PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION

Pennsylvania's
STATE SYSTEM
of Higher Education

FINANCIAL STATEMENTS
JUNE 30, 2023

Pennsylvania's State System of Higher Education
Financial Statements
June 30, 2023
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CliftonLarsonAllen LLP
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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 year ended June 30, 2023, 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, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of certain discretely presented component units, which represent 97.7%, 95.1%, and 96.9%, respectively, of the 2023 assets, net assets, and revenues of the discretely presented component units for the year 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 audit 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 audit. 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) Statement No. 96, *Subscription Based Information Technology Arrangements*, for the year ended June 30, 2023, which represents a change in accounting principle. Our opinions are 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

King of Prussia, Pennsylvania
September 27, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

As members of the Commonwealth of Pennsylvania's (Commonwealth) public four-year higher education system, the 10 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 85,000 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 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:

- Cheyney University of Pennsylvania.
- Commonwealth University of Pennsylvania, including its campuses in Bloomsburg, Lock Haven and Mansfield and branch campus in Clearfield.
- East Stroudsburg University of Pennsylvania.
- Indiana University of Pennsylvania, including its branch campuses in Punxsutawney and Freeport.
- Kutztown University of Pennsylvania.
- Millersville University of Pennsylvania.
- Pennsylvania Western University of Pennsylvania, including its campuses in California, Clarion and Edinboro, and branch campus in Oil City.
- 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

Between 2016 and 2020, the State System conducted a strategic review of operations and identified improvement opportunities with the priority of ensuring student success, leveraging university strength, and transforming the governance and leadership structure within the State System universities. In support of the System Redesign priorities, on July 1, 2020, the Governor of Pennsylvania signed into law Act 50 of 2020 that allowed 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.

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

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

The integrated universities began operations effective July 1, 2022.

Act 50 contained a sunset provision of June 30, 2023 for the System's Board of Governors to authorize any new plans to create, expand, consolidate, transfer or affiliate an institution.

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.

Financial Highlights

Following is an overview of the State System's financial activities for the year ended June 30, 2023, as compared to the year ended June 30, 2022, as well as future economic factors.

Tuition and Fees
In its continued efforts to address affordability, in July 2023, the Board voted to **freeze basic in-state tuition** for the 2023-24 academic year. This action resulted in an unprecedented five consecutive years in which tuition was frozen. The Board also set a tentative tuition rate for the 2024-25 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 State System will continue to monitor its funding sufficiency and propose a tuition rate for 2024-25 for the Board's consideration in 2024.

The base tuition rate for most full-time Pennsylvania residents will remain at $3,858 per term, or $7,716 for the full 2023-24 academic year. **Nonresident, undergraduate tuition** rates range from $9,660 to $19,290 for the 2023-24 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 2023-24 at $22,735, compared to $22,465 in academic year 2022-23, 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 2022-23 was $23,250.

Appropriations
For fiscal year 2022-23, the State System received General Fund appropriations of $552.5 million, which was an increase of 15.7% over the amount of $477.5 million for fiscal year 2021-22. In fiscal year 2022-23, these appropriations represented approximately 27% of total revenues and gains.

In fiscal year 2023-24, the State System will receive $585.6 million in General Fund appropriations, an increase of $33.1 million or 6.0% 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 was fully implemented and used to allocate the state appropriation received beginning in fiscal year 2022-23.

As of 2022, Pennsylvania ranked 46th in the nation in public higher education appropriations per FTE student. State support is a main determinant influencing the State System's overall financial condition and directly impacts the ability of the State System to maintain affordable tuition rates. The recent appropriation increases in both 2022-23 and 2023-24 have been instrumental in the ability to freeze tuition during this year, provide important services for our students, and support our financial health.

The State System received a $23.7 million Realty Transfer Tax allocation in fiscal year 2022-23 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 $85 million in **Commonwealth capital funding** in fiscal year 2022-23, an increase of $15 million from the prior year, 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. 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. During fiscal year 2021-22, $11 million was allocated to the State System under the same program. These funds were received and recorded as revenue in fiscal year 2022-23.

In fiscal year 2022-23, the universities received an appropriation of $125 million from the Commonwealth's American Rescue Plan's Coronavirus State and Local Fiscal Recovery Funds. These one-time funds will be used to fund an array of key priority investment areas, in accordance with regulations outlined in the Coronavirus State and Local Fiscal Recovery Funds Final Rule guidelines. In fiscal year 2021-22, the State System received an appropriation of $50 million from the Commonwealth's American Rescue Plan's Coronavirus State and Local Fiscal Recovery Funds. These one-time funds were 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, workforce development; and support for universities as they transition to sustainable operations).

Enrollment
Fall 2022 student headcount was 84,567, a decrease of 4,084 students, or 4.6%, from fall 2021, and a decrease of 27,657 students, or 24.6%, from fall 2013. The following is the history of State System student headcount enrollment since 2013, for credit-bearing and clock hour students.

Year	Fall Enrollment	% Change from Prior Year
2022	84,567	-4.6%
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	-3.0%

While the overall enrollment declined by 4.6% for Fall 2022, incoming undergraduate student enrollment increased by 7.1% compared to the prior fall.

In academic year 2021-22, the universities awarded 23,707 degrees and certificates, a decrease of 1% from the 23,945 degrees awarded in academic year 2020-21.

	2021-22	2020-21	2019-20
Undergraduate	17,047	18,255	18,302
Graduate	6,660	5,690	6,334
Total	23,707	23,945	24,636

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. Near-term demographic trends predict a growth in high school graduates through fiscal 2025, and then a decline for several years thereafter. This demographic cliff trend is predicted throughout the country, and is more acute in the northeastern United States, which has seen greater overall demographic declines.

Since peaking at 131,733 students in academic year 2011-12, the projected number of **high school graduates** has dropped by 5.9% to 123,953 in academic year 2022-23. 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)
2022-23	123,953	-1.9%
2023-24	124,041	0.1%
2024-25	129,625	4.5%
2025-26	127,741	-1.5%
2026-27	124,429	-2.6%
2027-28	121,734	-2.2%
2028-29	121,765	0.0%
2029-30	120,639	-0.9%

The impact of the reductions in the number of high school graduates to the universities is compounded by a decline in the proportion of those who pursue higher education, an overcrowded higher education marketplace in the state and the continued follow-on impact of COVID-19.

