019	2018	2017
Total OPEB liability:			
Service cost	\$ 503.0	531.0	589.7
Interest	499.1	515.8	468.9
Difference between expected and actual experience	138.6	(1,150.9)	—
Changes in assumptions	(508.5)	(55.2)	(1,194.8)
Benefit payments	(355.9)	(329.9)	(302.3)
Net change in total OPEB liability	276.3	(489.2)	(438.5)
Total OPEB liability, beginning	12,504.7	12,993.9	13,432.4
Total OPEB liability, ending	\$ 12,781.0	12,504.7	12,993.9
Net position as a percentage of OPEB liability	—%	—%	—%
Covered-employee payroll	\$ 3,361.9	3,329.4	3,200.2
Net OPEB liability as a percentage of covered- employee payroll	380.2%	375.6%	406.0%

*Changes in assumptions.* The discount rate was changed to 3.86% in 2017, 3.89% in 2018, and 3.79% in 2019. In 2019 and 2018, the medical trend and excise tax assumptions were updated based on current anticipation of future costs and projected claim costs were updated based on the recent claims experience for the PPO plans and premium rates for the HMO plans.

*Schedule is intended to show information for 10 years.*

*Additional years will be displayed as they become available.*

## Required Supplementary Information

*(Unaudited)*

### **Schedule of Changes in the Net OPEB Liability and Related Ratios for the Research Foundation Plan**

*(Amounts in millions)*

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total OPEB liability:			
Service cost	\$ 4.2	5.8	10.0
Interest	16.7	16.3	32.4
Changes of benefit terms	—	—	(234.9)
Difference between expected and actual experience	10.5	(17.7)	(1.4)
Changes in assumptions	21.6	(28.0)	27.0
Benefit payments	(10.0)	(7.9)	(11.2)
Net change in total OPEB liability	43.0	(31.5)	(178.1)
Total OPEB liability, beginning	248.4	279.9	458.0
Total OPEB liability, ending	291.4	248.4	279.9
Plan fiduciary net position:			
Contributions - employer	6.0	5.5	30.1
Net investment income	17.3	19.9	22.2
Benefit payments	(10.0)	(7.9)	(11.2)
Net change in fiduciary net position	13.3	17.5	41.1
Fiduciary net position, beginning	234.9	217.4	176.3
Fiduciary net position, ending	248.2	234.9	217.4
Net OPEB liability, ending	\$ 43.2	13.5	62.5
Net position as a percentage of OPEB liability	85.2%	94.6%	77.7%
Covered-employee payroll	\$ 232.4	236.2	238.0
Net OPEB liability as a percentage of covered-employee payroll	18.6%	5.7%	26.3%

*Changes in assumptions.* The discount rate changed to 5.77% in 2017, 6.75% in 2018, and 6.26% in 2019. In 2019, the mortality table was updated from the aggregate base rates for healthy lives from the RP-2014 mortality study with a fully generational projection from 2006 using scale MP-2017 to the PUB-2010 amounts weighted mortality for healthy lives (general classification) with generational projection using scale MP-2018. The health care trend rates were also updated in 2019 from an initial health care cost trend rate 7.0% and drug assumption of 9.50% in 2018 to 6.50% and 9.00% in 2019, respectively.

*Schedule is intended to show information for 10 years.*

*Additional years will be displayed as they become available.*

## Required Supplementary Information

*(Unaudited)*

### *Schedule of Employer Contributions for the Research Foundation OPEB Plan*

*(Amounts in millions)*

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Actuarially determined contribution	\$ 6.0	6.3	8.4
Contributions made in relation to the actuarial determined contribution	\$ 6.0	5.5	30.1
Contribution (deficiency) excess	\$ —	(0.8)	21.7
Covered-employee payroll	\$ 232.4	236.2	238.0
Contribution as a percentage of covered-employee payroll	2.6%	2.3%	12.6%

Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Annual contributions to fund the plan are made by the Research Foundation pursuant to a funding policy established by the Research Foundation's board of directors. Effective for fiscal years 2018 - 2025, the annual funding contribution amount will equal the contribution level negotiated between the Research Foundation and its cognizant federal agency for setting the fringe benefit rates.

Methods and assumptions used to determine contribution rates:

Actuarial cost method - Projected Unit Credit with 30-year closed amortization period for initial unfunded and subsequent actuarial gains/losses.

