PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION

Pennsylvania's
STATE SYSTEM
of Higher Education

FINANCIAL STATEMENTS
JUNE 30, 2022

Pennsylvania's State System of Higher Education
Financial Statements
June 30, 2022
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Pennsylvania's State System of Higher Education ("the State System"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the State System's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the State System as of June 30, 2022 and 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the discretely presented component units, which statements reflect total assets, net position, and revenues constituting 100 percent, 100 percent, and 100 percent, respectively, of the 2022 assets, net position, and revenues of the discretely presented component units, and 100 percent, 100 percent, and 100 percent of assets, net position, and revenues of the 2021 assets, net position, and revenues of the discretely presented component units for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note (1) to the financial statements, the State System implemented the provisions of Governmental Accounting Standards Board (GASB) Statements No. 87 – for the year ended June 30, 2022, which represent changes in accounting principle. The State System's June 30, 2021 statement of net position and statement of revenues, expenses, and changes in net position were restated to reflect the impact of adoption. A summary of the restatement is presented in Note (1). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State System’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State System’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State System’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Governors
Pennsylvania's State System of Higher Education

Required Supplementary Information

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
September 29, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

As members of the Commonwealth of Pennsylvania's (Commonwealth) public four-year higher education system, the 14 universities of Pennsylvania's State System of Higher Education (State System) are charged with providing high-quality education at the lowest possible cost to the students. With approximately 89,000 degree-seeking students enrolled, and thousands more enrolled in certificate and other career-development programs, the State System is the largest producer of bachelor's degrees in the Commonwealth. The campuses of the 14 universities encompass more than 4,800 acres and about 900 physical plant structures. The universities function independently, but being part of the State System enables them to share administrative resources and academic courses and benefit from economies of scale.

The State System's financial statements comprise:

- Bloomsburg University of Pennsylvania.
- California University of Pennsylvania.
- Cheyney University of Pennsylvania.
- Clarion University of Pennsylvania, including its branch campus in Oil City.
- East Stroudsburg University of Pennsylvania.
- Edinboro University of Pennsylvania.
- Indiana University of Pennsylvania, including its branch campuses in Punxsutawney and Freeport.
- Kutztown University of Pennsylvania.
- Lock Haven University of Pennsylvania, including its branch campus in Clearfield.
- Mansfield University of Pennsylvania.
- Millersville University of Pennsylvania.
- Shippensburg University of Pennsylvania.
- Slippery Rock University of Pennsylvania.
- West Chester University of Pennsylvania, including its branch campus in center city Philadelphia.
- System Office.

SYSTEM REDESIGN AND UNIVERSITY INTEGRATIONS

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

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

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

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

Act 50 outlined the phases of integration as outlined below:

- Phase 1 involved a review of the financial impacts of a potential integration.
- Phase 2 involved the development of a detailed plan or plans to integrate selected institutions.
- Phase 3 involved a public comment period.
- Phase 4 involves implementing the plan, which is underway.

On July 16, 2020, the Board authorized the chancellor to engage in a detailed, transparent, and broadly consultative review process of the financial impacts of integrating operations at selected System Universities. For the purposes of this review process, the System used an approach that could identify combinations of certain universities that would honor the local identity of the original institutions but when integrated, would operate under a unified leadership team reporting through the chancellor to the Board of Governors and have a single faculty and staff, a single academic program array, a unified enrollment strategy, and a single budget.

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

The integration process has been conducted in partnership with many stakeholders including the General Assembly through quarterly check-ins with House and Senate Education and Appropriations Committees, consistent with the requirements of Act 50. As part of the System Redesign process, the chancellor has conducted several legislative hearings regarding the integrations, an extensive public comment process, as well as a series of communication opportunities at the integrating universities.

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

Each campus will continue to provide a residential university experience including face-to-face classes and engagement with faculty and staff, participation on athletic teams, in co-curricular activities, and in student clubs and organizations. The integrated universities will also provide opportunities for working students and others seeking online and hybrid learning modalities. Students at the integrated universities will also benefit from enhanced support services that lead to improved educational outcomes. Each integrated university will have the following:

- a single president and leadership team with one reporting relationship to the Board of Governors through the Chancellor;
- a unified faculty providing instruction in a single academic program array that leverages program, faculty, and facilities strengths at the three partner campuses and in which the majority of credentials, majors, minors, and areas of concentration are available to all students at each of the partner campuses through a combination of face-to-face and remote instruction —with general education courses available on each campus through face-to-face instruction;
- an integrated enrollment management strategy and student-facing supports and services;

- a robust student recruitment process with an expanding array of high schools, community colleges, and other education providers, including robust dual enrollment and transfer articulation agreements and associated student supports;
- significantly expanded opportunities for adult students seeking to re-skill and up-skill through nondegree credentialing courses;
- and continued use of each campus's historic name and brand identity as part of its respective integrated university.

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

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

On March 10, 2022, Middle States Commission on Higher Education, approved the two integrations and reaffirmed the accreditation of the Commonwealth University of Pennsylvania and the Pennsylvania Western University.

Detailed information on the progress of System Redesign can be found at https://www.passhe.edu/SystemRedesign/ and on Integrations at https://www.passhe.edu/systemredesign/Pages/integrations.aspx.

COVID-19 IMPACTS AND RELIEF FUNDS

Following the March 13, 2020, declaration of a national state of emergency due to COVID-19, the System universities followed state recommendations and restrictions that required remote working and remote education. The System continued remote education through the summer of 2020. Most universities began fall 2020 with mostly or completely remote offerings and continued these measures for the spring 2021 semester. The System universities modified their learning and living environments and addressed requirements for health monitoring and social distancing. All System universities proceeded with a return of normal campus operations and instruction with the Fall 2021 semester.

Regarding the current impact of COVID-19, the most significant components to date have been the refunds of housing, dining, and other fees that universities provided to students in spring 2020, and the loss of similar auxiliary revenue in fiscal year 2020-21 due to low student occupancy on campus as a result of social distancing measures and the shift to more online instruction.

Housing ownership and management varies by university within the System. Those universities that have established agreements in place with recognized affiliated entities to own or manage on-campus housing worked closely with their affiliate to manage the financial impact of housing refunds and low occupancy in fiscal year 2020-21. In addition, universities have incurred costs for remote learning, remote working, pandemic mitigation, and student testing.

Over the past three fiscal years (2019-20 through 2021-22), the most recent estimates of the financial impact from COVID-19 are $406 million, prior to considering the aid packages awarded to System universities. The most substantial impacts of COVID-19 included lower revenue in auxiliary operations due to reduced occupancy, estimated at approximately $221 million; reduced fees due to refunds and rate reductions at approximately $132 million, and other revenue losses of approximately $32 million; in total reduced revenue of approximately $385 million. Direct COVID-19 expenses were approximately $79 million for items such as direct compensation, incremental distance education payments to faculty, testing, technology, additional student financial aid, and other operating expenses. Estimates for COVID-19 related savings for contracts and operational savings were estimated at approximately $58 million. The resulting net effect of these COVID-19 impacts was a net $406 million for the current year.

Universities were awarded several rounds of COVID-19 relief funds to assist with these losses and expenses, as described in the following section.

COVID-19 Relief Funds—

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

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

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

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

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

State System universities received approximately $220 million in HEERF III funding, inclusive of emergency student aid allocations, and the allowable uses of funds reflect similar expanded uses as described in the CRRSAA section above. Minority Serving Higher Education Institutions were allocated distinct funding through this Act as well; State System universities were awarded approximately $9.7 million.

Below is a summary of funds received by the State System through the CARES, CRRSA, and ARP Acts.

Federal Stimulus Funds Available to System Universities

	($ in millions)		
	CARES Act	**CRRSA Act**	**ARP Act**
Emergency Aid to Students[1]	$40.0	$40.0	$110.7
Institutional Share[1]	40.0	85.3	109.0
Strengthening Institutions Program[1]	2.6	3.8	9.7
State Appropriated Coronavirus Relief Funds[2]	30.0	0.0	0.0
Governor's Education Emergency Relief Funds[3]	4.2	5.0	0.0
Total Funds Available	**$116.8**	**$134.0**	**$229.4**
Funds Available for University Use (less Emergency aid)	**$76.8**	**$94.1**	**$118.7**

[1] *Higher Education Emergency Relief Funds, U.S. Department of Education*
[2] *Title V, Assistance for State, Local and Tribal Governments, U.S. Treasury*
[3] *U.S. Department of Education, as distributed by Pennsylvania Department of Education*

In addition to the funds under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriation Act (CRRSAA), and the American Rescue Plan Act of 2021 (ARPA), in fiscal year 2021-22 the State System received $50 million in one-time funding from the American Rescue Plan's Coronavirus State and Local Fiscal Recovery Funds. These one-time funds are being used to support universities in various initiatives with one-time expenditures (e.g., university integrations, implementation of a new student information system; projects related to student success, diversity, equity, and inclusion, and; workforce development; and support for universities as they transition to sustainable operations.) In FY 2022-23, the universities received another $125 million from the American Rescue Plan's Coronavirus State and Local Fiscal Recovery Funds. These one-time funds will be used to fund key priority areas, in accordance with regulations outlined in the Coronavirus State and Local Fiscal Recovery Funds Final Rule guidelines.

Coronavirus State and Local Fiscal Recovery Funds
Available to System and System Universities

	($ in millions)	
	FY2021-22	**FY 2022-23**
State Appropriatied Coronavirus Relief Funds	$50.0 [1]	$125.0 [2]

[1] *Appropriated to State System; allocated to Universities and Systemwide initiatives*
[2] *Appropriated to System Universities*

Financial Highlights

Following is an overview of the State System's financial activities for the year ended June 30, 2022, as compared to the year ended June 30, 2021, as well as future economic factors. June 2021 figures have been restated to reflect the adoption of Governmental Accounting Standards Board Statement No. 87, Leases.

Tuition and Fees
In its continued efforts to address affordability, in April 2022, the Board voted to **freeze basic in-state tuition** for the 2022-23 academic year. This action resulted in an unprecedented four consecutive years in which tuition

was frozen, even while confronting financial challenges brought on in part by the coronavirus pandemic. The Board also set a tentative tuition rate for the 2023-24 academic year that was also frozen. These actions provide assurances and financial relief to current and potential students and ensure that the State System will maintain its place as the affordable higher education option for students of the Commonwealth.

The base tuition rate for most full-time Pennsylvania residents will remain at $3,858 per term, or $7,716 for the full 2022-23 academic year. **Nonresident, undergraduate tuition** rates range from $9,660 to $19,290 for the 2022-23 academic year. The basic resident **graduate tuition** rate remained at $516 per credit, while the typical nonresident, graduate tuition rate remained at $774 per credit.

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

The State System's average **price of attendance** (tuition, mandatory fees, room, and board) for in-state undergraduate students increased slightly for academic year 2022-23 at $22,465, compared to $22,276 in academic year 2021-22, with the difference caused by increases in a few university-set fees across the State System. The average price of attendance among all four-year public universities in the United States in academic year 2021-22 was $22,690.

Appropriations
For fiscal 2021-22 the Commonwealth appropriated $477.5 million which was the same level as fiscal 2020-21.

In fiscal year 2022-23, the State System will receive $552.5 million in **General Fund appropriations**, an increase of $75.0 million or 15.7% over the prior fiscal year. On July 21, 2022, the Board of Governors approved a new allocation method to the state appropriation allocations. This new allocation formula is student-focused and based on core operations and enrollment. The detailed methodology and calculations to support these distributions can be found in Procedure/Standard 2022-55: Allocation Formula Methodology. This new formula will be fully implemented and used to allocate the state appropriation received in FY 2022-23.

Pennsylvania ranks 46th in the nation in public higher education appropriations per FTE student.

The State System received a $28.4 million Realty Transfer Tax allocation in fiscal year 2021-22 from the Commonwealth's **Key '93** (Keystone Recreation, Park and Conservation) Fund. With the exception of fiscal years 2009-10 and 2010-11, when no funding was received, Key '93 funds have provided a consistent revenue stream for university deferred maintenance projects since 1993.

The State System was allocated $70 million in **Commonwealth capital funding** in fiscal year 2021-22, primarily for the renovation, replacement, and demolition of existing educational and general (E&G) buildings, all of which is completed under the direction and project management of the Commonwealth. This is consistent with the prior three years except for a slight increase to $73 million received in 2019-20. From FY2000-01 to FY 2017-18, the State System was allocated $65 million annually, with the exception of fiscal years 2009-10 and 2010-11, when $130 million was allocated. Except for the additional direct contributions from universities, they do not record the value of Commonwealth-funded capital projects as revenue or assets, since the Commonwealth retains title to any part of a capital project for which they directly provide funding.

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

Enrollment
Fall 2021 student headcount was 88,651, a decrease of 5,053 students, or 5.4%, from fall 2020, and a decrease of 26,039 students, or 23%, from fall 2012. The following is the history of State System student headcount enrollment since 2012, for credit-bearing and clock hour students.

Year	Fall Enrollment	% Change from Prior Year
2021	88,651	-5.4%
2020	93,704	-2.2%
2019	95,782	-2.6%
2018	98,350	-4.1%
2017	102,547	-2.4%
2016	105,038	-2.2%
2015	107,386	-2.2%
2014	109,808	-2.2%
2013	112,224	-2.2%
2012	114,690	-3.0%

In academic year 2020-21, the universities awarded 23,945 degrees and certificates, a decrease of 2.8% from the 24,636 degrees awarded in academic year 2019-20, and a 10.6% decrease over the 26,789 completions in academic year 2018-19.

	2020-21	2019-20	2018-19
Undergraduate	18,255	18,302	20,646
Graduate	5,690	6,334	6,143
Total	23,945	24,636	26,789

With an undergraduate population comprising 90% Pennsylvania residents—and the majority of those being traditional-age students enrolling right out of high school—the State System's enrollment historically has been closely tied to the state's high school demographic trends. As the number of high school graduates in the state continues to drop, most of the universities are expecting their enrollments to continue to decline, resulting in reduced revenue~~.~~

Since peaking at 131,733 students in academic year 2011-12, the projected number of **high school graduates** has dropped by 3.2% to 127,515 in academic year 2021-22. Following is the projected number of Pennsylvania high school graduates based on estimates from the Pennsylvania Department of Education.

Projected Pennsylvania High School Graduates		
Fiscal Year	**Number of Graduates**	**% Increase (Decrease)**
2021-22	127,515	1.0%
2022-23	126,421	-0.9%
2023-24	126,379	0.0%
2024-25	129,625	2.6%
2025-26	130,052	0.3%
2026-27	127,078	-2.3%
2027-28	124,659	-1.9%
2028-29	125,357	0.6%

The impact to the universities of the reductions in the number of high school graduates is compounded by a decline in the proportion of those who pursue higher education, an overcrowded higher education marketplace in the state, increased admissions standards at several universities designed to improve long-range retention, and the impact of COVID-19.

Employee Compensation Costs
Approximately 86% of PASSHE's FTE employees are covered by nine collective bargaining agreements. Currently, agreements exist with all unions, except the Professional Doctors Association (PDA). The terms of the prior contract remain in effect until a successor agreement is ratified. With respect to employees who provide campus police and security services, the agreements with the PASSHE Officers Association (POA), and the Memorandum of Understanding with the International Union, Security, Police and Fire Professionals (SPFPA), for the first-level police and security supervisors, are both expiring on August 31, 2022. Efforts are underway to secure successor agreements with both of these groups.