Employee Compensation Costs
Approximately 85% of PASSHE's full-time equivalent (FTE) employees are covered by nine collective bargaining agreements. During 2022-23, new collective bargaining agreements were established for police supervisors and security officers with the International Union, Security, Police and Fire Professionals of America (SPFPA) and PASSHE Officers Association (POA) through August 2025. The collective bargaining agreements with the other 7 unions expired on June 30, 2023. The terms of the prior contracts remain in effect until successor agreements are ratified. Efforts are actively underway to secure successor agreements with these groups. In August 2023, the Commonwealth and AFSCME signed a four-year contract, the provisions of which apply to the State System's clerical, administrative, technical, maintenance and trade employees whom AFSCME represents, which is approximately 26% of the State System's labor force.

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.

Beginning in fall 2019, the State System provided two phases of an **Enhanced Sick Leave Program (ESLP) for all employee groups**, which provided for increased accrued sick leave reimbursement for faculty who would retire prior to designated timeframes. In total, this program encompassed 884 employees. All liabilities under this program were completed or accrued by June 30, 2022.

These programs contributed to overall workforce realignment steps that have been taken throughout the System in accordance with financial sustainability planning. In the past three years, the workforce across the System has declined by 1,633 FTE's or 15%.

Pension and OPEB Liabilities
The State System's liabilities related to **unfunded future pension and retiree healthcare costs total $2.75 billion** when combined with the respective deferred inflows of resources and deferred outflows of resources. The State System has virtually no control over $1.4 billion of this amount, which represents its share of the plans administered by the Commonwealth, since the Commonwealth determines the associated benefits as well as the employer and retiree contribution rates for these plans.

The **Commonwealth's combined net pension and other postemployment benefit (OPEB) liabilities** totaled $77.2 billion at June 30, 2023, compared to $66.4 billion at June 30, 2022. Credit rating agencies consistently cite 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 $91.7 million in **capital assets** in fiscal year 2022-23, which includes $65.3 million to build or improve academic and auxiliary facilities across all 10 universities. These figures do not include construction in progress or capital assets recognized under right of use leases or subscription-based information technology arrangements, which were $42.9 million, $5.9 million and $30.1 million, respectively.

During fiscal year 2022-23, there were no new bond issuances by the State System.

Bond principal and refundings of $116.1 million and bond interest of $60 million were paid, bringing the total outstanding **bond debt** to $1.795 billion at June 30, 2023.

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. The next rating update from Moody's is anticipated in the fall of 2023. In March 2023, Fitch Ratings reviewed the State System's rating of A+ with stable outlook and no rating change was made.

THE FINANCIAL STATEMENTS

Statement of Net Position

The *Statement of Net Position* 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, right of use and subscription assets less accumulated amortization.

- *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, OPEB and lease and subscription liabilities.

- *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, certain items associated with the pension and OPEB and deferred income associated with lessor leases.

- *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 statement of net position at June 30, 2023 and 2022.

Statement of Net Position

(in millions)	**June 30, 2023**	**June 30, 2022**	**Change from Prior Year**
Assets			
Cash and investments	$1,079	$1,068	1.0%
Capital assets, net	2,240	2,238	0.1%
Other assets	957	1,012	(5.4%)
Deferred outflows	485	415	16.9%
Total assets and deferred outflows	4,761	4,733	0.6%

Statement of Net Position

(in millions)	**June 30, 2023**	**June 30, 2022**	**Change from Prior Year**
Liabilities			
Workers' compensation	21	20	5.0%
Compensated absences	119	167	(28.7%)
Net pension liability	1,028	682	50.7%
Net OPEB liability	1,265	1,810	(30.1%)
Bonds payable	1,795	1,911	(6.1%)
Lease obligations and financed purchases	278	218	27.5%
Other Liabilities	406	394	3.0%
Deferred inflows	955	904	5.6%
Total liabilities and deferred outflows	5,867	6,106	(3.9%)
Net Position			
Net investment in capital assets	870	841	3.4%
Restricted	179	172	4.1%
Unrestricted	(2,155)	(2,386)	(9.7%)
Total net position	(1,106)	(1,373)	(19.4%)
Total liabilities, deferred inflows and net position	$4,761	$4,733	0.6%

Net Position

Overall, **net position increased by $267.0 million** in fiscal year 2022-23. This compares to an increase of $222.8 million in fiscal year 2021-22 from fiscal year 2020-21. The increase in fiscal year 2022-23 is primarily the result of 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, library books, right of use leases and subscription assets, net of accumulated depreciation and amortization, 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 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 decreased by $47.6 million to $119.5 million for the year ended June 30, 2023, compared to a $0.2 million increase to $167.0 million for the year ended June 30, 2022. Universities fund this liability only as cash payouts are made to employees upon termination. In fiscal year 2022-23, cash leave payouts to employees totaled $9.0 million, compared to $25.8 million in fiscal year 2021-22. At June 30, 2023, the vested value of sick leave payable to employees upon retirement was $42.4 million, and the value of annual leave payable upon any termination was $38.8 million, for a total of $81.2 million, or 68% of the total liability, due and payable to employees. By contrast, 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% 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, 2023, was $827 million, compared to $831 million at June 30, 2022. 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 statement of net position in other assets. The balance at June 30, 2023 is $774.0 million compared to $800.4 million at June 30, 2022. This balance is 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, 2023 was $1.9 billion, compared to $2.1 billion at June 30, 2022. 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.

Below 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.

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

(in millions)	**June 30, 2023**	**June 30, 2022**
Unrestricted Net Position when effect of unfunded liabilities is included	($2,155)	($2,386)
Pension Liabliities, including DOR and DIR		
SERS Pension	756	755
PSERS Pension	71	76
Total Pension Liabilities	827	831
OPEB Liabilities, including DOR and DIR		
SSHE OPEB Plan	1,355	1,475
REHP OPEB Plan	564	660
PSERS OPEB Plan	4	4
Total OPEB Liabilities	1,923	2,139
Compensated Absences Liability	119	167
Total Unfunded Liabilities, including DOR & DIR	2,869	3,137
Unrestricted Net Position when effect of unfunded liabilities is excluded	$714	$751

When the unfunded liabilities and related DOR and DIR are excluded, unrestricted net position decreased by $37 million, or (4.9)% from fiscal year 2021-22 to 2022-23, compared to an increase of $57 million, or 8.3%, from fiscal year 2020-21 to 2021-22. The decrease in the current year is associated with decreased tuition and fee revenues offset by lower operating expenses. In fiscal year 2021-22, the increase was associated with increased revenues with expenses holding relatively steady.

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, 2023 and 2022.