Investment Rate of Return - 6.75%

Salary increases - 3.00%

Health care trend rates - range from an initial health care cost trend rate of 6.50% grading down to 4.50% in 2026 and later. The drug assumption begins at 9.00% and decreases to 4.50% after eight years.

Mortality - PUB-2010 amounts weighted mortality for healthy lives (general classification) with generational projection using scale MP-2018 as of June 30, 2019.

*Schedule is intended to show information for 10 years.*

*Additional years will be displayed as they become available.*

## Required Supplementary Information

(Unaudited)

### Schedule of the State University's Proportionate Share of the ERS and PFRS Net Pension Liability

(Amounts in millions)

	2019		2018		2017		2016	2015
	ERS	PFRS	ERS	PFRS	ERS	PFRS	ERS	ERS
Proportion of the net pension liability	5.58%	1.17%	5.45%	1.1%	5.43%	1.05%	5.35%	5.32%
Proportionate share of the net pension liability	\$ 395.3	19.7	175.8	11.2	510.4	21.8	859.3	179.8
Covered-employee payroll plan year	\$1,575.1	39.3	1,487.3	38.0	1,413.7	35.6	1,405.6	1,262.1
Proportionate share of the net pension liability as a % of its covered payroll	25.1%	50.1%	11.8%	29.5%	36.1%	61.2%	61.1%	14.2%
Pension plan's fiduciary net position as a % of the total pension liability	96.3%	95.1%	98.2%	96.9%	94.7%	93.5%	90.7%	97.9%

### Schedule of Employer Contributions for the ERS Plan

(Amounts in millions)

	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 194.4	200.3	197.9	214.8	242.2
Contributions in relation to the actuarial determined contribution	\$ 194.4	200.3	197.9	214.8	242.2
Contribution deficiency	\$ —	—	—	—	—
Covered-employee payroll for fiscal year ended June 30th	\$ 1,601.2	1,506.0	1,432.7	1,418.8	1,384.2
Contribution as a percentage of covered-employee payroll	12.1%	13.3%	13.8%	17.5%	17.5%

### Schedule of Employer Contributions for the PFRS Plan

(Amounts in millions)

	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 8.7	8.0	2.5	—	—
Contributions in relation to the actuarial determined contribution	\$ 8.7	8.0	2.5	—	—
Contribution deficiency	\$ —	—	—	—	—
Covered-employee payroll for fiscal year ended June 30th	\$ 39.4	38.4	36.4	—	—
Contribution as a percentage of covered-employee payroll	22.1%	20.8%	6.9%	—%	—%

Schedules are intended to show information for 10 years.  
Additional years will be displayed as they become available.

## Required Supplementary Information

*(Unaudited)*

### *Schedule of the State University's Proportionate Share of the TRS Net Pension Liability (Asset)*

*(Amounts in millions)*

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Proportion of the net pension liability (asset)	0.81 %	0.81 %	0.82%	0.74 %	0.71 %
Proportionate share of the net pension liability (asset)	\$ (14.7)	(6.1)	8.7	(77.2)	(79.6)
Covered-employee payroll	\$ 146.0	144.6	141.9	145.2	140.7
Proportionate share of the net pension liability (asset) as a % of its covered payroll	(10.1)%	(4.2)%	6.1%	(53.2)%	(56.6)%
Pension plan's fiduciary net position as a % of the total pension liability	101.5 %	100.7 %	99.0%	110.5 %	111.5 %

### *Schedule of Employer Contributions for the TRS Plan*

*(Amounts in millions)*

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Actuarially determined contribution	\$ 12.9	15.0	16.7	19.6	17.2
Contributions in relation to the actuarial determined contribution	\$ 12.9	15.0	16.7	19.6	17.2
Contribution deficiency	\$ —	—	—	—	—
Covered-employee payroll for fiscal year ended June 30th	\$ 159.8	146.0	144.6	141.9	145.2
Contribution as a percentage of covered-employee payroll	8.1%	10.3%	11.5%	13.8%	11.8%