In May 2019, the Board approved a **Voluntary Phased Retirement Program** in anticipation of full retirement for employee members of APSCUF. The program allows eligible faculty members to reduce their work commitment over a period of one to three years. During fall 2019, the State System and faculty union successfully negotiated a second retirement incentive: the **Enhanced Sick Leave Program (ESLP)**, which provided for increased accrued sick leave reimbursement for faculty who would retire prior to the start of the fall 2020 semester. Due to the success of this program, it was expanded to all employee groups, resulting in over 400 participants. In spring 2021, another ESLP program was approved by the Board of Governors for all employee groups. This program provides two windows of retirement, on or before June 30, 2021, or June 30, 2022.

Pension and OPEB Liabilities
The State System's liabilities related to **unfunded future pension and retiree healthcare costs total $2.97 billion** when combined with the respective deferred inflows of resources and deferred outflows of resources. The State System has virtually no control over $1.1 billion of this amount, which represents its share of the plans administered by the Commonwealth, since the Commonwealth determines the associated benefits as well as the employer and retiree contribution rates for these plans.

The **Commonwealth's combined net pension and OPEB liabilities** totaled $66.4 billion at June 30, 2022, compared to $80.9 billion at June 30, 2021, and $85.6 billion at June 30, 2020. Credit rating agencies consistently site these liabilities as significant challenges for both the State System and the Commonwealth and as factors that have contributed to credit rating downgrades Commonwealth **pension legislation** enacted in 2017, modified the pension benefits for new hires beginning January 1, 2019, slowing the rate of growth of the pension liability, but it will not aid in reducing the existing liability. No legislation has been enacted or proposed to either reduce or slow the growth of the OPEB liabilities administered by the Commonwealth, in which the AFSCME employees participate. The State System, however, closed the State System OPEB plan to new employees—except for employees represented by APSCUF—hired after January 2016. Although this will not reduce the existing liability, the new hires bring no additional OPEB liability, now or in the future.

Capital Investment and Debt
The State System purchased $33.7 million in **capital assets** in fiscal year 2021-22, which includes $10.7 million to build or improve academic and auxiliary facilities across all 14 universities.

During fiscal year 2021-22, there were no new bond issuances by the State System.

Bond principal and refundings of $112.48 million and bond interest of $66 million were paid, bringing the total outstanding **bond debt** to $1.911 billion at June 30, 2022.

In June 2022, Moody's Investors Service, Inc. maintained the State System's **bond rating** of Aa3, but revised the outlook from stable to negative. The negative outlook reflects Moody's expectations of ongoing student demand difficulties leading to a continued trend of thin operating performance and weakening debt service coverage through fiscal 2022. In June 2022, Moody's published an updated Environmental, Social, and Governance methodology which introduces ESG Issuer Profile (IPS) and Credit Impact Scores (CIS) for rated entities. The new scores are incorporated in the credit ratings of ESG issues. The State System has been assigned a CIS-4, reflecting Moody's assessment that the State System has high exposure to social risks, primarily demographics, with neutral to low environmental and governance risks. In March 2022, Fitch Ratings reviewed the State System's rating of A+ with stable outlook and no rating change was made.

The Financial Statements

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

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

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

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

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

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

Following is a summary of the State System's balance sheet at June 30, 2022, 2021, and 2020.

Balance Sheet

(in millions)	June 30, 2022	Change from Prior Year	Restated June 30, 2021	Change from Prior Year	June 30, 2020	Change from Prior Year
Assets						
Cash and investments	$1,068	(4.9%)	$1,123	(10.7%)	$1,258	(3.9%)
Capital assets, net	2,238	(3.1%)	2,309	10.8%	2,085	3.4%
Other assets	1,012	(3.5%)	1,049	394.9%	212	9.2%
Deferred outflows	415	(23.3%)	541	140.9%	225	(32.0%)
Total assets and deferred outflows	4,733	(5.7%)	5,022	32.9%	3,779	(1.8%)
Liabilities						
Workers' compensation	20	(7.0%)	22	(1.4%)	22	(4.0%)
Compensated absences	167	0.1%	167	16.3%	143	12.4%
Net pension liability	682	(24.2%)	900	(5.8%)	956	(13.8%)
Net OPEB liability	1,810	(8.7%)	1,983	14.1%	1,738	(12.1%)
Bonds payable	1,911	(5.6%)	2,023	90.0%	1,065	(7.8%)
Lease obligations and financed purchases	218	(2.7%)	224	85.9%	121	290.0%
Other Liabilities	394	(16.2%)	470	(10.4%)	524	11.4%
Deferred inflows	904	9.3%	827	6.9%	774	36.1%
Total liabilities and deferred outflows	6,106	(7.7%)	6,616	23.8%	5,343	(2.1%)
Net Position						
Net investment in capital assets	841	(2.3%)	861	(3.9%)	896	6.7%
Restricted	172	(2.5%)	176	16.8%	151	(0.9%)
Unrestricted	(2,386)	(9.4%)	(2,633)	0.8%	(2,611)	0.3%
Total net position	(1,373)	(14.0%)	(1,596)	2.0%	(1,564)	(2.9%)
Total liabilities, deferred inflows and net position	$4,733	(5.7%)	$5,020	32.8%	$3,779	(1.8%)

Net Position

Overall, **net position increased by $222.8 million** in fiscal year 2021-22. This compares to a decrease of $31.6 million in FY2020-21 from fiscal year 2019-20, and an increase of $46.1 million in fiscal year 2019-20 from fiscal year 2018-19. The increase in fiscal year 2021-22 is primarily the result of the increase in both operating and nonoperating revenues with slightly lower operating and other expenses.

In accordance with GASB requirements, the State System reports three components of net position:

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

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

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

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

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

  As employees earn and accumulate leave, the compensated absences liability increases; as employees use leave or terminate, the liability decreases. The liability increased by $0.2 million to $167.0 million for the year ended June 30, 2022, compared to a $23.4 million increase to $166.8 million for the year ended June 30, 2021. Universities fund this liability only as cash payouts are made to employees upon termination. In fiscal year 2021-22, cash leave payouts to employees totaled $25.8 million, compared to $36.4 million and $12.7 million in fiscal years 2020-21 and 2019-20, respectively. At June 30, 2022, the vested value of sick leave payable to employees upon retirement was $39.0 million, and the value of annual leave payable upon any termination was $38.2 million, for a total of $77.3 million, or 46.2% of the total liability, due and payable to employees. By contrast, at June 30, 2021, the vested value of sick leave payable to employees upon retirement was $41.5 million, and the value of annual leave payable upon any termination was $43.4 million, for a total of $84.9 million, or 50.9% of the total liability, due and payable to employees.

- The **net pension liability**, along with the related deferred outflows and inflows of resources, is the State System's allocated share of the difference between the Commonwealth's defined benefit pension obligations and the funding set aside by the Commonwealth in a qualified trust to pay the future benefits that are promised to current employees, retirees, and their beneficiaries. The annual increase in the liability is the amount that current employees earn each fiscal year as a pension benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability decreases when funding of the qualified trust increases and when employees or retirees leave the pension plans. The negative effect of this liability, along with the related deferred outflows and inflows of resources, on net position at June 30, 2022, was $831.4 million, compared to $906.9 million at June 30, 2021 and $932.1 million at June 30, 2020. Universities fund this liability on a "pay-as-you-go" basis; that is, they fund only the annual contractually required contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).

- The **SERS prefunding** that was completed in the fiscal year ended June 30, 2021, via a bond issuance whose proceeds were transferred to the SERS plan, is reflected as an asset on the balance sheet in other assets. The balance at June 30, 2022 is $800.4 million. This will be amortized to reduce pension expense over time.

- The liability for **other postemployment benefits, or OPEB,** represents the estimated future healthcare costs for current and future retirees. The annual increase in the liability is the amount that current employees earn each fiscal year as a retiree healthcare benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability also increases as healthcare costs increase.

  The liability decreases when required contributions by retirees are increased, when the number of eligible employees decreases, and when retirees leave the plan. The negative effect of this liability, along with the related deferred outflows and inflows of resources, on net position at June 30, 2022 was $2.1 billion, compared to $2.3 billion at June 30, 2021 and $2.3 billion at June 30, 2020. Like the pension liability, universities fund these liabilities on a "pay-as-you-go" basis: For the State System plan, universities make biweekly contributions to fund the actual claims incurred by retirees during the year; for the Retired Employees Health Program (REHP) and PSERS OPEB plans, the universities make contractually required contributions as determined by the Commonwealth.

Following is a summary of the effect of the three unfunded liabilities, including the related deferred outflows of resources (DOR) and deferred inflows of resources (DIR), on the State System's net position. The State System's Alternative Retirement Plan is a defined contribution plan and has no liability.

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

(in millions)	**June 30, 2022**	**June 30, 2021**	**June 30, 2020**
Unrestricted Net Position when the effect of the unfunded liabilities is included	($2,386)	($2,631)	($2,611)
Pension Liabliities, including DOR and DIR			
SERS Pension	755	827	853
PSERS Pension	76	80	79
Alternative Retirement Plan	-	-	-
Total Pension Liabilities	831	907	932
OPEB Liabilities, including DOR and DIR			
SSHE OPEB Plan	1,475	1,497	1,497
REHP OPEB Plan	660	751	815
PSERS OPEB Plan	4	4	4
Total OPEB Liabilities	2,139	2,251	2,315
Compensated Absences Liability	167	167	143
Total Unfunded Liabilities, including DOR & DIR	3,137	3,325	3,391
Unrestricted Net Position when the effect of the unfunded liabilities is excluded	$751	$694	$780

When the unfunded liabilities and related DOR and DIR are excluded, unrestricted net position increased by $57 million, or 8.3% from fiscal year 2020-21 to 2021-22, compared to a decrease of $86 million, or (11.0%), from fiscal year 2019-20 to 2020-21. The increase in the current year is associated with increased revenues with expenses holding relatively steady. In fiscal 2020-21, the impacts of COVID-19 served further to increase revenue losses from lower enrollments which were not fully offset by relief funds recognized during the same period.

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

Revenues and Gains
Following is a summary of revenues and gains for the years ending June 30, 2022, 2021, and 2020.

Revenues and Gains

(in millions)	June 30, 2022	Change from Prior Year	(Restated) June 30, 2021	Change from Prior Year	June 30, 2020	Change from Prior Year
Operating revenues						
Tuition and fees, net	$724	(5.5%)	$767	(6.4%)	$819	(2.7%)
Grants and contracts	168	0.1%	168	2.5%	164	(0.7%)
Auxiliary enterprises, net	289	116.3%	134	(45.6%)	246	(23.4%)
Other	43	26.8%	34	(23.8%)	45	(24.2%)
Total Operating Revenues	1,224	11.1%	1,102	(13.4%)	1,273	(8.2%)
Nonoperating revenues and gains						
State appropriations	521	2.0%	511	(0.3%)	512	5.3%
Federal & State approp. & grants - COVID	241	13.1%	213	185.5%	75	0.0%
Investment income, net	20	25.0%	16	(68.2%)	50	0.2%
Unrealized gain on investments	-	(100.0%)	11	0.0%	-	(100.0%)
Gifts, nonoperating grants and other	153	(1.6%)	156	(8.0%)	169	(6.7%)
Total Nonoperating revenues and gains	935	3.2%	906	12.4%	806	12.2%
Total revenues and gains	$2,159	7.5%	$2,008	(3.4%)	$2,079	1.2%

Overall, fiscal year 2021-22 **operating revenues** increased from the prior fiscal year due to the resumption of normal operations as coronavirus restrictions eased and auxiliary services returned to normal operation. Nonoperating revenues increased slightly by 3.2%, mainly due to increases in state appropriations and recognition of revenues from COVID related appropriations and grants such as the CARES Act, CRRSAA and APRA. The overall increase in revenues and gains was 7.5% versus the prior year.

Tuition and fee revenue is shown net of discounts and allowances and bad debt expense. Discounts and allowances represent financial aid to students in the form of grants, scholarships, and waivers. A freeze in tuition and most mandatory fees, combined with a decline in enrollment resulted in an overall decrease of **net tuition and fee revenue** of $43 million in fiscal year 2021-22 or (5.5%) from fiscal year 2020-2021. $52.4 million in fiscal year 2020-21, or (6.4%), from fiscal year 2019-20. This follows a decrease in net tuition and fee revenue of $52 million, or (6.4%), in fiscal year 2020-21 over fiscal year 2018-20.

Auxiliary enterprises revenue, which includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of student union and recreation centers, increased by $155 million in fiscal year 2021-22, or 116.3% over fiscal year 2020-21. This compares to a decrease of $112 million or (45.6%) in fiscal year 2020-21 from fiscal year 2019-20, This decrease can be attributed to a primarily remove form of instruction and liming the number of students living on campus and participating in activities, due to the pandemic.

State appropriations include cash as well as capital appropriations that are received in the form of noncash furnishings and equipment for the Commonwealth-funded construction projects. The fiscal year 2021-22 appropriation was $521 million, a $10 million increase over fiscal year 2020-21.

Other Revenue includes CARES Act, CRRSSA, and ARPA funds that have been provided to State System universities for emergency aid to students whose lives have been disrupted by the pandemic, as well as funds that can used by the institution to help cover costs associated with providing a safe campus and work environment throughout this pandemic. An overview of these funds is provided on page 7. A total of $529 million in federal and/or state CARES, CRRSAA, and ARPA funds have been awarded to date, of which $241 million were recorded in revenue in 2021-22, $213 million was recorded as revenue in 2020-21 and $74.6 million was recorded as revenue in 2019-20.

Expenses and Losses
Following is a summary of expenses and losses for the years ending June 30, 2022, 2021, and 2020.

Expenses and Losses

(in millions)	June 30, 2022	Change from Prior Year	(Restated) June 30, 2021	Change from Prior Year	June 30, 2020	Change from Prior Year
Operating expenses						
Instruction	$602	(14.1%)	$701	(2.4%)	$718	(4.3%)
Research and public service	67	4.0%	64	5.2%	61	3.0%
Academic support	139	(9.9%)	154	(11.7%)	175	(4.7%)
Student services	159	(5.2%)	168	(9.2%)	185	(2.8%)
Institutional support	233	(16.2%)	278	4.5%	266	4.0%
Operations and maintenance of plant	92	(12.1%)	105	(14.6%)	123	(15.6%)
Depreciation and amortization	160	(0.9%)	162	8.7%	149	3.3%
Student aid	178	4.2%	171	41.3%	121	68.2%
Auxiliary enterprises	186	24.3%	150	(18.7%)	184	(27.7%)
Total Operating Revenues	1,816	(7.0%)	1,952	(1.5%)	1,981	(3.6%)
Other expenses and losses						
Interest expense capital asset-related debt	61	49.9%	41	(0.7%)	41	(2.4%)
Loss on disposal / acquistion of assets	1	(97.8%)	46	2623.5%	2	(94.0%)
Loss on termination of Perkins Loan Program	2	0.0%	-	0.0%	-	0.0%
Unrealized loss on investment	58	0.0%	-	(100.0%)	9	0.0%
Total Nonoperating revenues and gains	122	40.2%	87	68.0%	52	(26.3%)
Total expenses and losses	$1,938	(5.0%)	$2,039	0.3%	$2,033	(4.4%)

The decrease in **operating expenses** of $101 million, or 5.0% in fiscal year 2021-22 compared to fiscal year 2020-21 is attributable to $158 million decrease in the actuarially calculated pension and post-employment expenses, offset by unrealized losses on investments.