Revenues and Gains

(in millions)	June 30, 2023	June 30, 2022	Change from Prior Year
Operating revenues			
Tuition and fees, net	$627	$724	(13.4%)
Grants and contracts	190	168	13.1%
Auxiliary enterprises, net	310	289	7.3%
Other	48	43	11.6%
Total Operating revenues	1,175	1,224	(4.0%)
Nonoperating revenues and gains			
State appropriations	576	521	10.6%
Federal & State approp. & grants - COVID	56	241	(76.8%)
Investment income, net	44	20	120.0%
Gifts, nonoperating grants and other	165	153	7.8%
Total Nonoperating revenues and gains	841	935	(10.1%)
Total revenues and gains	$2,016	$2,159	(6.6%)

Overall, fiscal year 2022-23 **operating revenues** decreased from the prior fiscal year due to the lower tuition and fees offset by higher grants and contracts revenue and increased auxiliary services revenue. Nonoperating revenues decreased by 10%, mainly due to lower revenue as a large portion of COVID related appropriations and grants programs were completed by fiscal year 2021-2022. The overall decrease in revenues and gains was 6.6% 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. Tuition was frozen again in fiscal year 2022-2023 and enrollment declined slightly. In addition, along with an overall increase in discounts and allowances of $43 million, Cheyney University wrote-off financial aid funds totaling $13 million in fiscal year 2022-2023 as a result of a Title IV funds reconciliation process (see more detailed discussion at end of MD&A section). These items resulted in an overall **decrease in net tuition and fee revenue of $97 million** in fiscal year 2022-23 or (13.4%) from fiscal year 2021-22.

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 $21 million in fiscal year 2022-23, or 7.3% over fiscal year 2021-22. This compares to an increase of $155 million or 116.3% in fiscal year 2021-22 from fiscal year 2020-21. This increase can be attributed to a resumption of normal operations as coronavirus restrictions eased and auxiliary services returned to normal operation.

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 2022-23 appropriation was $576.1 million, a $55.2 million increase over fiscal year 2021-22.

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. Most funds under these programs were fully expensed by fiscal year 2021-2022. Of the $56 million amount of COVID related appropriations and grants recognized as revenue in fiscal year 2022-2023, $48 million was related to the $125 million appropriation from the Commonwealth's American Rescue Plan's Coronavirus State and Local Fiscal Recovery Funds. The remaining amount of $77 million is anticipated to be recognized as revenue over the next three fiscal years.

Expenses and Losses
Following is a summary of expenses and losses for the years ending June 30, 2023 and 2022.

Expenses and Losses

(in millions)	June 30, 2023	June 30, 2022	Change from Prior Year
Operating expenses			
Instruction	$520	$602	(13.6%)
Research and public service	78	67	16.4%
Academic support	139	139	0.0%
Student services	155	159	(2.5%)
Institutional support	226	233	(3.0%)
Operations and maintenance of plant	97	92	5.4%
Depreciation and amortization	166	160	3.8%
Student aid	87	178	(51.1%)
Auxiliary enterprises	213	186	14.5%
Total Operating expenses	1,681	1,816	(7.4%)
Other expenses and losses			
Interest expense capital asset-related debt	61	61	0.0%
Loss on disposal / acquistion of assets	2	1	100.0%
Loss on termination of Perkins Loan Program	1	2	(50.0%)
Unrealized loss on investment, net	4	58	(93.1%)
Total Other expenses and losses	68	122	(44.3%)
Total expenses and losses	$1,749	$1,938	(9.8%)

The decrease in **operating expenses** of $135 million, or (7.4%) in fiscal year 2022-23 compared to fiscal year 2021-22 is attributable to $29 million decrease in the actuarially calculated pension and post-employment expenses, lower instruction expense, a decrease in student aid expenses due to the elimination of fiscal year 2021-22 COVID aid, offset by higher research and auxiliary expenses.

Following is a summary of salaries, wages, and benefits expenses for the years ending June 30, 2023 and 2022.

Salaries, Wages and Benefits

(in millions)	**June 30, 2023**	**June 30, 2022**	**Change from Prior Year**
Salaries and wages	$820	$875	(6.3%)
Employer benefit contributions			
Employee healthcare	131	126	4.0%
Pension benefits	146	144	1.4%
Retiree healthcare	38	37	2.7%
Other benefits	94	95	(1.1%)
Total employer benefit contributions	409	402	1.7%
Noncash pension and OPEB expense			
Pension expense	(52)	(127)	(59.1%)
Retiree healthcare expense	(216)	(112)	92.9%
Total noncash pension and OPEB expense	(268)	(239)	12.1%
Total salaries, wages and benefits	$961	$1,038	(7.4%)

Salaries and wages totaled $820 million in fiscal year 2022-23, a decrease of $55 million, or (6.3%), over fiscal year 2021-22. The decrease is the result of employee separations and non-replacement of certain positions. These reductions were partially offset by salary increases associated with collective bargaining agreements. Annualized full-time equivalent employees decreased to 9,531 in fiscal year fiscal year 2022-23, compared to 9,823 in fiscal year 2021-22.

When the effects of the non-cash pension and OPEB expenses in excess of contributions are factored out, fiscal year 2022-23 **employee benefits** totaled $409 million, an increase of $7 million, or 1.7%, above fiscal year 2021-22.

The employer share of **employee healthcare contributions** increased by $5 million in fiscal year 2022-23, or 4.0%, from fiscal year 2021-22. This follows an increase of $3 million in fiscal year 2021-22, or 2.2% from fiscal year 2020-21. 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** increased by $3 million, or 1.6%, in fiscal year 2022-23 over fiscal year 2021-22. This follows a decrease of $6 million, or (3.3%), in fiscal year 2021-22 over fiscal year 2020-21.

Following is a summary of the State System's contributions for retiree pension and healthcare benefits for the years ending June 30, 2023 and 2022.

State System Employer Contributions for Retiree Pension and Healthcare Benefits

(in millions)	**June 30, 2023**	**June 30, 2022**	**Change from Prior Year**
Pension			
SERS	$93.1	$91.6	1.6%
PSERS	9.3	8.9	4.5%
ARP	43.9	43.6	0.7%
Retiree Healthcare			
System Plan	29.1	27.5	5.8%
REHP	8.3	9.1	(8.8%)
PSERS Healthcare	0.2	0.2	0.0%
Totals	$183.9	$180.9	1.7%

- **Employer contributions to SERS**, a defined benefits pension plan, were 38.82% of a participating employee's salary for the majority of participants in fiscal year 2022-23 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, 2022, 61.5% of the SERS liability was funded.