*Schedule is intended to show information for 10 years.*

*Additional years will be displayed as they become available.*

## Required Supplementary Information

*(Unaudited)*

### *Schedule of Changes in the Net Pension Liability and Related Ratios for the Upstate Plan*

*(Amounts in millions)*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:					
Service cost	\$ 0.6	0.6	0.7	0.8	0.9
Interest	6.7	6.6	6.6	6.5	6.0
Difference between expected and actual experience	0.6	1.8	0.3	1.0	0.4
Changes of assumptions	(0.3)	(0.6)	(1.4)	—	5.8
Benefit payments	(5.8)	(9.2)	(4.9)	(7.0)	(3.8)
Net change in total pension liability	1.8	(0.8)	1.3	1.3	9.3
Total pension liability, beginning	105.1	105.9	104.6	103.3	94.0
Total pension liability, ending (a)	106.9	105.1	105.9	104.6	103.3
Plan fiduciary net position:					
Employer contributions	1.1	2.0	2.8	2.0	3.5
Net investment income (loss)	(5.1)	15.6	7.4	(0.7)	5.9
Benefit payments	(5.8)	(9.2)	(4.9)	(7.0)	(3.8)
Administrative expenses	(0.2)	(0.2)	(0.1)	(0.2)	(0.1)
Net change in fiduciary net position	(10.0)	8.2	5.2	(5.9)	5.5
Fiduciary net position, beginning	103.7	95.4	90.2	96.1	90.6
Fiduciary net position, ending (b)	93.7	103.6	95.4	90.2	96.1
Net pension liability, ending (a) - (b)	\$ 13.2	1.5	10.5	14.4	7.2
Ratio of fiduciary net position to total pension liability	87.7%	98.6%	90.1%	86.3%	93.0%
Covered-employee payroll	\$ 24.3	25.5	27.3	29.9	33.6
Net pension liability as a percentage of covered-employee payroll	54.3%	5.7%	38.4%	48.0%	21.3%

*Schedule is intended to show information for 10 years.*

*Additional years will be displayed as they become available.*

## Required Supplementary Information

*(Unaudited)*

### *Schedule of Employer Contributions for the Upstate Plan*

*(Amounts in millions)*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution (1)	\$ 1.1	2.0	2.6	1.9	1.5	2.6	3.0	1.2
Contributions in relation to the actuarial determined contribution (2)	\$ 1.1	2.0	2.8	2.0	3.5	2.6	3.0	1.2
Contribution excess	\$ —	—	0.2	0.1	2.0	—	—	(1.2)
Covered-employee payroll (3)	\$24.2	25.5	27.3	29.9	33.6	36.0	16.0 *	21.9 *
Contribution as a percentage of covered-employee payroll	4.7%	7.9%	10.2%	6.8%	9.0%	7.1%	18.6%	5.4%

\* 2012 covered period from January 1, 2011 through July 6, 2011, and 2011 covered period from July 7, 2011 through December 31, 2011.

(1) The actuarially determined contribution includes normal costs, adjustments made to record the reconciliation of projected salary to actual salary and miscellaneous accounting adjustments.

(2) The contributions in relation to the actuarially determined contribution reflects actual payments.

(3) Covered-employee payroll represents pensionable payroll at the end of each Plan year. It is not practicable to obtain covered employee payroll amounts at the end of each fiscal year.

*Schedule is intended to show information for 10 years.*

*Additional years will be displayed as they become available.*

### *Notes for the Plan*

*Changes in assumptions.* The actuarial assumptions for the mortality basis used for the January 1, 2019 actuarial valuation were changed from the RP-2014 mortality tables, by gender, with fully generational improvements using Scale MP-2017 to RP-2014 mortality tables, by gender, with fully generational improvements using Scale MP-2018.

*Methods and assumptions used in calculations of actuarially determined contributions.* The January 1, 2019 actuarial valuation determines the employer rates for contributions payable in 2019. The following actuarial methods and assumptions were used:

Investment rate of return - 6.5%

Amortization method - Level dollar, 20 year closed

Remaining amortization period - 13.5 years

Asset valuation method - Market value

Inflation - 3.0%

Compensation - 3.5% increases, limited to a maximum of \$275,000

Termination - 1992 Vaughn Select and Ultimate Table



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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

The Board of Trustees  
State University of New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the State University of New York (the University) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 7, 2019. Our report includes a reference to other auditors who audited the financial statements of certain discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 7, 2019





**2019 ANNUAL FINANCIAL REPORT**

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