Following is a summary of salaries, wages, and benefits expenses for the years ending June 30, 2022, 2021, and 2020.

Salaries, Wages and Benefits

(in millions)	June 30, 2022	Change from Prior Year	June 30, 2021	Change from Prior Year	June 30, 2020	Change from Prior Year
Salaries and wages	$875	(5.2%)	$923	(1.2%)	$934	0.3%
Employer benefit contributions						
Employee healthcare	126	2.2%	123	(4.7%)	129	4.7%
Pension benefits	144	(2.4%)	148	(3.2%)	152	0.1%
Retiree healthcare	37	(6.8%)	40	(29.1%)	56	(11.3%)
Other benefits	95	(4.0%)	99	(4.0%)	103	(0.3%)
Total employer benefit contributions	402	(1.8%)	410	(7.1%)	441	(0.3%)
Noncash pension and OPEB expense						
Pension expense	(127)	708.9%	(16)	(148.8%)	32	(45.1%)
Retiree healthcare expense	(112)	77.8%	(63)	(39.1%)	(104)	(131.5%)
Total noncash pension and OPEB expense	(239)	203.7%	(79)	10.4%	(71)	(609.3%)
Total salaries, wages and benefits	$1,038	(17.2%)	$1,254	(3.8%)	$1,304	(6.1%)

Salaries and wages totaled $875 million in fiscal year 2021-22, a decrease of $48 million, or (5.2%), over fiscal year 2020-21. The decrease is the result of employee separations and non-replacement of certain positions vacated because of COVID-19. These reductions were partially offset by salary increases associated with collective bargaining agreements. Annualized full-time equivalent employees decreased to 9,823 in fiscal year fiscal year 2021-22, compared to 10,356 in fiscal year 2020-21 and 11,164 in fiscal year 2019-20..

When the effects of the non-cash pension and OPEB expenses in excess of contributions are factored out, fiscal year 2021-22 **employee benefits** totaled $402 million, a decrease of $8 million, or (1.8%), below fiscal year 2020-21.

The employer share of **employee healthcare contributions** increased by $3 million in fiscal year 2021-22, or 2.2%, from fiscal year 2020-21. This follows a decrease of $6 million in fiscal year 2020-21, or (4.7%), from fiscal year 2019-20 and an increase of $6 million, or 4.7%, in fiscal year 2019-20, over the prior fiscal year. Plan design changes in the plan administered by the State System, which increased employees' share of expenses through higher employee premium contributions, copays, deductibles, and coinsurance, and limited spousal participation contributed to reducing the expense between fiscal year 2018-19 and fiscal year 2020-21.

The employer share of **retiree benefits contributions** decreased by $6 million, or (3.3%), in fiscal year 2021-22 over fiscal year 2020-21. This follows a decrease of $20 million, or (10.1%), and a decrease of $7 million, or (3.3%), in fiscal years 2020-21 and 2019-20, respectively, over the prior fiscal years. Following is a summary of the State System's contributions for retiree pension and healthcare benefits for the years ending June 30, 2022, 2021, and 2020.

State System Employer Contributions for Retiree Pension and Healthcare Benefits

(in millions)	June 30, 2022	Change from Prior Year	June 30, 2021	Change from Prior Year	June 30, 2020	Change from Prior Year
Pension						
SERS	$91.6	(2.2%)	$93.7	(3.6%)	$97.2	(0.3%)
PSERS	8.9	2.3%	8.7	(1.1%)	8.8	2.3%
ARP	41.3	(8.4%)	45.1	(2.6%)	46.3	0.4%
Retiree Healthcare						
System Plan	27.5	(8.6%)	30.1	(16.9%)	36.2	(2.4%)
REHP	9.1	(12.5%)	10.4	(46.9%)	19.6	(24.0%)
PSERS Healthcare	0.2	0.0%	0.2	0.0%	0.2	0.0%
Totals	$178.6	(5.1%)	$188.2	(9.6%)	$208.3	(3.3%)

- **Employer contributions to SERS**, a defined benefits pension plan, were 37.46% of a participating employee's salary for the majority of participants in fiscal year 2021-22 and are expected to increase in the near future, but at a lesser rate than recent historical experience. This rate has been steadily and significantly increasing since fiscal year 2010-11, when the rate was 4.11% of an employee's salary. At December 31, 2021, 76.0% of the SERS liability was funded.

- **Employer contributions to PSERS**, a defined benefits pension plan, were 17.47% of a participating employee's salary in fiscal year 2021-22. This rate is expected to increase in the near future, but at a lesser rate than recent historical experience. This rate has been significantly increasing, with some fluctuation, since fiscal year 2010-11, when the rate was 2.82% of an employee's salary. The Commonwealth makes annual pension contributions to PSERS on behalf of State System employees at the same annual rate. At June 30, 2021, 63.7% of the PSERS liability was funded.

- **Employer contributions to the ARP**, a defined contribution plan, were 9.29% of a participating employee's salary in fiscal year 2021-22, the same rate since the plan's inception, and are expected to remain at the same rate for the near future. Because it is a defined contribution plan, the ARP has no unfunded liability.

- **Employer contributions to the State System OPEB Plan**, a defined benefits retiree healthcare plan administered by the State System, are made to a third-party health insurance vendor based on claims estimates agreed to by the State System and the third-party vendor. The vendor charges an additional assessment or issues a cash refund in the following year to reconcile to the actual claims paid. Despite the increasing population of retirees and rising healthcare costs, the State System has seen flat or declining healthcare spending in this plan from retirees for the last several years. This can be attributed in part to design changes that increased retirees' share of expenses through higher retiree premium contributions, copays, deductibles, and coinsurance. The employer rate for fiscal year 2021-22 was set at $163 per pay period per active participating employee and will increase to $178 in fiscal year 2022-23. Future year changes will depend upon actual claims experience. As of June 30, 2022, no funds have been placed in a trust to fund the future liability.

- **Employer contributions to the REHP**, a defined benefits retiree healthcare plan administered by the PEBTF, were $120 per pay period per active participating employee in fiscal year 2021-22. The contribution rate is set at the discretion of the Commonwealth and periodically fluctuates, ranging from $200 in fiscal year 2010-11 to $418 in fiscal year 2015-16. For fiscal year 2022-23, the rate will remain the same at $120 per pay period. At June 30, 2021, only 6.12% of the REHP liability was funded.

- **Employer contributions to the PSERS Health Insurance** Premium Assistance Program, a defined benefits retiree healthcare plan administered by PSERS, were 0.41% of a participating employee's salary in fiscal year 2021-22. The rate has been and is expected to remain at approximately the same amount. Any State System retiree who is a member of PSERS is eligible for this additional healthcare benefit, which offers up to $100 per month of reimbursements for healthcare costs, including insurance premiums.

The cost for **all other employee benefits**, such as Social Security and workers' compensation, decreased in fiscal year 2021-22 by a total of $4 million, or (4.0%), over fiscal year 2020-21, compared to a fiscal year 2020-21 decrease of $4 million, or (4.0%), over fiscal year 2019-20. The decrease in fiscal year 2021-22 is due to a decline in workers compensation and social security expenses.

Other Expenses and Losses

Interest expense on capital asset-related debt was $61 million, an increase of $20 million from fiscal year 2020-21. This increase is due to the interest expense incurred in fiscal year 2021-22 on the $827.6 million of bonds issued in April 2021, whose proceeds were used to prefund a portion of the State System's liability in the SERS Pension plan.

Statement of Cash Flows

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

The universities record their share of the State System pooled deposits and investments account at cost; that is, without regard to the fair value of the underlying investments. The associated markup or markdown for the fair value, as well as the annual unrealized gains or losses on investments, are recorded only at the consolidated level. In fiscal year 2021-22, the unrealized loss on the State System pool deposits and investments account was $40.9 million, while the accumulated fair value markup at June 30, 2022 was $4.7 million. This compares to an unrealized loss on investments in fiscal year 2020-21 of $9.7 million and an accumulated fair value markup of $45.6 million at June 30, 2021.

The combination of factors such as years of relatively low appropriations, declining enrollment, low interest rates, increasing personnel costs, high long-term debt, and COVID-19 related campus closures continues to cause **cash flow pressures** for some State System universities. Total unrestricted operating cash (combined Educational & General and Auxiliary) increased by $31.9 million, or 3.6, in fiscal year 2021-22 to $926.2 million, compared to a balance of $894.3 million at June 30, 2021. Cash flow weaknesses, which can seriously challenge financial viability, have begun to significantly affect most universities, with Slippery Rock University and West Chester University being notable exceptions. The System Office is monitoring universities whose cash, revenue, expenditure, and enrollment trends may be an indication of future cash flow weaknesses. Mansfield University received an addition $10.0 million line of credit from the State System pooled account in fiscal year 2021-22, bringing their total outstanding to $20 million. This amount was moved to the System level at June 30, 2022.

Other Economic Factors

The **Commonwealth** ended fiscal year 2021-22 with $48.1 billion in General Fund collections, $7.7 billion above the previous year and $5.6 billion above estimate.

On July 8, 2022, Governor Tom Wolf signed a fiscal year 2022-23 Commonwealth General Fund budget of $43 billion that provides for increased funding of higher education. The spending plan appropriated to the State System was $552.5 million in General Funds and $125 million in COVID relief funds from the State Fiscal Recovery Fund federal appropriations.

Over the course of the past several years, the State System has provided lines of credit, System notes and other support to Cheyney University. On November 13, 2019, Governor Wolf pledged support to the System through a letter to Cheyney's President assuring that "Cheyney's obligation to other PASSHE institutions and the Office of the Chancellor, totaling $40,264,814, is eliminated."

Cheyney Accreditation and Title IV Status
On November 22, 2019, Middle States informed Cheyney University of its "…reaffirm[ed] accreditation because the institution is now in compliance with Standard VI (Planning, Resources, and Institutional Improvement) and Requirement of Affiliation 11. The Commonwealth of Pennsylvania, Office of the Governor, has provided written assurance of the elimination of Cheyney University's debt to the Pennsylvania State System of Higher Education (PASSHE) and the Office of the Chancellor. Prior to this notification, Cheyney had been on probation since November 2015.

Cheyney has been on the Department of Education's (ED) Heightened Cash Monitoring 2 (HCM2) status since September 2015, which means that the university does not receive federal student financial aid funds in advance, but must use its own cash to grant federal financial aid to its students and then request reimbursement from the ED. The University is still on HCM2 status; however, in September 2020 Cheyney was granted a reduction of documentation requirement after submission of six positive results.

In August 2019, ED notified Cheyney that it was assessing a repayment liability of $14.3 million to Cheyney for the federal student financial aid improperly administered during fiscal years 2011-12, 2012-13, and 2013-14. Recording this assessment resulted in an overall unrestricted loss of $12.3 million for fiscal year 2018-19. In February 2020, a settlement agreement was executed between ED and Cheyney and a payment schedule was established for the settlement amount.

For ***further information*** *about these financial statements, contact Pennsylvania's State System of Higher Education, Administration and Finance Division, 2300 Vartan Way, Suite 207, Harrisburg, PA 17110.*

Pennsylvania's State System of Higher Education

Balance Sheet

(dollars in thousands)

Assets and Deferred Outflows of Resources

	June 30, 2022	(Restated) June 30, 2021
Current Assets		
Cash and cash equivalents	$ 44,115	$ 65,186
Short-term investments	388,545	340,329
Accounts receivable, students, net	49,083	43,015
Accounts receivable, other	23,534	25,193
Governmental grants and contracts receivable	51,910	55,041
Prepaid expenses	37,873	37,758
Current portion of loans receivable	2,129	3,059
Due from component units	18,629	19,170
Other current assets	10,972	9,970
Total Current Assets	626,790	598,721
Noncurrent Assets		
Restricted cash and cash equivalents	25	25
Long-term investments, including endowments	635,744	717,258
Beneficial interests	24,143	29,040
Loans receivable	3,552	11,224
Due from component units	2,030	1,705
Capital assets, net of accumulated depreciation and amortization	2,237,769	2,309,122
Other noncurrent assets	787,714	813,561
Total Noncurrent Assets	3,690,977	3,881,935
Total Assets	4,317,767	4,480,656
Deferred Outflows of Resources	414,879	541,088
Total Assets and Deferred Outflows of Resources	$ 4,732,646	$ 5,021,744

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

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

Liabilities, Deferred Inflows of Resources, and Net Position

	June 30, 2022	(Restated) June 30, 2021
Current Liabilities		
Accounts payable and accrued expenses	$ 223,836	$ 221,523
Unearned revenue	49,589	87,180
Deposits	6,075	5,973
Current portion of workers' compensation liability	3,963	4,234
Current portion of compensated absences liability	20,525	25,878
Current portion of OPEB liability	36,685	40,514
Current portion of lease obligations, including financed purchases	16,263	14,910
Current portion of bonds payable	116,105	112,480
Due to component units	9,102	10,585
Other current liabilities	41,734	62,215
Total Current Liabilities	523,877	585,492
Noncurrent Liabilities		
Unearned revenue	952	1,006
Workers' compensation liability, net of current portion	16,420	17,274
Compensated absences liability, net of current portion	146,525	140,925
Net pension liability	681,663	900,024
OPEB liability, net of current portion	1,773,417	1,942,780
Lease obligations including financed purchases, net of current portion	202,103	209,198
Bonds payable, net of current portion	1,794,795	1,910,900
Other noncurrent liabilities	61,772	81,374
Total Noncurrent Liabilities	4,677,647	5,203,481
Total Liabilities	5,201,524	5,788,973
Deferred Inflows of Resources	904,031	826,920
Net Position		
Net investment in capital assets	840,483	860,516
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	60,328	68,349
Student loans	1,338	2,669
Other	1,580	3,682
Expendable:		
Scholarships and fellowships	32,449	37,141
Capital projects	54,270	43,190
Other	22,220	21,410
Unrestricted	(2,385,577)	(2,631,106)
Total Net Position	(1,372,909)	(1,594,149)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 4,732,646	$ 5,021,744

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2022 and 2021
(dollars in thousands)

	2022	(Restated) 2021
Operating Revenues		
Tuition and fees, net	$ 723,506	$ 766,484
Grants and contracts	168,083	167,788
Sales and services	34,889	21,691
Auxiliary enterprises, net	289,251	133,594
Other revenues, net	8,486	12,353
Total Operating Revenues	1,224,215	1,101,910
Operating Expenses		
Instruction	601,722	700,942
Research and Public Service	67,399	64,351
Academic support	139,164	153,846
Student services	158,922	167,776
Institutional support	233,340	278,164
Operations and maintenance of plant	91,651	104,710
Depreciation	160,092	161,506
Student aid	178,132	170,843
Auxiliary enterprises	185,894	149,582
Total Operating Expenses	1,816,316	1,951,720
Operating Loss	(592,101)	(849,810)
Nonoperating Revenues (Expenses)		
State appropriations, general and restricted	477,470	477,470
Federal and State appropriations and grants-COVID	240,908	213,364
Pell grants	113,700	121,006
Investment income, net	20,032	16,673
Unrealized gain (loss) on investments	(57,511)	10,839
Gifts for other than capital purposes	25,505	19,481
Interest expense on capital asset-related debt	(61,066)	(41,059)
Loss on disposal/acquisition of assets	(780)	(46,288)
Loss on termination of Perkins Loan Program	(2,003)	-
Other nonoperating revenue	5,712	10,149
Net Nonoperating Revenues	761,967	781,635
Income (Loss) before other revenues and special item	169,866	(68,175)
State appropriations, capital	43,480	33,319
Capital gifts and grants	7,894	4,875
Income (Loss)	221,240	(29,981)
Increase (Decrease) in Net Position	221,240	(29,981)
Net position—beginning of year	(1,594,149)	(1,564,168)
Net position—end of year	$ (1,372,909)	$ (1,594,149)