- **Employer contributions to PSERS**, a defined benefits pension plan, were 17.155% of a participating employee's salary in fiscal year 2022-23. 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, 2022, 61.3% of the PSERS liability was funded.

- **Employer contributions to the ARP**, a defined contribution plan, were 9.29% of a participating employee's salary in fiscal year 2022-23, 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 2022-23 was set at $178 per pay period per active participating employee and will increase to $189 in fiscal year 2023-24. Future year changes will depend upon actual claims experience. As of June 30, 2023, 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 Pennsylvania Employee Benefit Trust Fund (PEBTF), were $120 per pay period per active participating employee in fiscal years 2022-23 and 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 2023-24, the rate will increase to $300 per pay period. At June 30, 2022, only 5.9% 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 0.375% of a participating employee's salary in fiscal year 2022-23. 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 2022-23 by a total of $1 million, or (1.0%), over fiscal year 2022-21, compared to a fiscal year 2021-22 decrease of $4 million, or (4.0%), over fiscal year 2020-21. The decrease in fiscal year 2022-23 is due to a decline in tuition and other fee waivers. Increases in workers' compensation costs were offset by decreases in social security and unemployment compensation costs.

Other Expenses and Losses

Interest expense on capital asset-related debt was $42 million, a decrease of $3 million from fiscal year 2021-22. Interest expense on the SERS pre-funding bond issued in April 2021 was $18 million, a decrease of $2.5 million from fiscal year 2021-22. The decrease in interest expense on both capital-asset related debt and the SERS pre-funding debt are due to passage of time with no additional debt instruments issued during the fiscal year.

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 2022-23, the unrealized loss on the State System pool deposits and investments account was $12.0 million, while the accumulated fair value markdown at June 30, 2023 was $7.2 million. This compares to an unrealized loss on deposits and investments account in fiscal year 2021-22 of $40.9 million, and an accumulated fair value markup of $4.7 million at June 30, 2022.

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 operating cash increased by $26.9 million, or 2.9%, in fiscal year 2022-23 to $953.0 million, compared to a balance of $926.2 million at June 30, 2022. Cash flow weaknesses, which can seriously challenge financial viability, have affected some universities, primarily those in rural locations with declining demographics. The System Office is monitoring universities whose cash, revenue, expenditure, and enrollment trends may be an indication of future cash flow weaknesses.

OTHER ECONOMIC FACTORS

The **Commonwealth** ended fiscal year 2022-23 with $44.9 billion in General Fund collections, $3.2 billion below the prior year and $1.3 billion above estimate.

On August 3, 2023, Governor Josh Shapiro signed a fiscal year 2023-24 Commonwealth General Fund budget of $45.5 billion that provides for increased funding of higher education. The spending plan appropriated to the State System was $585.6 million in General Funds. The budget also includes an appropriation of $65.4 million for facilities transition with the specific purpose of providing targeted financial debt relief to Pennsylvania Western University.

Commonwealth appropriations are a significant source of revenues to the State System. The State System's continued operational viability is substantially dependent on a consistent and proportionate level of ongoing Commonwealth support. Commonwealth support also directly impacts the ability of the State System to maintain affordable tuition rates. The State System further depends on the Commonwealth to provide appropriations in support of its capital program.

Cheyney University of Pennsylvania

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. As of the date of this report, the University remains on HCM2 status.

During fiscal year 2022-23, Cheyney was required to perform a reconciliation of Title IV funds covering the years 2015-16 through 2021-22. Per the Federal Student Aid (FSA) website, Title IV reconciliation is the process by which a school reviews and compares Title IV aid (grants, loans, and campus-based aid) recorded on ED's systems with the information in the school's internal records. Through reconciliation, disbursement and cash discrepancies are identified and resolved. This reconciliation process is subject to an agreed upon procedures audit which was completed in March 2023. Cheyney successfully completed the reconciliation process; however, ED had stipulated in advance that Cheyney would not receive the Title IV grants associated with these prior years and as such Cheyney wrote off aid funds totaling $13.3 million for the seven years covered by the reconciliation process. This was recorded as a reduction to net tuition revenue in the results for fiscal year 2022-23.

The university was still awaiting receipt of approximately $10.6 million in federal student financial aid funds as of June 30, 2023, $3.4 million of which was received in August 2023. The delay in receipt of ED funds contributes to the university's tight cash flow toward the end of the fiscal year. During fiscal year 2022-23, the State System provided short-term System notes amounting to $2.5 million to Cheyney University to meet its cash needs. This note is being repaid by the university in fiscal year 2023-24.

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 implement program and operating efficiencies, is undertaking fundraising campaigns, and is seeking ways to develop income-producing strategies using campus assets and strategic alliances with third parties.

Cheyney's eligibility and certification to participate in Title IV programs was set to expire June 30, 2023, at the end of the five-year Title IV certification period. An institution is certified by ED for a specific period of time, which may vary by institution. Cheyney submitted its recertification application and supporting documentation in March 2023. In accordance with a letter from ED dated March 27, 2023, Cheyney had remained on a month-to-month eligibility status for Title IV programs through September 14, 2023, at such time, Cheyney's Title IV recertification was formally approved and will be effective through June 2026.

As provided by Section 498 of the Higher Education Act of 1965, as amended (HEA), the U.S. Secretary of Education determines whether institutions seeking to participate, or are participating, in the programs authorized pursuant to Title IV of the HEA (Title IV, HEA programs) 20 U.S.C. 1070 et. Seq., meet, or continue to meet, the institutional eligibility, financial responsibility, and administrative capability requirements for participation in the Title IV, HEA programs. One method for providing this required oversight is through program reviews. In March 2023, Cheyney was notified that ED would conduct an unannounced program review. This review was completed and in May 2023, Cheyney received an oral overview of the corrective action that needed to be developed, which was consequently developed by Cheyney.

In April 2023, Middle States Commission of Higher Education (MSCHE) requested a Supplemental Information Report (SIR) due May 22, 2023. This report was submitted on May 19, 2023, by Cheyney and addressed the areas outlined by MSCHE including additional information on Title IV responsibilities (Standard II, Standard VI, and Requirement of Affiliation 5).

In June 2023, Middle States Commission of Higher Education (MSCHE) requested a Supplemental Information Report (SIR) due August 1, 2023. This report was submitted on July 31, 2023, by Cheyney and addressed the areas outlined by MSCHE including additional information on Title IV responsibilities (Standard II, Standard VI, and Former Requirement of Affiliation 11). An evaluation visit was scheduled for September 2023 and the Commission is expected to review the information in its November 2023 meeting.