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows
For the Years Ended June 30, 2022 and 2021
(dollars in thousands)

	2022	(Restated) 2021
Cash Flows from Operating Activities		
Tuition and fees	$ 718,511	$ 765,094
Grants and contracts	133,866	193,805
Payments to suppliers for goods and services	(422,559)	(1,209,762)
Payments to employees	(1,218,941)	(1,282,057)
Loans issued to students	(90)	(79)
Loans collected from students	7,531	10,899
Student aid	(179,073)	(171,624)
Auxiliary enterprise charges	286,558	136,592
Sales and services	35,063	21,420
Other receipts	8,056	(77,813)
Net cash used in operating activities	(631,078)	(1,613,525)
Cash Flows from Noncapital Financing Activities		
State appropriations	527,461	477,529
Gifts and nonoperating grants for other than capital purposes	330,052	333,181
PLUS, Stafford, and other loans receipts (non-Perkins)	671,406	665,229
PLUS, Stafford, and other loans disbursements (non-Perkins)	(671,406)	(665,244)
Bond proceeds for prefunding pension	(34,225)	827,580
Agency transactions, net	(14,947)	1,731
Other	3,985	425
Net cash provided by noncapital financing activities	812,326	1,640,431
Cash Flows from Capital Financing Activities		
Proceeds from capital debt and leases	10,000	127,610
Capital appropriations	41,874	33,319
Capital grants and gifts received	6,933	4,690
Proceeds from sales of capital assets	12,269	3,614
Purchases of capital assets	(93,871)	(101,938)
Principal paid on capital debt and leases	(115,260)	(199,956)
Interest paid on capital debt and leases	(72,896)	(52,160)
Net cash used in capital financing activities	(210,951)	(184,821)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	19,195,629	16,291,753
Interest on investments	17,950	17,700
Purchase of investments	(19,204,947)	(16,190,315)
Net cash provided by investing activities	8,632	119,138
Net Increase (Decrease) in Cash and Cash Equivalents	(21,071)	(38,777)
Cash and cash equivalents—beginning of year	65,211	103,988
Cash and cash equivalents—end of year	$ 44,140	$ 65,211

See accompanying notes to financial statements.

Pennsylvania’s State System of Higher Education

Statement of Cash Flows *(continued)*
For the Years Ended June 30, 2022 and 2021
(dollars in thousands)

	2022	(Restated) 2021
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (592,101)	$ (849,810)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	160,092	161,506
Expenses paid by Commonwealth or donor	4,481	(3,268)
Effect of changes in operating assets, liabilities, deferred outflows of resources, and deferred inflows of resources:		
Receivables, net	(2,494)	(3,720)
Other assets	27,209	(823,358)
Accounts payable	6,391	44,698
Unearned revenue	(37,585)	35,270
Student deposits	240	51
Compensated absences	247	23,401
Loans to students and employees	7,441	10,820
Defined benefit pensions	(173,192)	(55,877)
Other postemployment benefits liability (OPEB)	(218,361)	244,953
Other liabilities	(15,526)	(118,124)
Deferred outflows of resources related to pensions	37,606	(51,626)
Deferred outflows of resources related to OPEB	87,740	(264,877)
Deferred inflows of resources related to pensions	105,258	82,270
Deferred inflows of resources related to OPEB	(26,477)	(44,349)
Deferred inflows of resources related to lease receivable	(2,047)	(1,485)
Net cash used in operating activities	$ (631,078)	$ (1,613,525)
Noncash Activities		
Capital assets included in payables	$ 9,484	$ 15,200
Capital assets acquired by notes payable (financed purchase)	592	88,145
Capital assets acquired by new Right of Use leases	8,454	6,180
Capital assets acquired by new Right of Use leases with Component Units	2,517	24,533
Capital assets acquired by gift or appropriation	961	186
Student housing capital assets acquired	-	157,476
Like-kind exchanges	-	8
Debt acquired for student housing acquisition	-	206,354
Commonwealth on-behalf contributions to PSERS	4,481	9,724
Lessor leases issued with third parties	127	8,341
Lessor leases issued with Component Units	725	7,137

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

	June 30, 2022	June 30, 2021
Assets		
Cash and cash equivalents	$ 121,922	$ 110,900
Accounts and interest receivable	5,096	5,670
Contributions/pledges receivable	28,806	24,234
Due from universities	9,297	10,909
Inventories and prepaid expenses	6,637	8,493
Restricted cash and cash equivalents	54,558	47,151
Short-term investments	19,191	20,883
Long-term investments	662,210	744,577
Land, buildings, and equipment, net	540,958	559,535
Other assets	126,228	137,817
Total Assets	$ 1,574,903	$ 1,670,169
Liabilities		
Accounts and interest payable	$ 22,730	$ 21,454
Deferred revenue	4,422	5,140
Annuity liabilities	5,034	5,885
Due to universities	20,069	18,979
Deposits payable	38,605	45,056
Interest rate swap agreements	39,736	65,415
Capitalized leases	19,144	24,781
Bonds and notes payable	785,663	830,849
Other liabilities	18,337	23,439
Total Liabilities	953,740	1,040,998
Net Assets		
Without donor restrictions	97,646	56,917
With donor restrictions	523,517	572,254
Total Net Assets	621,163	629,171
Total Liabilities and Net Assets	$ 1,574,903	$ 1,670,169

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Activities
For the Years Ended June 30, 2022 and 2021
(dollars in thousands)

	2022	2021
Changes in net assets without donor restrictions		
Contributions	$25,672	$ 7,027
Sales and services	28,929	22,318
Student fees	27,812	19,233
Grants and contracts	11,023	9,869
Rental income	90,016	50,608
Investment return, net	(2,014)	27,238
Other revenues and gains	46,941	65,414
Net assets released from restrictions	41,874	29,149
Total Revenues and Gains	270,253	230,856
Expenses and Losses		
Program services:		
Scholarships and grants	24,377	24,219
Student activities and programs	26,523	18,204
University stores	18,733	17,100
Housing	80,415	86,236
Other programs	39,142	32,456
Management and general	26,046	25,956
Fundraising	9,678	9,838
Total Expenses	224,914	214,009
Other expenses and losses	10,780	29,851
Total Expenses and Losses	235,694	243,860
Change in net assets without donor restrictions	34,559	(13,004)
Changes in net assets with donor restrictions		
Contributions	$ 52,892	$ 36,211
Investment return, net	(55,529)	110,035
Other revenue and gains	3,044	2,625
Other expenses and losses	(1,100)	(1,415)
Net assets released from restrictions	(41,874)	(29,149)
Change in net assets with donor restrictions	(42,567)	118,307
Change in total net assets	(8,008)	105,303
Net assets—beginning of year	629,171	523,868
Net assets—end of year	$ 621,163	$ 629,171

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Expenses by Nature and Function
For the Years Ended June 30, 2022 and 2021
(dollars in thousands)

2022

	Program Activities						Supporting Activities			
Natural Expense	Scholarships and grants	Student activities and programs	University stores	Housing	Other programs	Total Programs	Management and general	Fundraising	Total Supporting	**Total Expenses**
Salaries and benefits	$578	$4,479	$4,406	$6,241	$6,373	$22,077	$14,080	$4,462	$18,542	$40,619
Gifts and grants	17,776	7,113	0	2,139	6,995	34,023	1,329	129	1,458	35,481
Supplies and travel	19	5,383	4,145	826	3,477	13,850	662	749	1,411	15,261
Services and professional fees	312	1,900	267	3,455	4,470	10,404	3,535	2,237	5,772	16,176
Office and occupancy	9	828	1,135	14,904	1,446	18,322	2,091	194	2,285	20,607
Depreciation	0	266	384	20,503	2,398	23,551	1,106	47	1,153	24,704
Interest	0	0	1	22,773	4,056	26,830	878	29	907	27,737
Other	5,683	6,554	8,395	9,574	9,927	40,133	2,365	1,831	4,196	44,329
Total Expenses	$24,377	$26,523	$18,733	$80,415	$39,142	$189,190	$26,046	$9,678	$35,724	$224,914

2021

	Program Activities						Supporting Activities			
Natural Expense	Scholarships and grants	Student activities and programs	University stores	Housing	Other programs	Total Programs	Management and general	Fundraising	Total Supporting	**Total Expenses**
Salaries and benefits	$410	$3,395	$4,314	$6,389	$5,408	$19,916	$14,615	$4,369	$18,984	$38,900
Gifts and grants	16,193	5,233	0	1,306	4,925	27,657	1,219	165	1,384	29,041
Supplies and travel	19	2,684	3,633	546	1,607	8,489	325	422	747	9,236
Services and professional fees	19	1,300	258	3,247	2,908	7,732	3,164	2,885	6,049	13,781
Office and occupancy	7	949	1,281	11,606	1,175	15,018	1,694	155	1,849	16,867
Depreciation	0	218	376	24,276	2,604	27,474	1,222	49	1,271	28,745
Interest	0	0	1	30,698	4,961	35,660	1,134	30	1,164	36,824
Other	7,571	4,425	7,237	8,168	8,868	36,269	2,583	1,763	4,346	40,615
Total Expenses	$24,219	$18,204	$17,100	$86,236	$32,456	$178,215	$25,956	$9,838	$35,794	$214,009

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Reporting Entity

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

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

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

When both restricted and unrestricted funds are available for expenditure, the restricted funds will be used first.

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

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

Capital Assets
Land and buildings at the 14 university campuses acquired or constructed prior to its creation on July 1, 1983, are owned by the Commonwealth and made available to the universities of the State System. Since the State System neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed using capital funds appropriated by the Commonwealth after June 30, 1983 and made available to the universities. The only exception to this policy is the recording of assets funded by $45 million of Commonwealth Public Improvement Project Capital Funding that was awarded to the State System by Governor Tom Wolf on January 15, 2020. The amounts distributed and recorded as capital assets during fiscal years 2019-20 and 2020-21 totaled $17 million and $13 million, respectively. The remaining amount of $15 million was distributed during fiscal year 2021-22.

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

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

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

Impairment of Capital Assets
Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment

are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2022 and 2021.

Leases

The State System routinely engages in lease agreements to meet operational needs. The State System's lease contracts generally relate to land, buildings, and various equipment. For short-term leases with a maximum possible term of 12 months or less at commencement, the State System recognizes periodic revenue or expense based on the provision of the lease contract. For all other contracts where the State System is the lessee, that meet the requirements of GASB 87 and were in excess of the minimum dollar threshold, the State System recognized a lease liability and an intangible right of use asset based on the present value of the future lease payments over the contracted term of the lease. Lease right of use assets are reported with capital assets, and lease liabilities are reported as long-term debt in the statement of net position. The right of use lease assets are amortized over the term of the lease, as the State System is not expected to lease assets beyond the underlying asset's useful life. The State System also serves as a lessor for certain real estate. For those agreements required to be capitalized, the financial statements recognize a lease receivable and a deferred inflow of resources, based on the present value of the future lease payments expected to be received during the contracted lease term period and the deferred inflow of resources is amortized evenly over the term of the lease. Lease receivables are reported with other current assets and other noncurrent assets. Deferred inflow – lease receivable is reported as deferred inflow in the statement of net position.

The State System uses its estimated incremental borrowing rate as the discount rate for leases unless the rate the lessor charges is known. This rate is based on the general obligation bonds' weighted average interest rate for a given year. If amendments or other certain circumstances occur that are expected to significantly affect the amount of the lease, the present value is remeasured, and corresponding adjustments made. Payments based on future performance are not included in the measurement of the lease liability or lease receivable but recognized as expense or revenue in the period performed. Residual value guarantees and exercise options will be included in the measurement if they are reasonably certain to be paid or exercised.

A minimum dollar threshold was established for lease reporting purposes of $25,000.

Unearned Revenue

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

Compensated Absences

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

Pension Plans and OPEB Plans

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) and additions to/deductions from SERS and PSERS fiduciary net position have been determined on the same basis as they are reported by SERS and PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net Other Postemployment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the System Plan, Retired Employees Health Program (REHP) and Premium Assistance

Program (Premium Assistance) and additions to/deductions from the System Plan, REHP and Premium Assistance plans' fiduciary net position have been determined on the same basis as they are reported by the System Plan, REHP and Premium Assistance plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

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

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

New Accounting Standards
GASB has issued several accounting standards that were required to be adopted by the State System in the current or prior fiscal year, as discussed below.

In June 2017, GASB issued Statement No. 87, *Leases,* effective for reporting periods beginning after June 15, 2021. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right of use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right of use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources for all leases with lease terms greater than twelve months. The adoption of this statement resulted in the recognition of lease related assets, liabilities, and deferred inflows of resources. Notes 4 and 11 provide details on the balances reported. The financial statement for the fiscal year ended June 30, 2021 were restated as summarized below. There was no impact to previously reported beginning net position at June 30, 2020.

(*in thousands*)

Statement of Revenues and Expenses	**2021**
Income (Loss), as previously reported	($31,627)
Implementation of GASB 87	
Operating Revenues	65
Operating Expenses	1,720
Nonoperating Revenues (Expenses)	(139)
Income (Loss), as restated	(29,981)

(*in thousands*) **Balance Sheet at June 30, 2021**	**Balance as Previously Reported**	**GASB 87 Changes**	**Balance as Restated**
Total Current Assets	$597,444	$1,277	$598,721
Totan Noncurrent Assets	3,844,378	37,557	3,881,935
Deferred Outflow of Resources	541,088	0	541,088
Total Assets	**4,982,910**	**38,834**	**5,021,744**
Total Current Liabilities	582,791	2,701	585,492
Total Noncurrent Liabilities	5,182,986	20,492	5,203,478
Deferred Inflow of Resources	812,928	13,992	826,920
Net Position	(1,595,795)	1,649	(1,594,146)
Total Liabilities, Deferred Inflows of Resources and Net Position	**4,982,910**	**38,834**	**5,021,744**

(2) Deposits and Investments

On June 30, 2022 and 2021, the carrying amount of the State System's demand and time deposits and certificates of deposit for all funds was $51,443,000 and $73,897,000, respectively, compared to bank balances of $50,496,000 and $67,070,000, respectively. The difference is caused primarily by items in transit. Of the bank balances, $4,701,000 and $3,783,000, respectively, were covered by federal government depository insurance or collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve banks in the name of the banking institutions; $1,741,000 and $2,428,000 , respectively, were uninsured and uncollateralized; and $44,054,000 and $60,858,000, respectively, were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State System Pooled Deposits and Investments
The carrying values (fair values) of deposits and investments for the State System's pooled funds in M&T Bank on June 30, 2022 and 2021, follow.