*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

Statement of Net Position

(dollars in thousands)

Assets and Deferred Outflows of Resources

		June 30, 2023
Current Assets		
Cash and cash equivalents	$	40,733
Short-term investments		475,840
Accounts receivable, students, net		45,319
Accounts receivable, other		20,549
Governmental grants and contracts receivable		37,322
Prepaid expenses		41,374
Current portion of loans receivable		1,002
Due from component units		13,958
Other current assets		8,621
Total Current Assets		684,718
Noncurrent Assets		
Restricted cash and cash equivalents		25
Long-term investments, including endowments		562,156
Beneficial interests		25,099
Loans receivable		715
Due from component units		2,228
Non-depreciable capital assets		102,578
Depreciable or amortizable capital assets, net of accumulated depreciation and amortization		2,137,073
Other noncurrent assets		761,107
Total Noncurrent Assets		3,590,981
Total Assets		4,275,699
Deferred Outflows of Resources		485,157
Total Assets and Deferred Outflows of Resources	$	4,760,856

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Net Position *(continued)*
(dollars in thousands)

Liabilities, Deferred Inflows of Resources, and Net Position

	June 30, 2023
Current Liabilities	
Accounts payable and accrued expenses	$ 175,324
Unearned revenue	125,073
Deposits	5,661
Current portion of workers' compensation liability	3,998
Current portion of compensated absences liability	19,353
Current portion of OPEB liability	37,387
Current portion of lease, subscription and financed purchase obligations	24,604
Current portion of bonds payable	132,085
Due to component units	8,268
Other current liabilities	38,502
Total Current Liabilities	570,255
Noncurrent Liabilities	
Unearned revenue	1,734
Workers' compensation liability, net of current portion	16,994
Compensated absences liability, net of current portion	100,120
Net pension liability	1,027,783
OPEB liability, net of current portion	1,227,831
Lease, subscr. and financed purchase obligations, net of current portion	252,917
Bonds payable, net of current portion	1,662,710
Other noncurrent liabilities	51,094
Total Noncurrent Liabilities	4,341,183
Total Liabilities	4,911,438
Deferred Inflows of Resources	955,042
Net Position	
Net investment in capital assets	870,363
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	62,414
Student loans	422
Other	1,546
Expendable:	
Scholarships and fellowships	35,664
Capital projects	58,084
Other	20,468
Unrestricted	(2,154,585)
Total Net Position	(1,105,624)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 4,760,856

See accompanying notes to financial statements.

Pennsylvania’s State System of Higher Education

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023
(dollars in thousands)

	2023
Operating Revenues	
Tuition and fees, net	$ 626,740
Grants and contracts	190,105
Sales and services	41,491
Auxiliary enterprises, net	309,512
Other revenues, net	7,341
Total Operating Revenues	1,175,189
Operating Expenses	
Instruction	520,118
Research and Public Service	78,118
Academic support	138,890
Student services	154,587
Institutional support	226,303
Operations and maintenance of plant	96,664
Depreciation	166,483
Student aid	86,512
Auxiliary enterprises	212,528
Total Operating Expenses	1,680,203
Operating Loss	(505,014)
Nonoperating Revenues (Expenses)	
State appropriations, general and restricted	552,470
Federal and State appropriations and grants-COVID	56,244
Pell grants	112,366
Investment income, net	44,043
Unrealized loss on investments	(4,370)
Gifts for other than capital purposes	38,316
Interest expense on capital asset-related debt	(61,422)
Loss on disposal/acquisition of assets	(1,515)
Loss on termination of Perkins Loan Program	(1,056)
Other nonoperating revenue	7,344
Net Nonoperating Revenues	742,420
Income before other revenues	237,406
State appropriations, capital	23,673
Capital gifts and grants	6,206
Income	267,285
Increase in Net Position	267,285
Net position—beginning of year	(1,372,909)
Net position—end of year	$ (1,105,624)

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows
For the Year Ended June 30, 2023
(dollars in thousands)

	2023
Cash Flows from Operating Activities	
Tuition and fees	$ 627,844
Grants and contracts	207,193
Payments to suppliers for goods and services	(454,874)
Payments to employees	(1,272,456)
Loans issued to students	(1,414)
Loans collected from students	5,167
PLUS, Stafford, and other loans receipts (non-Perkins)	651,034
PLUS, Stafford, and other loans disbursements (non-Perkins)	(651,041)
Student aid	(87,187)
Auxiliary enterprise charges	309,034
Sales and services	41,598
Other receipts	23,479
Net cash used in operating activities	(601,623)
Cash Flows from Noncapital Financing Activities	
State appropriations	677,470
Gifts and nonoperating grants for other than capital purposes	158,623
Principal paid on prefunding pension bond	(36,715)
Agency transactions, net	(1,518)
Other	2,250
Net cash provided by noncapital financing activities	800,110
Cash Flows from Capital Financing Activities	
Capital appropriations	23,673
Capital grants and gifts received	5,903
Proceeds from sales of capital assets	747
Purchases of capital assets	(77,675)
Principal paid on capital debt and leases	(107,451)
Interest paid on capital debt and leases	(69,132)
Net cash used in capital financing activities	(223,935)
Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	36,963,937
Interest on investments	41,100
Purchase of investments	(36,982,971)
Net cash provided by investing activities	22,066
Net Decrease in Cash and Cash Equivalents	(3,382)
Cash and cash equivalents—beginning of year	44,140
Cash and cash equivalents—end of year	$ 40,758

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows *(continued)*
For the Year Ended June 30, 2023
(dollars in thousands)

	2023
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	$ (505,014)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	166,483
Expenses paid by Commonwealth or donor	5,099
Effect of changes in operating assets, liabilities, deferred outflows of resources, and deferred inflows of resources:	
Receivables, net	18,157
Other assets	35,177
Accounts payable	(53,948)
Unearned revenue	(424)
Student deposits	(340)
Compensated absences	(47,576)
Loans to students and employees	3,753
Net pension activity	(4,098)
Net other postemployment benefits (OPEB) activity	(215,977)
Other liabilities	(4,614)
Deferred inflows of resources related to lease receivable	1,699
Net cash used in operating activities	$ (601,623)
Noncash Activities	
Capital assets included in payables	$ 10,152
Capital assets acquired by notes payable (financed purchase)	53,217
Capital assets acquired by new right of use leases	4,224
Capital assets acquired by new right of use leases with Component Units	1,655
Capital assets acquired by new subscription agreements	28,121
Capital assets acquired by gift or appropriation	303
Commonwealth on-behalf contributions to PSERS	5,099

See accompanying notes to financial statements.