State System Pooled Deposits and Investments
June 30, 2022
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				$416
Money market funds				7,288
Total deposits				7,704
Investments				
Commercial paper	2	P1	0.13	150,094
Government money market mutual fund	2	Aaa		90,946
U.S. government and agency obligations	2	Aaa	0.56	202,767
Asset-backed securities	2	Aaa	0.57	171,481
	2	P-1		
Collateralized mortgage obligations (CMOs)	2	A1	1.55	13,080
	2	A2	0.67	14,007
	2	Aaa	1.96	123,360
	2	Baa1	2.53	3,843
Corporate bonds and notes	2	Aa3	0.23	4,998
	2	A1	1.89	12,357
	2	A2	1.99	88,935
	2	A3	2.1	30,926
	2	Aaa	1.24	4,995
	2	Baa1	1.64	13,712
	2	Baa2	1.67	21395
Total investments				946,896
Total deposits and investments				$954,600

State System Pooled Deposits and Investments
June 30, 2021
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				$35,773
Money market funds				8,620
Total deposits				44,393
Investments				
Commercial paper	2	P1	0.13	109,806
Government money market mutual fund	2	Aaa	0	84,252
U.S. government and agency obligations	2	Aaa	1.24	238,728
Asset-backed securities	2	Aaa	0.75	161,938
	2	P-1	0.11	1,406
Collateralized mortgage obligations (CMOs)	2	A1	2.71	5,007
	2	A2	1.25	4,315
	2	Aa3	0.37	1,797
	2	Aaa	1.9	179,612
Corporate bonds and notes	2	Aa3	1.21	5,131
	2	A1	3.5	19,114
	2	A2	3.48	79,448
	2	A3	3.52	33,552
	2	Baa1	2.88	13,753
	2	Baa2	2.51	29,136
Total investments				966,995
Total deposits and investments				$1,011,388

Of the investments noted above at June 30, 2022 and 2021, $2,349,000 and $35,773,000, respectively, were held by a trustee to be used for projects funded under the Pennsylvania Higher Educational Facilities Authority/State System of Higher Education bond issues (note 12). Such investments are made subject to the restrictions of the bond indenture and may be liquidated only for the payment of costs associated with the projects described in the bond indenture.

University Local Deposits and Investments
The carrying values (fair values) of local university deposits and investments on June 30, 2022 and 2021, follow.

University Local Deposits and Investments
June 30, 2022
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				$43,724
Certificates of deposit				15
Total deposits				43,739
Investments				
U.S. government and agency obligations	1		0.10	13
	2		6.59	5,644
Bond mutual funds	1		2.56	6,733
	2		6.50	1,349
	NAV		0.33	4,315
Debt Securities	1	A1	1.46	39
	1	A2	2.69	80
	1	Aaa	2.08	19
	1	Baa1	4.01	45
	1	WR	0.05	20
	2	NR	6.74	10
	2	Aa1	6.74	362
	2	Aa3	6.74	70
	2	Aaa	6.74	71
	2	Aa2	6.74	75
	2	A2	6.74	690
	2	A3	6.74	607
	2	Baa1	6.74	304
Equity/balanced mutual funds	1			21,255
	2			21,114
	3			1,724
	NAV			5,230
Common stock	1			322
Total investments				70,091
Total deposits and investments				$113,830

University Local Deposits and Investments
June 30, 2021
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				$29,438
Certificates of deposit				65
Total deposits				29,503
Investments				
U.S. government and agency obligations	1		2.41	434
	2		5.80	45
Bond mutual funds	1		5.46	7,335
	2		5.80	924
	NAV		6.23	13,520
Debt Securities	1	A1	2.27	117
	1	A2	3.23	292
	1	A3	1.62	74
	1	Baa1	2.46	166
	1	Baa2	4.49	33
	2	Aa1	3.44	53
Equity/balanced mutual funds	1			22,921
	2			3,190
	3			2,063
	NAV			29,531
Common stock	1			1,206
Total investments				81,904
Total deposits and investments				$111,407

Investment revenue is reported net of related investment expenses. Gross investment revenue totaled $21,545,000 and $17,188,000 at June 30, 2022, and June 30, 2021, respectively. Of this amount, $1,513,000 and $704,000 at June 30, 2022, and June 30, 2021, respectively, represent the amount of related investment expenses.

(3) STUDENT REVENUE AND ACCOUNTS RECEIVABLE

Accounts receivable for tuition and fees charged to current and former students totaled $92,676,000 and $97,933,000 at June 30, 2022 and June 30, 2021, respectively. Of this amount, $43,593,000 and $54,918,000 at June 30, 2022, and June 30, 2021, respectively, are estimated to be uncollectible based upon the universities' historical losses and periodic review of individual accounts. Other receivables are reported at net realizable value. Accounts will be written off when they are determined to be uncollectible based upon management's assessment of individual accounts.

Tuition and fee revenue is reported net of scholarship discounts and allowances. Gross tuition and fee revenue totaled $953,297,000 and $976,752,000 at June 30, 2022, and June 30, 2021, respectively. Of this amount, $229,791,000 and $210,268,000 at June 30, 2022, and June 30, 2021, respectively, represent the amount of student grants, waivers, and scholarships calculated to be a discount against tuition and fees.

Revenue from auxiliary enterprises, which primarily comprises fees from student room and board, student recreation centers, and parking, is reported net of discounts. Gross auxiliary revenue totaled $293,809,000 and $135,758,000 at June 30, 2022, and June 30, 2021, respectively. Of this amount, $4,558,000 and $2,121,000 at June 30, 2022, and June 30, 2021, respectively, represent the amount of student grants, waivers, and scholarships calculated to be a discount.

(4) LEASE RECEIVABLES

The State System routinely leases various land or facilities to third parties and component units. The contracts, at times, may include variable payments that are not known or certain to be exercised at the time of the lease receivable valuation. These are recognized as income in the period that they occur.

The lease revenue, interest income and variable lease income for the fiscal year ended June 30, 2022 and 2021 are summarized in the following schedule.

(in thousands)	June 30, 2022		(Restated) June 30, 2021	
	Third Parties	Component Units	Third Parties	Component Units
Lease Revenue	$1,270	$197	$1,248	$229
Lease Revenue - Variable	20	83	15	-
Interest Income	106	100	96	91
Total	$1,396	$380	$1,359	$320

The following summary provides aggregated information reported for June 30, 2022 and 2021 lease receivables including additions, reductions for the years then ended.

(in thousands)	Balance June 30, 2020 (Restated)	2020-21 Additions (Restated)	2020-21 Reductions (Restated)	Balance June 30, 2021 (Restated)	2021-22 Additions	2021-22 Reductions	Balance June 30, 2022
Lease Receivable, Third Parties	$0	$8,341	($1,123)	$7,218	$587	($1,220)	$6,585
Lease Receivable, Comp Units	0	7,136	(104)	7,032	725	(1,097)	6,660
Total	$0	$15,477	($1,227)	$14,250	$1,312	($2,317)	$13,245

(5) Beneficial Interests

At June 30, 2022, the fair value of beneficial interests totaled $24,143,000, compared to $29,040,000 at June 30, 2021. Of this amount, $24,142,000 at June 30, 2022, and $29,038,000 at June 30, 2021, represent gifts that donors placed in trust in perpetuity with third parties, with the respective universities receiving a restricted revenue stream in accordance with the donors' wishes; and $993 at June 30, 2022, and $1,847 at June 30, 2021, represent a split-interest agreement that a donor placed in trust with a third party, and to which the university will take title upon the death of the donor.

(6) Capital Assets

Classifications of capital assets and related depreciation and amortization at June 30, 2022, 2021, 2020, follow.

(in thousands)	Balance June 30, 2020 (Restated)	2020-21 Additions (Restated)	2020-21 Retirements/ Adjustments (Restated)	Balance June 30, 2021 (Restated)	2021-22 Additions	2021-22 Retirements/ Adjustments	Balance June 30, 2022
Land	$34,780	$383	$0	$35,163	$0	($906)	$34,257
Construction in progress	109,570	74,346	(40,270)	143,646	59,128	(20,966)	181,808
Total capital assets not being depreciated	144,350	74,729	(40,270)	178,809	59,128	(21,872)	216,065
Buildings, including improvements	2,918,282	268,995	16,666	3,203,943	10,660	(27,241)	3,187,362
Improvements other than buildings	335,671	2,890	9,124	347,685	4,378	(565)	351,498
Equipment and furnishings	539,173	16,356	(10,186)	545,343	18,235	(11,350)	552,228
Library books	73,167	332	(2,016)	71,483	395	(1,651)	70,227
Right of use assets	57,197	30,471	0	87,668	11,040	(1,639)	97,069
Total capital assets being depreciated or amortized	3,923,490	319,044	13,588	4,256,122	44,708	(42,446)	4,258,384

(in thousands)	*(Capital assets continued)*						
	Balance June 30, 2020 (Restated)	**2020-21 Additions (Restated)**	**2020-21 Retirements/ Adjustments (Restated)**	**Balance June 30, 2021 (Restated)**	**2021-22 Additions**	**2021-22 Retirements/ Adjustments**	**Balance June 30, 2022**
Less accumulated depreciation and amortization:							
Buildings and improvements	(1,234,786)	(111,893)	5,671	(1,341,008)	(113,701)	32,904	(1,421,805)
Land improvements	(176,529)	(12,041)	140	(188,430)	(11,651)	1,546	(198,535)
Equipment and furnishings	(455,574)	(27,677)	11,090	(472,161)	(24,165)	11,801	(484,525)
Library books	(69,098)	(946)	2,010	(68,034)	(810)	1,651	(67,193)
Right-of-use assets	(47,226)	(8,950)	0	(56,176)	(9,765)	1,319	(64,622)
Total accumulated depreciation and amortization	(1,983,213)	(161,507)	18,911	(2,125,809)	(160,092)	49,221	(2,236,680)
Total capital assets being depreciated, net	1,940,277	157,537	32,499	2,130,313	(115,384)	6,775	2,021,704
Capital assets, net	$2,084,627	$232,266	($7,771)	$2,309,122	($56,256)	($15,097)	$2,237,769

(7) WORKERS' COMPENSATION

The State System is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, State System universities must pay up to $100,000; for claims occurring on or after July 1, 1995, State System universities must pay up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the universities contributed $464,098, $215,000, and $817,000 to the Reserve Fund during the years ended June 30, 2022, 2021, and 2020, respectively.

For the years ended June 30, 2022, 2021, and 2020, the aggregate liability for claims under the self-insurance limit was $7,516,000, $8,170,000, and $7,910,000, respectively. The Reserve Fund assets of $12,801,000, $13,338,000, and $13,865,000 were equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2022, 2021, and 2020, respectively. Changes in the workers' compensation claims liability in fiscal years 2020, 2021, and 2022 follow.

(in thousands)

Year	**Beginning Balance**	**Current Year Claims and Changes in Estimates**	**Claim Payments**	**Ending Balance**
2020	$22,727	$3,260	$4,213	$21,774
2021	$21,774	$3,230	$3,496	$21,508
2022	$21,508	$2,197	$3,322	$20,383

(8) Compensated Absences

Compensated absences are absences for vacation, holiday, and sick leave for which employees will be paid in cash at termination or retirement. Changes in the compensated absences liability in fiscal years 2022 and 2021 are as follows.

(in thousands)

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2021	$143,401	$59,773	$36,371	$166,803
2022	$166,803	$26,061	$25,815	$167,049

(9) Pension Benefits

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

Following is the total of the State System's pension liabilities, deferred outflows and inflows of resources related to pensions, and the pension expense for the fiscal years ended June 30, 2022 and 2021.

(in thousands)

	SERS		PSERS		ARP		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Net pension liabilities	**$ 608,705**	**$ 808,636**	**$ 72,958**	**$ 91,388**	**$ -**	**$ -**	**$ 681,663**	**$ 900,024**
Deferred outflows of resources:								
Difference between expected and actual experience	4,019	7,592	54	239	-	-	4,073	7,831
Net difference between projected and actual investment earnings on pension plan investments	-	-	-	4,016	-	-	-	4,016
Changes in assumptions	62,648	89,917	3,540	-	-	-	66,188	89,917
Difference between employer contributions and proportionate share of contributions	2,591	1,937	367	221	-	-	2,958	2,158
Changes in proportion	440	3,332	590	1,473	-	-	1,030	4,805
Contributions after the measurement date	50,899	54,172	8,893	8,746	-	-	59,792	62,918
Total deferred outflows of resources	**$ 120,597**	**$ 156,950**	**$ 13,444**	**$ 14,695**	**$ -**	**$ -**	**$ 134,041**	**$ 171,645**

(in thousands) *(Continued)*

	SERS		PSERS		ARP		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Deferred inflows of resources:								
Difference between expected and actual experience	3,504	907	959	2,190	-	-	4,463	3,097
Net difference between projected and actual investment earnings on pension plan investments	176,114	103,460	11,612	-	-	-	187,726	103,460
Difference between employer contributions and proportionate share of contributions	1,351	2,683	-	-	-	-	1,351	2,683
Changes in proportion	86,650	67,985	3,568	1,275	-	-	90,218	69,260
Total deferred inflows of resources	**$ 267,619**	**$ 175,035**	**$ 16,139**	**$ 3,465**	**$ -**	**$ -**	**$ 283,758**	**$ 178,500**
Pension expense, excluding prefunding credit	**$ 20,302**	**$ 67,307**	**$ 8,639**	**$ 19,155**	**$ 43,624**	**$ 45,093**	**$ 72,565**	**$ 131,555**
Contributions recognized by pension plans	**$ 91,297**	**$ 93,434**	**$ 8,893**	**$ 8,746**	**N/A**	**N/A**	**$ 100,190**	**$ 102,180**

The State System will recognize the $50,899,000 reported as 2022 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $8,893,000 reported as 2022 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

(in thousands)

	Amortization	
Fiscal Year Ended	**SERS**	**PSERS**
June 30, 2023	$ (42,405)	$ (2,995)
June 30, 2024	(72,882)	(2,621)
June 30, 2025	(46,121)	(2,283)
June 30, 2026	(35,578)	(3,691)
June 30, 2027	(933)	-
Totals	$ (197,919)	$ (11,590)

SERS

Plan Description

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

Membership in SERS is mandatory for most state employees. Members and employees of the General Assembly, certain elected or appointed officials in the executive branch, department heads, and certain employees in the field of education are not required, but are given the option, to participate.

Benefits Provided
SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. Cost of Living Adjustments (COLA) are provided ad hoc at the discretion of the General Assembly.

Employees who were hired prior to January 1, 2011, and retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit; members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service. Act 120 of 2010 (Act 120) preserved all benefits in place for members, but mandated a number of benefit reductions for new members effective January 1, 2011, through December 31, 2018. The benefit reduction included a new class of membership that accrues benefits at 2% of members' final average salary instead of the previous 2.5%. The vesting period changed from 5 to 10 years of credited service, and the option to withdraw lump-sum accumulated deductions was eliminated. The new normal retirement age is 65 for most employees and 55 for members of the General Assembly and certain employees classified in hazardous duty positions. Act 2017-5 preserved all benefits in place for members, but fundamentally changed retirement options for new hires beginning January 1, 2019: most employees who first become SERS members on or after January 1, 2019, must choose from one of two new defined benefit/defined contribution hybrid options or a straight 401(a) defined contribution option.

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

Prefunding Adjustment
Act 105 issued in November 2019 authorizes eligible employers to make a one-time advance payment to SERS in exchange for a schedule of credits against the employer's future annual accrued liability contributions to SERS for a period of up to thirty (30) years. In the agreement established with SERS, the State System provided a lump sum payment to SERS of approximately 75 percent of its unfunded actuarial liability (UAL) for $825 million, through the proceeds of the Series of 2021 bond issuance. In exchange for the lump sum payment, SERS established a schedule of setoff credits that will be issued to the State System totaling over $1.5 billion over the term of the agreement commencing with the fiscal year ended June 30,2022. These credits are assigned to each year of the agreement and will be used to support the annual bond payment and will offset the SERS employer expense incurred, generating net savings each year. For the fiscal year ended June 30, 2022, the State System recognized reduced pension expense associated with these credits of $55,301,000. This amount and the remaining prefunding balance is not reflected in the subsequent tables and schedules related to the SERS plan. The prefunding balance at June 30, 2022 based on the actuarial valuation dated December 31, 2021 was $816,629,000.

Contributions
The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions on behalf of all active members and annuitants to fund the liabilities and provide the annuity reserves required to pay benefits. The SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. Act 2017-5

includes a savings "plow-back" provision requiring that the annual savings achieved through SERS benefit changes flow back into the Defined Benefit Plan through the employer contributions rate rather than to other non-pension obligations.

For the SERS defined benefit plan, the State System's actuarially determined contribution rate for most active members was 37.46% of active members' annual covered payroll at June 30, 2022, with less common rates ranging between 25.90% and 29.98%, depending upon the defined benefit plan chosen by the employee. For the SERS defined benefit/defined contribution hybrid plan, the State System's actuarially determined contribution rate was either 17.68% or 17.93% of annual covered payroll, depending upon the hybrid plan chosen by the employee. In addition, the State System was required to contribute to the defined benefit plan 16.38% of the annual covered payroll of employees who selected the straight 401(a) defined contribution plan. The State System's contributions to the SERS defined benefit plan for the years ended June 30, 2022, 2021, and 2020, were $91,297,000, $93,434,000, and $97,074,000, respectively, equal to the required contractual contribution.

The contribution rate of most active members who participate in the SERS defined benefit plan was 6.25% of gross salary, with less common rates ranging between 5.00% and 9.30% of salary, depending upon when the member was hired and what class of membership was elected. Defined benefit contribution rates for active members who participate in the defined benefit/defined contribution hybrid plan were either 4.00% or 5.00% of gross salary, depending upon what class of membership was elected.

For the SERS defined contribution plan, the State System contributed at actuarially determined rates of between 2.00% and 3.50% of active members' annual covered payroll at June 30, 2022, depending upon the plan chosen by the employee. The State System recognized $380,000 in SERS defined contribution pension expense for the year ended June 30, 2022 and $269,000 for the year ended June 30, 2021. The vesting period for employer contributions to the defined contribution plan, both for members who participate in the straight 401(a) defined contribution plan and those who participate in one of the defined benefit/defined contribution hybrid plans, is three years. Once money is contributed to the plan, it cannot be removed from the plan, except for making distribution payments to participants. Forfeitures of unvested employer contributions and earnings are invested in the PA Treasury short-term investment fund. The funds are forfeited to the employee's most recent employer and used to offset future contributions to the plan and correct funding discrepancies. Forfeitures seized under the Pension Forfeiture Act are used for administrative expenses of the plan.

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

Actuarial Methods and Assumptions
Actuarial valuations are performed annually using a December 31 measurement date. Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *19th Investigation of Actuarial Experience* study for the period 2015–2019 was released in July 2020. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the *19th Investigation of Actuarial Experience* at its September 2020 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its July 2020 meeting, the SERS Board approved a reduction in the assumed investment rate of return

from 7.125% to 7.00%. The next SERS actuarial experience review will occur in summer 2025 and will be used for its 2025 annual valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2021, measurement date.

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

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of manager fees and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2021, are summarized below.

Asset Class	Target Allocation	Long-Term Real Rate of Return
Private equity	12.00%	6.00%
Private Credit	4.00%	4.25%
Real estate	7.00%	3.75%
U.S. equity	31.00%	4.60%
International developed markets equity	14.00%	4.50%
Emerging markets equity	5.00%	4.90%
Fixed income	22.00%	(0.25%)
Inflation protection (TIPS)	3.00%	(0.30%)
Cash	2.00%	(1.00%)
	100.00%	

The discount rate used to measure the total SERS pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current SERS members. The long-term expected rate of return on SERS' investments, therefore, was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the SERS net pension liability at June 30, 2022, calculated using the discount rate of 7.00%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

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

1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
$768,795	$608,705	$329,572

The following presents the State System's proportionate share of the SERS net pension liability at June 30, 2021, calculated using the discount rate of 7.00%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

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

1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
$1,010,914	$808,636	$550,335

Proportionate Share
At June 30, 2022, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2021, was $608,705,000. At June 30, 2021, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2020, was $808,636,000.

The allocation percentage assigned to each participating employer is based on a projected contribution method. For the allocation of the December 2021 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2022/23, from the December 31, 2021, funding valuation, to the expected funding payroll. For the allocation of the December 2020 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2021-22, from the December 31, 2020, funding valuation, to the expected funding payroll. At the December 31, 2021, measurement date, the State System's proportion was 4.178%, a decrease of 0.242% from its proportion calculated as of the December 31, 2020 measurement date.

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

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

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

Benefits Provided
Members who joined prior to July 1, 2011, are eligible for monthly retirement benefits upon reaching age 62 with at least one year of credited service, age 60 with 30 or more years of credited service, or any age with 35 or more years of service. Act 120 of 2010 preserved the benefits of members who joined prior to July 1, 2011, and introduced benefit reductions for individuals who become new members on or after July 1, 2011, through June 30, 2019, by creating two new membership classes: Class T-E and Class T-F. To qualify for normal retirement, Class T-E and Class T-F members must complete a minimum of 35 years of service with a combination of age and service that totals 92 or greater, or they must work until age 65 with a minimum of three years of service.

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

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

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

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

Employer Contributions
The State System's contractually required contribution rate for PSERS for fiscal year ended June 30, 2022, was 34.94% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 17.47% of covered payroll. The State System's

reported contributions for year ended June 30, 2022 was $8,893,000 which is equal to the required contractual contribution. The State System's contribution to PSERS for the year ending June 30, 2021, and June 30, 2020, was $8,746,000, and $8,771,000, respectively, equal to the required contractual contribution.

For the PSERS defined contribution plan, the State System is required to contribute at actuarially determined average rate 0.09% of active members' annual covered payroll for the year ending June 30, 2022, depending upon the plan chosen by the employee. Members were first eligible to choose the defined contribution plan on July 1, 2019.Therefore, the State System contributions for the years ended June 30, 2020 and June 30, 2021 were immaterial. The contributions for the year ended June 30, 2022 was $3,388.

Actuarial Assumptions
The State System records its PSERS pension liability annually utilizing a measurement date one year prior to its fiscal year end. The total PSERS pension liability, as of the June 30, 2021 measurement date, was determined by rolling forward PSERS' total pension liability at June 30, 2020, to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement.

- Valuation date - June 30, 2020
- Actuarial cost method is entry age normal, level percent of pay.
- Investment return of 7.00% with 2.50% inflation.
- Salary increases based on an effective average of 4.5%, which comprises a 2.50% allowance for inflation and 2.00% for real wage growth and merit or seniority increases.
- Mortality rates based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP2020 Improvement Scale.

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

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2021.

Asset Class	Target Allocation	Long-Term Real Rate of Return
Global public equity	27.00%	5.20%
Private equity	12.00%	7.30%
Fixed income	35.00%	1.80%
Commodities	10.00%	2.00%
Absolute return	8.00%	3.10%
Infrastructure/MLPs	8.00%	5.10%
Real estate	10.00%	4.70%
Cash	3.00%	0.10%
Leverage	(13.00%)	0.10%
	100.00%	

The discount rate used to measure the total PSERS pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the PSERS net pension liability at June 30, 2022, calculated using the discount rate of 7.00%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

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

(in thousands)

1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
$95,760	$72,958	$53,723

The following presents the State System's proportionate share of the PSERS net pension liability at June 30, 2021, calculated using the discount rate of 7.00%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

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

(in thousands)

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$113,066	$91,388	$73,023

Proportionate Share

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

(in thousands)	2022	2021
Total PSERS net pension liability associated with the State System	$ 145,916	$ 182,776
Commonwealth's proportionate share of the PSERS net pension liability associated with the State System	(72,958)	(91,388)
State System's proportionate share of the PSERS net pension liability	$ 72,958	$ 91,388

PSERS measured the 2022 and 2021 net pension liabilities as of June 30, 2021, and June 30, 2020, respectively. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2021, the State System's proportion was 0.1777%, a decrease of 0.0079% from its proportion calculated as of June 30, 2020.

ARP

The ARP is a defined contribution pension plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2022 and 2021, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2022 and 2021, were $43,624,000 and $45,093,000, respectively, from the State System; and $23,478,000 and $24,270,000, respectively, from active members. No liability is recognized for the ARP.

(10) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

State System employees who retire after meeting specified service and age requirements are eligible to receive healthcare and tuition benefits in retirement. Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), PASSHE Officers Association (POA), Security Police and Fire Professionals of America (SPFPA), Office and Professional Employees International Union (OPEIU), and nonrepresented employees participate in a defined benefit healthcare plan administered by the State System (System Plan). Employee members of the American Federation of State, County and Municipal Employees (AFSCME), Pennsylvania Doctors Alliance (PDA), and Service Employees International Union (SEIU, Local 668), formerly Pennsylvania Social Services Union (PSSU), participate in the Retired Employees Health Program (REHP), which is a defined benefit healthcare plan sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). In addition to the above, any employee who participates in the Public School Employees' Retirement System (PSERS) pension plan is eligible to receive benefits from the PSERS Health Insurance Premium Assistance Program (Premium Assistance), a defined benefit plan, and all eligible retirees and their eligible dependents receive tuition waivers at any of the 14 State System universities.

Following is the total of the State System's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense for the fiscal years ended June 30, 2022, and 2021.

(in thousands)

	System Plan		REHP		Premium Assistance		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Net OPEB liabilities	**$ 1,393,960**	**$ 1,452,634**	**$ 411,946**	**$ 526,658**	**$ 4,196**	**$ 4,002**	**$ 1,810,102**	**$ 1,983,294**
Deferred outflows of resources:								
Difference between expected and actual experience	-	-	339	458	39	37	378	495
Net difference between projected and actual investment earnings on OPEB plan investments	-	-	-	188	8	7	8	195
Changes in assumptions	174,877	233,169	50,174	68,326	447	163	225,498	301,658
Changes in proportion	-	-	12,910	20,330	83	106	12,993	20,436
Contributions after the measurement date	27,504	30,145	9,181	10,369	212	216	36,897	40,730
Total deferred outflows of resources	**$ 202,381**	**$ 263,314**	**$ 72,604**	**$ 99,671**	**$ 789**	**$ 529**	**$ 275,774**	**$ 363,514**
Deferred inflows of resources:								
Difference between expected and actual experience	148,742	208,090	199,878	252,698	-	-	348,620	460,788
Net difference between projected and actual investment earnings on OPEB plan investments	-	-	3,981	-	-	-	3,981	-
Changes in assumptions	135,239	99,289	57,777	40,812	56	88	193,072	140,189
Changes in proportion	-	-	58,927	30,230	212	82	59,139	30,312
Total deferred inflows of resources	**$ 283,981**	**$ 307,379**	**$ 320,563**	**$ 323,740**	**$ 268**	**$ 170**	**$ 604,812**	**$ 631,289**
OPEB expense	**$ 6,366**	**$ 30,116**	**$ (81,642)**	**$ (53,872)**	**$ 477**	**$ 423**	**$ (74,799)**	**$ (23,333)**
Contributions recognized by OPEB plans	**N/A**	**N/A**	**$ 9,181**	**$ 10,369**	**$ 212**	**$ 216**	**$ 9,393**	**$ 10,585**

The State System will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $27,504,000 for the System Plan, $9,181,000 for the REHP plan, and $212,000 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

(in thousands)

	Amortization		
Fiscal Year Ended	**System Plan**	**REHP**	**Premium Assistance**
June 30, 2023	$ (56,589)	$ (98,826)	$ 50
June 30, 2024	(32,722)	(78,787)	50
June 30, 2025	(1,496)	(43,393)	84
June 30, 2026	(18,297)	(18,269)	62
June 30, 2027	-	(17,864)	33
Thereafter	-		30
Totals	$ (109,104)	$ (257,139)	$ 309

System Plan

Plan Description

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

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

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

Effective January 16, 2016, the State System OPEB plan became closed to newly hired SCUPA, SPFPA, OPEIU, and nonrepresented employees, while newly hired APSCUF employees (faculty and coaches) continue to be eligible to participate in the plan.

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement or the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2022.

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

Actuarial Assumptions and Other Inputs

The System performs actuarial valuations every two years for the System Plan and utilizes a measurement date that is the first day of its current fiscal year end. The actuarial valuation on which the total OPEB liability as of June 30, 2022 is based is dated July 1, 2020, which is the measurement date. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Healthcare cost trend rate of 5.5% in 2020 through 2023, with rates gradually decreasing from 5.4% in 2024 to 4.0% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Annual salary increase of 4%.
- 90% of employees eligible for a subsidy and 15% of employees not eligible for a subsidy are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- Retiree premium cost sharing for retired participants covered under "Other Less Subsidized Health Coverage" is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate. Otherwise, retiree premium cost sharing is not assumed to increase after retirement.
- Mortality rates based on the PubG-2010 Mortality Table, including rates for contingent survivors, and which incorporates rates based on a generational projection using Scale MP-2020 to reflect mortality improvement.
- The discount rate increased from 1.86% to 2.28%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2021.
- Participant data is based on census information as of July 1, 2020.
- Rates of withdrawal vary by age and years of service.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all eligible retirees, regardless of employee bargaining unit when active, and including those not represented when active, who meet years of service and/or age criteria.

The following presents the System Plan's net OPEB liability at June 30, 2022, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.5% decreasing to 3.0%) or one percentage point higher (6.5% decreasing to 5.0%) than the current healthcare cost trend rates (5.5% decreasing to 4.0%).

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

1% Decrease (4.5% decreasing to 3.0%)	Healthcare Cost Trend Rates (5.5% decreasing to 4.0%)	1% Increase (6.5% decreasing to 5.0%)
$1,142,886	$1,393,960	$1,722,372

The following presents the System Plan's net OPEB liability at June 30, 2021, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.5% decreasing to 3.0%) or one percentage point higher (6.5% decreasing to 5.0%) than the current healthcare cost trend rates (5.5% decreasing to 4.0%).

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

1% Decrease (4.5% decreasing to 3.0%)	Healthcare Cost Trend Rates (5.5% decreasing to 4.0%)	1% Increase (6.5% decreasing to 5.0%)
$1,194,586	$1,452,634	$1,790,776

The following presents the State System's net OPEB liability at June 30, 2022, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (1.28%) or one percentage point higher (3.28%) than the current discount rate (2.28%).

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

1% Decrease 1.28%	Current Rate 2.28%	1% Increase 3.28%
$1,646,971	$1,393,960	$1,193,632

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

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

1% Decrease 0.86%	Current Rate 1.86%	1% Increase 2.86%
$1,725,801	$1,452,634	$1,237,183

System Plan OPEB Liability
The System Plan's total OPEB liability as of June 30, 2022 of $1,393,960,576 was measured as of July 1, 2021 and was determined by an actuarial valuation as of July 1, 2020 that was rolled forward to July 1, 2021.

The System Plan's total OPEB liability at June 30, 2021 of $1,452,633,587 was measured as of July 1, 2020 and was determined by an actuarial valuation as of July 1, 2020.