Pennsylvania’s State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

		June 30, 2023
Assets		
Cash and cash equivalents	$	127,021
Accounts and interest receivable		6,289
Contributions/pledges receivable		23,852
Due from universities		2,653
Inventories and prepaid expenses		7,646
Restricted cash and cash equivalents		51,437
Short-term investments		26,932
Long-term investments		724,126
Land, buildings, and equipment, net		481,815
Other assets		175,437
Total Assets	$	1,627,208
Liabilities		
Accounts and interest payable	$	18,307
Deferred revenue		7,775
Annuity liabilities		4,462
Due to universities		15,809
Deposits payable		41,000
Interest rate swap agreements		11,502
Capitalized leases		21,363
Bonds and notes payable		758,697
Other liabilities		18,237
Total Liabilities		897,152
Net Assets		
Without donor restrictions		161,018
With donor restrictions		569,038
Total Net Assets		730,056
Total Liabilities and Net Assets	$	1,627,208

See accompanying notes to financial statements.

Pennsylvania’s State System of Higher Education

Component Units Statement of Activities
For the Year Ended June 30, 2023
(dollars in thousands)

	2023
Changes in net assets without donor restrictions	
Contributions	$8,409
Sales and services	28,812
Student fees	28,534
Grants and contracts	14,582
Rental income	87,666
Investment return, net	12,947
Other revenues and gains	56,987
Net assets released from restrictions	48,700
Total Revenues and Gains	286,637
Expenses and Losses	
Program services:	
Scholarships and grants	25,646
Student activities and programs	29,109
University stores	19,565
Housing	77,898
Other programs	42,797
Management and general	25,564
Fundraising	9,359
Total Expenses	229,938
Other expenses and losses	(4,405)
Total Expenses and Losses	225,533
Change in net assets without donor restrictions	61,104
Changes in net assets with donor restrictions	
Contributions	$ 45,623
Investment return, net	45,299
Other revenue and gains	4,629
Other expenses and losses	(543)
Net assets released from restrictions	(48,700)
Change in net assets with donor restrictions	46,308
Change in total net assets	107,412
Net assets—beginning of year (restated)	622,644
Net assets—end of year	$ 730,056

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Expenses by Nature and Function
For the Year Ended June 30, 2023

(dollars in thousands)

	2023									
	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	$675	$4,643	$4,569	$6,970	$8,134	$24,991	$13,702	$4,861	$18,563	$43,554
Gifts and grants	19,572	5,051	0	1,615	5,839	32,077	1,113	144	1,257	33,334
Supplies and travel	20	8,452	4,419	591	4,631	18,113	617	811	1,428	19,541
Services and professional fees	214	2,555	560	3,844	4,713	11,886	4,078	2,285	6,363	18,249
Office and occupancy	17	1,526	1,301	15,918	1,820	20,582	1,972	368	2,340	22,922
Depreciation	0	257	369	19,301	2,314	22,241	1,109	27	1,136	23,377
Interest	0	0	0	22,783	4,952	27,735	1,015	17	1,032	28,767
Other	5,148	6,625	8,347	6,876	10,394	37,390	1,958	846	2,804	40,194
Total Expenses	$25,646	$29,109	$19,565	$77,898	$42,797	$195,015	$25,564	$9,359	$34,923	$229,938

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2023

(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 10 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 statement of net position 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 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.

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 or subscription-based information technology agreements 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 or subscription-based information technology agreements are included in depreciation and amortization expense over the shorter of the agreement 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 year ended June 30, 2023.

Leases and Subscription-Based Information Technology Arrangements
The State System routinely engages in lease agreements or subscription-based information technology arrangements (SBITA) to meet operational needs. The State System's lease contracts generally relate to land, buildings, and various equipment. For short-term leases and SBITAs 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 or SBITA. For all other contracts where the State System is the lessee, that meet the requirements of GASB 87 or GASB 96 and were in excess of the minimum dollar threshold, the State System recognized a lease or subscription liability and an intangible right of use asset based on the present value of the future lease payments or subscription payments over the contracted term of the lease or SBITA. Lease and subscription right of use assets are reported with capital assets, and lease and subscription liabilities are reported as long-term debt in the statement of net position. The right of use lease and subscription assets are amortized over the term of the lease or SBITA, 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 and SBITAs 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 or SBITA, the present value is remeasured, and corresponding adjustments made. Payments based on future performance are not included in the measurement of the lease or subscription 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 and SBITA 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 the Alternate Method prescribed by the National Association of College and University Business Officers (NACUBO) in Advisory Report 2000-05, 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.

Component Unit Restatements
Certain component units restated their prior year financial statements. These restatements resulted in a change in the beginning of year net assets from $621,163,000 to $622,644,000, a change of $1,481,000, which is reflected in the accompanying Component Units Statement of Activities.

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 March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, effective for reporting periods beginning after June 15, 2022. Statement No. 94 establishes the definitions for public-private and public-public partnerships (P3s) and availability payment arrangements (APAs) and provide uniform guidance for governments to report assets and liabilities related to P3s on a consistent basis and disclose important information about P3 transactions. The adoption of this statement had no impact on previously reported beginning net position at June 30, 2022.

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements, effective for fiscal years beginning after June 15, 2022. Statement No. 96 establishes accounting and financial reporting for subscription-based information technology arrangements (SBITAs). Under this statement, a government is required to recognize a subscription liability and a right of use subscription asset for SBITAs with a subscription term greater than twelve months. The adoption of this statement resulted in recognition of subscription-related assets and liabilities. Notes 6 and 11 provide details on the balances reported.

(2) Deposits and Investments

On June 30, 2023, the carrying amount of the State System's demand and time deposits and certificates of deposit for all funds was $48,242,000, compared to bank balances of $41,728,000. The difference is caused primarily by items in transit. Of the bank balances, $3,019,000 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; $2,223,000 were uninsured and uncollateralized; and $36,486,000 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, which 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, 2023, follow.

State System Pooled Deposits and Investments
June 30, 2023
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				$799
Money market funds				7,469
Total deposits				8,268
Investments				
Commercial paper	2	P1	0.06	156,012
Government money market mutual fund	2	Aaa	0.00	27,204
U.S. government and agency obligations	2	Aaa	0.29	256,478
	2	Aa1	0.11	4,484
Asset-backed securities	2	Aaa	0.54	190,672
Collateralized mortgage obligations (CMOs)	2	Aaa	1.88	94,078
Corporate bonds and notes	2	A1	1.18	52,423
	2	A2	1.14	85,480
	2	A3	1.29	38,595
	2	Aa2	1.73	3,361
	2	Baa1	1.17	25,536
	2	Baa2	1.61	21,285
Total investments				955,608
Total deposits and investments				$963,876

Of the investments noted above at June 30, 2023, $799,000 was 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, 2023, follow.

University Local Deposits and Investments
June 30, 2023
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				$39,960
Certificates of deposit				14
Total deposits				39,974
Investments				
U.S. government and agency obligations	1		0.00	548
	2		6.05	5,878
Bond mutual funds	1		3.45	2,852
	2		6.18	2,243
	NAV		0.18	7,517
Debt Securities	1	Aaa	1.11	19
	1	A1	1.10	19
	1	A2	2.91	202
	1	A3	2.97	143
	1	Baa1	3.05	43
	1	NR	0.00	1,674
	2	Aaa	6.00	65
	2	Aa2	6.00	72
	2	Aa3	6.00	88
	2	A1	6.00	495
	2	A2	6.00	394
	2	A3	6.00	550
	2	Baa1	6.00	278
	2	NR	6.00	10
Equity/balanced mutual funds	1			9,430
	2			24,157
	3			1,808
	NAV			13,516
Common stock	1			2,903
Total investments				74,904
Total deposits and investments				$114,878

Investment revenue is reported net of related investment expenses. Gross investment revenue totaled $45,201,000 at June 30, 2023. Of this amount, $1,158,000 at June 30, 2023 represents 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 $94,129,000 at June 30, 2023. Of this amount, $48,810,000 is 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 $912,727,000 at June 30, 2023. Of this amount, $285,987,000 represents 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 $315,675,000 at June 30, 2023. Of this amount, $6,163,000 represents 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, 2023, is summarized in the following schedule.

(*in thousands*)	June 30, 2023	
	Third Parties	**Component Units**
Lease Revenue	$1,197	$287
Lease Revenue - Variable	88	5
Interest Income	126	167
Total	$1,411	$459

The following summary provides aggregated information reported for June 30, 2023 for lease receivables including additions and reductions for the year then ended.

(in thousands)	Beginning Balance	Additions	Reductions	Ending Balance
Lease Receivable, Third Parties	$6,585	$2,221	($1,194)	$7,612
Lease Receivable, Comp Units	6,660	2,390	(1,573)	7,477
Total	$13,245	$4,611	($2,767)	$15,089

(5) Beneficial Interests

At June 30, 2023, the fair value of beneficial interests totaled $25,099,000. Of this amount, $25,098,000 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 $1,000 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, 2023 and 2022, follow.

(in thousands)	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Land	$34,258	$81	($550)	$33,789
Construction in progress	181,808	42,916	(155,935)	68,789
Total capital assets not being depreciated	216,066	42,997	(156,485)	102,578
Buildings, including improvements	3,187,362	65,241	144,784	3,397,387
Improvements other than buildings	351,498	3,104	865	355,467
Equipment and furnishings	552,227	22,847	(6,608)	568,466
Library books	70,227	414	(379)	70,262
Right of use assets land	1,954	0	(113)	1,841
Right of use assets buildings	89,816	4,545	(1,469)	92,892
Right of use assets equipment	5,299	1,313	(1,093)	5,519
Subscription assets	15,014	15,152	113	30,279
Total capital assets being depreciated or amortized	4,273,397	112,616	136,100	4,522,113

(in thousands)

	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Less accumulated depreciation and amortization:				
Buildings and improvements	(1,421,805)	(114,245)	32,945	(1,503,105)
Land improvements	(198,535)	(11,662)	(25,643)	(235,840)
Equipment and furnishings	(484,525)	(23,490)	8,119	(499,896)
Library books	(67,193)	(723)	379	(67,537)
Right of use assets land	(715)	(342)	113	(944)
Right of use assets buildings	(60,951)	(7,297)	1,195	(67,053)
Right of use assets equipment	(2,956)	(1,167)	1,015	(3,108)
Subscription assets	0	(7,557)	0	(7,557)
Total accumulated depreciation and amortization	(2,236,680)	(166,483)	18,123	(2,385,040)
Total capital assets being depreciated, net	2,036,717	(53,867)	154,223	2,137,073
Capital assets, net	$2,252,783	($10,870)	($2,262)	$2,239,651

(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 $1,346,000, and $464,000 to the Reserve Fund during the years ended June 30, 2023 and 2022, respectively.

For the years ended June 30, 2023 and 2022, the aggregate liability for claims under the self-insurance limit was $7,435,000 and $7,516,000, respectively. The Reserve Fund assets of $13,557,000 and $12,801,000 were equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2023 and 2022, respectively. Changes in the workers' compensation claims liability in fiscal years 2022, and 2023, follow.

(in thousands)

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2022	$21,508	$2,197	$3,322	$20,383
2023	$20,383	$3,769	$3,160	$20,992

(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 2023 are as follows.

(in thousands)

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2022	$166,803	$26,061	$25,815	$167,049
2023	$167,049	($38,602)	$8,974	$119,473

(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 year ended June 30, 2023.

(in thousands)

	SERS	PSERS	ARP	Total
Net pension liabilities	**$ 948,291**	**$ 79,492**	**$ -**	**$ 1,027,783**
Deferred outflows of resources:				
Difference between expected and actual experience	13,781	36	-	13,817
Net difference between projected and actual investment earnings on pension plan investments	128,807	-	-	128,807
Changes in assumptions	63,958	2,374	-	66,332
Difference between employer contributions and proportionate share of contributions	1,858	227	-	2,085
Changes in proportion	-	380	-	380
Contributions after the measurement date	52,191	9,342	-	61,533
Total deferred outflows of resources	**$ 260,595**	**$ 12,359**	**$ -**	**$ 272,954**

(in thousands)	SERS	PSERS	ARP	Total
Deferred inflows of resources:				
Difference between expected and actual experience	2,632	688	-	3,320
Net difference between projected and actual investment earnings on pension plan investments	-	1,349	-	1,349
Difference between employer contributions and proportionate share of contributions	1,065	-	-	1,065
Changes in proportion	64,461	2,259	-	66,720
Total deferred inflows of resources	**$ 68,158**	**$ 4,296**	**$ -**	**$ 72,454**
Pension expense, excluding prefunding credit	**$ 92,672**	**$ 10,133**	**$ 43,899**	**$ 146,704**
Contributions recognized by pension plans	**$ 92,544**	**$ 9,342**	**N/A**	**$ 101,886**

The State System will recognize the $52,191,000 reported as 2023 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $9,342,000 reported as 2023 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, 2024. 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, 2024	$ 1,027	$ (803)
June 30, 2025	27,636	(464)
June 30, 2026	38,182	(1,888)
June 30, 2027	72,666	1,879
June 30, 2028	735	-
Totals	$ 140,246	$ (1,276)

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.pa.gov.