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

Fiscal Year Ending	June 30, 2021	June 30, 2020
Balance beginning of year	$ 1,452,634	$ 1,279,239
Service cost	44,750	33,131
Interest	27,454	43,290
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(150,225)
Changes of assumptions	(91,484)	291,462
Benefit payments	(39,394)	(44,263)
Net Changes	(58,674)	173,395
Balance end of year	$ 1,393,960	$ 1,452,634

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

reported in the Commonwealth's Annual Comprehensive Financial Report (ACFR) as a Pension (and Other Employee Benefit) Trust. The REHP is reported using the economic resources measurement focus and the accrual basis of accounting. The ACFR is an audited financial statement and is available at www.budget.pa.gov.

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

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, and their salary at retirement. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2022.

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

Employer contribution requirements are established by the Commonwealth as provided by pertinent statutory authority. With the exception of certain employing agencies, employers contributed to the REHP Trust a retiree health assessment rate of $230 per pay period for each current REHP eligible active employee during the period July 1, 2020 through January 15, 2021, and $0 from January 16, 2021 through June 30, 2021. The rate during the period July 1, 2021, through June 30, 2022 was $120.00 per pay period.

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

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial Cost Method is Entry Age Normal, which requires an estimate of the projected benefit payable at retirement to determine costs and liabilities.
- Inflation of 2.50%.
- Healthcare cost trend rate of 6.9%, with rates gradually decreasing to 4.0% in 2075 and later, based on the SOA-Getzen trend rate model version 2021_b for the December 31, 2020 measurement
- Average salary growth of 2.50% per year and an assumed 2.80% payroll growth rate.
- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates for active employees based on PUB-2010 General Employees Headcount-Weighted Mortality Tables and adjusted for mortality improvements using projection scale MP-2020.
- Participant data based on census information as of December 31, 2020, for the June 30, 2021, measurement date; and as of December 31, 2019, for the June 30, 2020, measurement date.

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

- Discount rate of 3.63% as of June 30, 2021, and 2.21% as of June 30, 2020.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the index rate for the 20-year tax-exempt general obligation municipal bond index with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	40.00%	5.80%
International equity	27.00%	6.30%
Fixed income	23.00%	2.10%
Real estate	8.00%	5.10%
Cash and cash equivalents	1.50%	0.40%
Private Equity	0.50%	9.30%
	100.00%	

The Commonwealth calculated an allocated share of the REHP OPEB liability for each participating employer based upon their actual contributions made to the REHP. The State System's proportion of the collective net OPEB liability was 4.0260% for the measurement date of June 30, 2021 and 4.275% for the measurement date of June 30, 2020.

The following presents the State System's share of the REHP net OPEB liability at June 30, 2022, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.9% decreasing to 3.0%) or one percentage point higher (7.9% decreasing to 5.0%) than the current healthcare cost trend rates (6.9% decreasing to 4.0%).

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

1% Decrease (5.9% decreasing to 3.0%)	Healthcare Cost Trend Rates (6.9% decreasing to 4.0%)	1% Increase (7.9% decreasing to 5.0%)
$350,324	$411,946	$488,799

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

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (in thousands)		
1% Decrease	Healthcare Cost Trend Rates	1% Increase
(5.6% decreasing to 3.1%)	(6.6% decreasing to 4.1%)	(7.5% decreasing to 5.1%)
$447,628	$526,658	$625,414

The following presents the State System's share of the REHP net OPEB liability at June 30, 2022, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.63%) or one percentage point higher (4.63%) than the current discount rate (3.63%).

Sensitivity of the REHP Net OPEB Liability to Changes in the Discount Rate (in thousands)		
1% Decrease 2.63%	Current Rate 3.63%	1% Increase 4.63%
$472,019	$411,946	$362,007

The following presents the State System's share of the REHP net OPEB liability at June 30, 2021, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (1.21%) or one percentage point higher (3.21%) than the current discount rate (2.21%).

Sensitivity of the REHP Net OPEB Liability to Changes in the Discount Rate (in thousands)		
1% Decrease 1.21%	Current Rate 2.21%	1% Increase 3.21%
$600,972	$526,658	$464,801

The assets of the REHP are managed by the Commonwealth's Treasury in an investment pool. The REHP investments are made based upon an interagency agreement, dated June 17, 2008, and the prudent investor standard set forth in the Commonwealth of Pennsylvania's amendment to fiscal code 72 P.S. §30.1, the principles of Prudent Investors Standards.

Premium Assistance

Plan Description

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

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS Health Options Program. As of June 30, 2020, there were no assumed future benefit increases to participating eligible retirees. Plan members receiving benefits are not required to make contributions.

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.82% of covered payroll for the fiscal years ended June 30, 2022 and 0.84% of covered payroll for the fiscal year ended June 30, 2021. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 0.41% of covered payroll.

Actuarial Assumptions and Other Inputs
The State System records its PSERS OPEB liability annually utilizing a measurement date one year prior to its fiscal year end. The total OPEB liability, as of the June 30, 2021 measurement date, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2020, to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

- Valuation Date - June 30, 2020
- Actuarial cost method was entry age normal, level percent of pay.
- Effective average salary growth of 4.5%, comprising 2.50% for inflation and 2.00% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at $1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2019, determined the employer contribution rate for fiscal year 2020-21.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.
- Participation rate assumed that 63% of eligible retirees will elect premium assistance.
- Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

- The discount rate used to measure the total OPEB liability was 2.18% at June 30, 2021, and 2.66% at June 30, 2020.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 2.18%, which represents the

S&P 20-year Municipal Bond Rate at June 30, 2021, was applied to all projected benefit payments to measure the total OPEB liability.

- Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2021.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	79.80%	0.10%
US Core Fixed Income	17.50%	0.70%
Non-US Developed Fixed	2.70%	(0.30%)
	100.00%	

The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the total OPEB liability as of June 30, 2020, to June 30, 2021. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.1770% and 0.1852% for the measurement dates of June 30, 2021 and 2020, respectively.

The following presents the State System's share of the Premium Assistance net OPEB liability at June 30, 2022, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4.0% and 6.0%) or one percentage point higher (between 6.0% and 8.0%) than the current healthcare cost trend rates (between 5.0% and 7.0%).

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

(in thousands)

1% Decrease (between 4.0% and 6.0%)	Healthcare Cost Trend Rates (between 5.0% and 7.0%)	1% Increase (between 6.0% and 8.0%)
$4,195	$4,196	$4,196

The following presents the State System's share of the Premium Assistance net OPEB liability at June 30, 2021, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4.0% and 6.5%) or one percentage point higher (between 6.0% and 8.5%) than the current healthcare cost trend rates (between 5.0% and 7.5%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate *(in thousands)*		
1% Decrease	**Healthcare Cost Trend Rates**	**1% Increase**
(between 4.0% and 6.5%)	**(between 5.0% and 7.5%)**	**(between 6.0% and 8.5%)**
$4,001	$4,002	$4,002

The following presents the State System's share of the Premium Assistance net OPEB liability at June 30, 2022, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (1.18%) or one percentage point higher (3.18%) than the current healthcare cost trend rates (2.18%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate at June 30, 2022 *(in thousands)*		
1% Decrease 1.18%	**Current Rate 2.18%**	**1% Increase 3.18%**
$4,815	$4,196	$3,686

The following presents the State System's share of the Premium Assistance net OPEB liability at June 30, 2021, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (1.66%) or one percentage point higher (3.66%) than the current healthcare cost trend rates (2.66%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate at June 30, 2021 *(in thousands)*		
1% Decrease 1.79%	**Current Rate 2.79%**	**1% Increase 3.79%**
$4,562	$4,002	$3,537

(11) Right of Use Leases and Financed Purchases

The State System routinely leases various facilities and equipment instead of purchasing the assets. The contracts, at times, may include variable payments, residual value guarantees or termination penalties that are not known or certain to be exercised at the time of the lease liability valuation. These are recognized as expenses in the period that they occur. For the fiscal year ended June 30, 2022 and 2021, respectively, lease variable payments, mainly based on performance, totaled $883,000 and $861,000. There were no termination penalties or residual guarantee payments expensed for the fiscal year ended June 30, 2022 or 2021. Interest expense on these leases for the fiscal years ended June 30, 2022 and 2021 totaled $1,567,000 and $1,613,000 respectively.

Leases that provide for the transfer of title to the State System at the end of the lease term are accounted for as financed purchases. Interest expense recognized on these leases for the fiscal years ended June 30, 2022 and 2021 totaled $5,315,000 and $5,380,000, respectively

The following schedule provided future minimum principal and interest payments to maturity for financed purchases and right of use leases.

(in thousands)	Financed Purchases		Right of Use Leases with Third Parties		Right of Use Leases with Component Units	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Fiscal Year Ending June 30						
2023	$7,103	$5,091	$2,879	$143	$6,240	$1,229
2024	7,317	4,868	2,526	107	5,465	1,024
2025	6,949	4,625	1,803	74	5,543	818
2026	7,146	4,415	1,448	47	4,954	608
2027	7,358	4,197	1,285	26	3,755	400
2028-2032	40,577	17,199	716	33	6,705	717
2033-2037	38,906	10,723	16	22	4,774	242
2038-2042	26,968	5,914	17	20	528	4
2043-2047	12,370	2,979	20	17		
2048-2052	8,027	1,585	23	15		
2053-2057	6,845	385	26	11		
2058-2062			77	14		
Total	$169,566	$61,981	$10,836	$529	$37,964	$5,042

During fiscal year 2021, the State System, on behalf of Indiana University, entered into a master lease agreement with Residential Revival Indiana (RRI), (a component unit of Indiana), to lease certain student housing facilities. Under the terms of the agreements, the State System agreed to make monthly rent payments to RRI and pay operating expenses and insurance as defined in RRI's previously executed loan agreements, in exchange for the right to use, operate and collect all payments from RRI's Phase I and Phase IV housing facilities. The master leases expire concurrently with RRI's ground leases with the State System. The State System recorded this master lease as a financed purchase with capital assets and a note payable obligation of $88 million at the inception of the lease. The amounts are included in the financed purchase activity shown above and below.

During fiscal year 2020, the State System, on behalf of Clarion University, entered into a master lease agreement with the Clarion University Foundation, Inc. (a component unit of Clarion), to lease certain student housing facilities. The lease agreement will allow Clarion the flexibility to direct students to what it believes is the appropriate facility at the appropriate fee. In connection with the master lease, the Foundation entered into an assignment of rents, pursuant to which it assigned its rights to receive the lease payments to a collateral agent as security for certain outstanding debt of the Foundation, that was used to construct the housing facilities. The terms of the lease coincide with either the ground leases related to the facilities constructed on System-owned land or the final payment of debt for facilities that were constructed on Foundation-owned land. Ownership of the leased facilities reverts to the State System at the end of the master lease term. The State System recorded this master lease as a financed purchase with capital assets and a lease obligation of $93.8 million at the inception of the lease. The amounts are included in the financed purchase activity shown above and below.

The following summary provides aggregated information reported for June 30, 2022 and 2021 financed purchase and right of use lease liabilities including additions, reductions and reported liabilities for the years then ended.

(in thousands)

	Balance June 30, 2020 (Restated)	2020-21 Additions (Restated)	2020-21 Reductions (Restated)	Balance June 30, 2021 (Restated)	2021-22 Additions	2021-22 Reductions	Balance June 30, 2022
Financed Purchases	$95,004	$88,145	($6,577)	$176,572	$0	($7,006)	$169,566
Leases, Third Parties	1,437	6,179	(1,988)	5,628	9,046	(3,838)	10,836
Leases, Comp Units	23,175	24,533	(5,800)	41,908	2,517	(6,461)	37,964
Total	$119,616	$118,857	($14,365)	$224,108	$11,563	($17,305)	$218,366

(12) Bonds Payable

Bonds payable on June 30, 2022, 2021 and 2020, consisted of several outstanding tax-exempt revenue and taxable bond series issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA), except for Series 2021 which has been issued by the Pennsylvania Economic Development Financing Authority (PEDFA). In connection with the bond issuance, the State System entered into a loan agreement with PHEFA and PEDFA under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The bonds were issued to provide funds to undertake various capital projects at the universities, to refund certain previously issued bonds, or to undertake a prefunding savings program (SERS).

The Series of 2021 bond through PEDFA was permitted by Act 105 of November 2019 which authorizes eligible employers to make a one-time advance payment to SERS in exchange for a schedule of credits against the employer's future annual accrued liability contributions to SERS for a period of up to thirty (30) years. In the agreement established with SERS, the State System provided a lump sum payment to SERS of approximately 75 percent of its unfunded actuarial liability (UAL) for $825 million, through the proceeds of the Series of 2021 bond issuance. In exchange for the lump sum payment, SERS established a schedule of setoff credits that will be issued to the State System totaling over $1.5 billion over the term of the agreement. These credits are assigned to each year of the agreement and will be used to support the annual bond payment and will offset the SERS employer expense incurred, generating net savings each year.

Activity for the various bond series for the years ended June 30, 2022 and 2021, was as follows.

Bonds Payable

June 30, 2022, 2021 and 2020

(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2020	2021 Bonds Issued	2021 Bonds Redeemed/ Refunded	Balance June 30, 2021	2022 Bonds Issued	2022 Bonds Redeemed/ Refunded	Balance June 30, 2022	Current Portion
Series AH issued July 2008,										
final maturity June 2038	140,760	4.70%	7,360	-	7,360	-	-	-	-	-
Series AI issued August 2008,										
final maturity June 2025	32,115	4.46%	160	-	30	130	-	30	100	100
Series AJ issued July 2009,										
final maturity June 2039	123,985	4.85%	2,360	-	2,360	-	-	-	-	-
Series AL issued July 2010,										
final maturity June 2035	135,410	5.00%	35,295	-	35,295	-	-	-	-	-
Series AM issued July 2011,										
final maturity June 2036	119,085	4.61%	79,825	-	79,825	-	-	-	-	-
Series AN issued March 2012,										
final maturity June 2023	76,810	5.00%	8,065	-	2,825	5,240	-	2,965	2,275	2,275
Series AO issued July 2013,										
final maturity June 2038	30,915	4.51%	23,265	-	1,255	22,010	-	1,320	20,690	1,370
Series AP issued May 2014,										
final maturity June 2024	46,110	5.00%	29,995	-	7,030	22,965	-	7,300	15,665	7,650
Series AQ issued May 2015,										
final maturity June 2036	94,975	4.42%	62,825	-	7,965	54,860	-	6,960	47,900	7,880
Series AR issued Sept. 2015,										
final maturity June 2040	102,365	3.81%	89,890	-	3,000	86,890	-	3,150	83,740	3,315
Series AS issued June 2016,										
final maturity June 2037	47,280	4.26%	38,120	-	3,175	34,945	-	3,245	31,700	2,850
Series AT issued Sept. 2016,										
final maturity June 2055	298,110	3.47%	270,920	-	8,140	262,780	-	8,105	254,675	8,480
Series AU issued Sept. 2017,										
final maturity June 2042	128,260	3.49%	114,540	-	7,525	107,015	-	8,715	98,300	9,135
Series AV issued Sept. 2018,										
final maturity June 2045	236,945	4.18%	217,560	-	10,520	207,040	-	12,150	194,890	11,190
Series AW issued Sept. 2019,										
final maturity June 2044	84,980	4.66%	84,610	-	3,330	81,280	-	8,500	72,780	9,060
Series AX issued July 2020,										
final maturity June 2042	94,985	3.80%	-	94,985	5,975	89,010	-	4,375	84,635	4,585
Series AY issued Oct. 2020,										
final maturity June 2036	78,925	1.56%	-	78,925	-	78,925	-	7,250	71,675	7,310
Series 2021 issued April 2021,										
final maturity June 2042	827,580	2.29%	-	827,580	-	827,580	-	34,225	793,355	36,715
Series AZ issued June 2021										
final maturity June 2047	142,710	2.77%	-	142,710	-	142,710	-	4,190	138,520	4,190
Total	**2,842,305**		**1,064,790**	**1,144,200**	**185,610**	**2,023,380**	**-**	**112,480**	**1,910,900**	**116,105**

Principal and interest requirements to maturity are as follows.

(in thousands)

	Principal	Interest	Total
2023	$ 116,105	$ 60,256	$ 176,361
2024	121,860	56,673	178,533
2025	99,125	52,676	151,801
2026	99,250	49,650	148,900
2027	104,670	46,622	151,292
2028–2032	507,750	184,396	692,146
2033–2037	461,005	109,577	570,582
2038–2042	326,735	42,692	369,427
2043–2047	69,000	6,469	75,469
2048–2052	3,340	1,032	4,372
2053–2056	2,060	192	2,252
Total	**$ 1,910,900**	**$ 610,235**	**$ 2,521,135**

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

(13) Debt Refunding

In July 2020, $38 million of the net proceeds from the Series AX tax-exempt revenue bonds were used to current refund Series AH, Series AJ, and Series AL. The refunding resulted in an accounting gain of approximately $1.8 million and was performed to reduce the debt service by approximately $10 million and an economic gain (difference between the present values of the old and new debt service payments) of approximately $9 million. The accounting gain, or deferred gain on refunding, is reported as a deferred inflow of resources that will be amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

In October 2020, the net proceeds from the Series AY taxable revenue bonds were used to purchase US Government Securities that were deposited irrevocably in trust with an escrow agent to advance refund a portion of the Series AM revenue bonds. The bonds were paid off on June 15, 2021. Although it resulted in an accounting loss of $924,000, the refunding was performed to reduce debt service by approximately $11.2 million and an economic gain (difference between the present values of the old and new debt service payments) of approximately $10.2 million. The accounting loss, or deferred loss on refunding, is reported as a deferred outflow of resources.

(14) Rating Actions

In June 2022, Moody's Investors Service, Inc. maintained the State System's bond rating of Aa3 with an outlook from stable to negative. The negative outlook reflects Moody's expectations of ongoing student demand difficulties leading to a continued trend of thin operating performance and weakening debt service coverage through fiscal 2022. In June 2022, Moody's published an updated Environmental, Social, and Governance methodology which introduces ESG Issuer Profile (IPS) and Credit Impact Scores (CIS) for rated entities. The new scores are incorporated in the credit ratings of ESG issues. The State System has been assigned a CIS-4, reflecting Moody's assessment that the State System has high exposure to social risks, primarily demographics, with neutral to low environmental and governance risks. In March 2022, Fitch Ratings reviewed the State System's rating of A+ with stable outlook and no rating change was made.

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

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2022 and 2021, follow.

(in thousands)	June 30, 2022	(Restated) June 30, 2021
Deferred Outflows of Resources		
Pension related (see note 9)	$ 134,041	$ 171,646
OPEB related (see note 10)	275,774	363,514
Unamortized loss on refunding of debt	5,064	5,928
Total Deferred Outflows of Resource	$ 414,879	$ 541,088
Deferred Inflows of Resources		
Lease receivable related (see note 4)	$ 12,797	$ 13,992
Pension related (see note 9)	283,758	178,500
OPEB related (see note 10)	604,812	631,289
Unamortized gain on refunding of debt	2,655	3,130
Split-interest agreements	9	9
Total Deferred Inflows of Resources	$ 904,031	$ 826,920

(16) CONTINGENCIES AND COMMITMENTS

Contingencies

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

The State System receives support from federal and Commonwealth grant programs, primarily for student financial assistance, including federal CARES, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and American Rescue Plan Act (ARPA) funding in 2020-21 and 2021-22. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2022, the State System estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements.

COVID-19 Pandemic
COVID-19 may continue to impact various parts of the operations and financial results of the Universities and component units, including overall enrollment, method of educational delivery, athletics, housing and food service. Management believes that the Universities and component units are taking appropriate actions to mitigate the negative impact.

Cheyney University of Pennsylvania
In August 2015, Cheyney University voluntarily self-reported to the U.S. Department of Education (ED) that $29.6 million of federal student financial aid was improperly administered and delivered in fiscal years 2011/12, 2012/13, and 2013/14, covering almost 4,400 student records. Subsequently ED initiated a Program Review of Cheyney's financial aid functions and Cheyney responded to the Program Review report, making every effort to comply with ED's requirements.

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

On August 8, 2019, Cheyney University received a letter from ED relating to its proposed resolution of its Program Review of Cheyney (the "Program Review"), asserting that Cheyney's overall response to the Program Review did not fully address ED's findings or accurately document the federal student aid funds disbursed during the periods under review. The ED letter stated further that under normal circumstances ED would assess Cheyney full Federal Pell Grant and Federal Direct Loan liabilities in the amount of $57.5 million for the award years reviewed. However, ED acknowledged that Cheyney had undertaken significant steps to accurately document its administration of federal student aid funds despite being limited in its ability to do so by the past deficiencies and, accordingly, expressed a willingness to presume that significant amounts of the financial aid funds were provided to, and earned by, the students and to conclude the Program Review in consideration of Cheyney's (1) payment of $14,308,377, (2) waiver of its rights to any administrative appeal, and (3) entry into an acceptable repayment agreement with ED. In February 2020, a settlement agreement was executed between ED and Cheyney and a payment schedule was established for the $14.3 million settlement amount. Cheyney made the second payment for $2.3 million on July 1, 2021.

As a result of the self-reported compliance issues noted above, in September 2015, the ED placed the university on Heightened Cash Monitoring 2 (HCM2) status, meaning that the university does not receive federal student financial aid funds in advance, but must use its own cash to grant federal financial aid to its students and then request reimbursement from the ED. The university is still on HCM2 status as of June 30, 2022, and as such is awaiting receipt of approximately $18.8 million in federal student financial aid funds. Of the $18.8 million outstanding federal financial aid receivables, approximately $6.6 million is associated with 2021-22 federal aid awards; the remainder is associated with federal aid awards made during fiscal years 2016-17 through 2020-21.

The delay in receipt of ED funds contributes to the university's severe cash shortage. Over the course of the past several years, the State System has provided lines of credit, System notes and other support to Cheyney University to meet its cash needs. On November 13, 2019, Governor Wolf pledged support to the System through a letter to Cheyney's President assuring that "Cheyney's obligation to other PASSHE institutions and the System Office, totaling $40,264,814, is eliminated." On January 15, 2020, an additional $45 million of Commonwealth Public Improvement Project Capital Funding (PIP) was allocated to the State System, over and above the System's annual PIP funding for fiscal years 2019-20, 2020-21, and 2021-22. These funds were provided to the System on a reimbursement basis in approximately $15 million increments in each of fiscal years 2019-20, 2020-21, and 2021-22. As of August 2021, all funds have been received.

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

In November 2015 Cheyney was placed on probation by the Middle States Commission on Higher Education (Middle States) accreditation organization. Over the next four years, Cheyney continued to make improvements to resolve the non-compliance issues noted by Middle States and on November 22, 2019, Middle States informed Cheyney University of its "…reaffirm[ed] accreditation because the institution is now in compliance with Standard VI (Planning, Resources, and Institutional Improvement) and Requirement of Affiliation 11", noting that the Commonwealth of Pennsylvania, Office of the Governor, has provided written assurance of the elimination of Cheyney University's debt to the Pennsylvania State System of Higher Education (PASSHE) and the System Office.

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

Construction Commitments
Authorized expenditures for construction projects unexpended as of June 30, 2022 and 2021, were approximately $36,825,000 and $60,119,000, respectively.

Labor Concentration
Approximately 86% of PASSHE's employees are covered by nine collective bargaining agreements. During 2020-21, a new collective bargaining agreement was established for police supervisors with the International Union, Security, Police, and Fire Professionals of America (SPFPA) through August 31, 2022. The current collective bargaining agreement with the PASSHE Officers Association (POA) also expired on August 31, 2022. Currently, agreements exist with all unions, except the Professional Doctors Association (PDA). The terms of the prior contracts remain in effect until a successor agreement is achieved.

(17) SUBSEQUENT EVENTS

On August 11, 2022, the State System, on behalf of Indiana University, entered into a master lease agreement with The Foundation for Indiana University of Pennsylvania (FIUP), (a component unit of Indiana), to lease certain student housing facilities. Under the terms of the agreements, the State System agreed to make rent payments to FIUP ranging from approximately $3,300,000 to $3,780,000 each year for a total of approximately $113,000,000 over the term thereof, scheduled to end in fiscal year 2054 unless terminated sooner in accordance with the provision of the agreement.

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended June 30, 2022 and 2021
(Unaudited)

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

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

Fiscal Year	State System's Proportion	State System's Proportionate Share	State System's Covered-Employee Payroll	State System's Proportionate Share of NPL as a Percentage of Covered-Employee Payroll	SERS Fiduciary Net Position as a Percentage of Total Pension Liability
2014-15	4.90%	$728,094	$296,967	245%	64.80%
2015-16	4.72%	$858,417	$297,714	288%	58.90%
2016-17	4.84%	$931,620	$300,803	310%	57.80%
2017-18	4.91%	$848,315	$309,084	275%	63.00%
2018-19	4.90%	$1,020,123	$318,501	320%	56.40%
2019-20	4.77%	$867,669	$315,000	276%	63.10%
2020-21	4.42%	$808,636	$297,904	271%	67.00%
2021-22	4.18%	$608,705	$279,479	218%	76.00%

SERS Schedule of Contributions

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014-15	$57,234	$57,234	$0	$293,506	19.50%
2015-16	$69,021	$69,021	$0	$291,594	23.67%
2016-17	$83,754	$83,754	$0	$301,828	27.75%
2017-18	$94,727	$94,727	$0	$304,575	31.10%
2018-19	$97,467	$97,467	$0	$315,369	30.90%
2019-20	$97,074	$97,074	$0	$305,074	31.82%
2020-21	$93,434	$93,434	$0	$291,237	32.08%
2021-22	$91,297	$91,297	$0	$283,328	32.22%

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

Determined as of PSERS' June 30 measurement dates

(in thousands)

	PSERS Net Pension Liability						
Fiscal Year	State System's Proportion	State System's Proportionate Share	Common-wealth's Proportionate Share	Total	State System's Covered-Employee Payroll	State System's Proportion-ate Share of NPL as a Percentage of Covered-Employee Payroll	PSERS Fiduciary Net Position as a Percentage of Total Pension Liability
2014-15	0.1785%	$70,650	$70,650	$141,350	$45,552	155%	57.2%
2015-16	0.1852%	$80,220	$80,220	$160,440	$47,670	168%	54.4%
2016-17	0.1833%	$90,838	$90,838	$181,676	$47,485	191%	50.1%
2017-18	0.1811%	$89,442	$89,442	$178,884	$48,236	185%	51.8%
2018-19	0.1836%	$88,137	$88,137	$176,274	$49,437	178%	54.0%
2019-20	0.1886%	$88,232	$88,232	$176,464	$52,020	169%	55.7%
2020-21	0.1856%	$91,388	$91,388	$182,776	$51,994	173%	54.3%
2021-22	0.1777%	$72,958	$72,958	$145,916	$53,184	137%	63.7%

PSERS Pension Schedule of Contributions

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

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014-15	$5,236	$5,236	$0	$51,086	10.25%
2015-16	$6,012	$6,012	$0	$48,419	12.41%
2016-17	$7,107	$7,107	$0	$49,518	14.35%
2017-18	$7,880	$7,880	$0	$50,586	15.58%
2018-19	$8,565	$8,565	$0	$53,394	16.04%
2019-20	$8,771	$8,771	$0	$53,324	16.45%
2020-21	$8,746	$8,746	$0	$51,994	16.82%
2021-22	$8,896	$8,896	$0	$53,184	16.73%

State System Plan OPEB Liability
Determined as of the July 1 measurement dates
(in thousands)

	Fiscal Year June 30, 2022	Fiscal Year June 30, 2021	Fiscal Year June 30, 2020
Changes in the System Plan Total OPEB Liability			
Total OPEB Liability – Beginning Balance	$ 1,452,633	$ 1,279,239	$ 1,314,607
Service cost	44,749	33,131	35,611
Interest	27,454	43,290	39,561
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	(150,225)	-
Changes of assumptions	(91,484)	291,461	(68,676)
Benefit payments	(39,394)	(44,263)	(41,864)
Net Changes	(58,675)	173,394	(35,368)
Total OPEB Liability—Ending Balance	$ 1,393,958	$ 1,452,633	$ 1,279,239
Covered Employee Payroll	$ 570,846	$ 570,846	$ 582,841
OPEB Liability as a Percent of Covered Payroll	244.19%	254.47%	219.48%

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

Schedule of Proportionate Share of the REHP Net OPEB Liability

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

Fiscal Year	State System's Proportion	State System's Proportionate Share	State System's Covered-Employee Payroll	State System's Proportionate Share of Net OPEB Liability as a Percentage of Covered-Employee Payroll	REHP's Fiduciary Net Position as a Percentage of Total OPEB Liability
2017-18	4.374%	$860,881	$117,366	734%	1.40%
2018-19	4.573%	$658,214	$117,400	561%	2.20%
2019-20	4.370%	$455,091	$116,857	389%	3.80%
2020-21	4.275%	$526,658	$116,118	454%	3.67%
2021-22	4.026%	$411,946	$104,727	393%	6.12%

REHP Schedule of Contributions

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

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2017-18	$21,441	$21,441	$0	$141,268	15.18%
2018-19	$25,787	$25,787	$0	$144,385	17.86%
2019-20	$19,567	$19,567	$0	$139,418	14.03%
2020-21	$10,369	$10,369	$0	$131,491	7.89%
2021-22	$9,181	$9,181	$0	$126,955	7.23%

Schedule of Proportionate Share of PSERS Net OPEB Liability

Determined as of PSERS' June 30 measurement dates

(in thousands)

	PSERS Net Pension Liability						
Fiscal Year	State System's Proportion	State System's Proportionate Share	Common-wealth's Proportionate Share	Total	State System's Covered-Employee Payroll	System's Proportionate Share of Net OPEB Liability as a Percentage of Covered-Employee Payroll	PSERS Fiduciary Net Position as a Percentage of Total OPEB Liability
2017-18	0.1811%	$3,690	$3,690	$7,380	$48,236	7.65%	5.73%
2018-19	0.1836%	$3,828	$3,828	$7,656	$49,437	7.74%	5.56%
2019-20	0.1886%	$4,011	$4,011	$8,022	$52,020	7.71%	5.56%
2020-21	0.1852%	$4,002	$4,002	$8,004	$51,994	7.70%	5.69%
2021-22	0.1770%	$4,196	$4,196	$8,392	$50,192	8.36%	5.30%

PSERS OPEB Schedule of Contributions

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

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2017-18	$204	$204	$0	$50,586	0.40%
2018-19	$217	$217	$0	$53,394	0.40%
2019-20	$220	$220	$0	$53,324	0.41%
2020-21	$216	$216	$0	$52,900	0.41%
2021-22	$212	$212	$0	$53,184	0.40%

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