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, 2023, the State System recognized reduced pension expense associated with these credits of $53,650,000. This amount and the remaining prefunding balance of $774,071,000 at June 30, 2023, is not reflected in the subsequent tables and schedules related to the SERS plan. The prefunding balance at June 30, 2023, based on the actuarial valuation dated December 31, 2022 was $798,142,000.

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 38.82% of active members' annual covered payroll at June 30, 2023, with less common rates ranging between 26.05 and 30.44%, depending upon the defined benefit plan chosen by the employee. For the SERS defined benefit/defined contribution hybrid plan, the State System's actuarially determined contribution rate was either 16.18% or 16.43% 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 14.87% 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 year ended June 30, 2023, was $92,544,000, 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 3.25% or 3.50% 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, 2023, depending upon the plan chosen by the employee. The State System recognized $556,000 in SERS defined contribution pension expense for the year ended June 30, 2023. 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 June 2022 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.000% to 6.875%. 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, 2022, 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 6.875%, net of manager fees and including inflation.
- Salary increases based on an average of 4.55%, 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, 2022, are summarized below.

Asset Class	Target Allocation	Long-Term Real Rate of Return
Private equity	16.00%	5.75%
Real estate	7.00%	5.12%
U.S. equity	31.00%	4.35%
International developed equity	14.00%	4.25%
Emerging markets equity	5.00%	4.65%
Fixed income	22.00%	(0.50%)
Inflation protection (TIPS)	3.00%	(1.00%)
Cash	2.00%	(1.05%)
	100.00%	

The discount rate used to measure the total SERS pension liability was 6.875%. 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, 2023, calculated using the discount rate of 6.875%, 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 (5.875%) or one percentage point higher (7.875%) 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 5.875%	Current Rate 6.875%	1% Increase 7.875%
$1,118,028	$948,291	$664,580

Proportionate Share
At June 30, 2023, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2022, was $948,291,000.

The allocation percentage assigned to each participating employer is based on a projected contribution method. For the allocation of the December 2022 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2023/24, from the December 31, 2022, funding valuation, to the expected funding payroll. At the December 31, 2022 measurement date, the State System's proportion was 4.1504%, a decrease of 0.028% from its proportion calculated as of the December 31, 2021 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 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.pa.gov.

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 between 1% to 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, 2023, was 34.31% 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 17.155% of covered payroll. The State System's reported contributions for year ended June 30, 2023, was $9,342,000 which is equal to the required contractual contribution.

For the PSERS defined contribution plan, the State System is required to contribute at actuarially determined average rate 0.20% of active members' annual covered payroll for the year ending June 30, 2023, depending upon the plan chosen by the employee. Members were first eligible to choose the defined contribution plan on July 1, 2019. The contributions for the year ended June 30, 2023, was $11,000.

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, 2022, measurement date, was determined by rolling forward PSERS' total pension liability at June 30, 2021, to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement.

- Valuation date - June 30, 2021
- 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 MP-2020 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, 2022.

Asset Class	Target Allocation	Long-Term Real Rate of Return
Global public equity	28.00%	5.30%
Private equity	12.00%	8.00%
Fixed income	33.00%	2.30%
Commodities	9.00%	2.30%
Infrastructure/MLPs	9.00%	5.40%
Real estate	11.00%	4.60%
Absolute return	6.00%	3.50%
Cash	3.00%	0.50%
Leverage	(11.00%)	0.50%
	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, 2023, 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%
$102,818	$79,492	$59,826

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)	2023	2022
Total PSERS net pension liability associated with the State System	$ 158,984	$ 145,916
Commonwealth's proportionate share of the PSERS net pension liability associated with the State System	(79,492)	(72,958)
State System's proportionate share of the PSERS net pension liability	$ 79,492	$ 72,958

PSERS measured the 2023 net pension liabilities as of June 30, 2022. 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, 2022, the State System's proportion was 0.1788%, an increase of 0.0011% from its proportion calculated as of June 30, 2021.

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, 2023, was 9.29% of qualifying compensation. The contributions to the ARP for the year ended June 30, 2023 was $43,899,000, from the State System; and $23,627,000 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 10 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 year ended June 30, 2023.

(in thousands)	System Plan	REHP	Premium Assistance	Total
Net OPEB liabilities	**$ 902,031**	**$ 359,910**	**$ 3,277**	**$ 1,265,218**
Deferred outflows of resources:				
Difference between expected and actual experience	-	13,703	30	13,733
Net difference between projected and actual investment earnings on OPEB plan investments	-	1,487	9	1,496
Changes in assumptions	116,585	32,623	364	149,572
Changes in proportion	-	5,490	78	5,568
Contributions after the measurement date	29,096	8,291	204	37,591
Total deferred outflows of resources	**$ 145,681**	**$ 61,594**	**$ 685**	**$ 207,960**
Deferred inflows of resources:				
Difference between expected and actual experience	263,759	107,409	18	371,186
Net difference between projected and actual investment earnings on OPEB plan investments	-	-	-	-
Changes in assumptions	335,014	66,331	774	402,119
Changes in proportion	-	92,429	170	92,599
Total deferred inflows of resources	**$ 598,773**	**$ 266,169**	**$ 962**	**$ 865,904**
OPEB expense	**$ (91,340)**	**$ (87,128)**	**$ 164**	**$ (178,304)**
Contributions recognized by OPEB plans	**N/A**	**$ 8,291**	**$ 204**	**$ 8,495**

The State System will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $29,096,000 for the System Plan, $8,291,000 for the REHP plan, and $204,000 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2024. 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, 2024	$ (118,657)	$ (85,733)	$ (98)
June 30, 2025	(87,430)	(54,079)	(64)
June 30, 2026	(104,231)	(30,955)	(86)
June 30, 2027	(85,935)	(30,203)	(115)
June 30, 2028	(85,935)	(11,896)	(118)
Thereafter	-	-	-
Totals	$ (482,188)	$ (212,866)	$ (481)

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, POA, 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 11,307 individuals are covered by the benefit terms (down from 11,872 in the prior actuarial valuation), including 5,817 active employees that may be entitled to receive benefit payments upon retirement, 314 retired participants entitled to but not yet receiving benefits, and 5,176 retired participants receiving benefits.

Effective January 16, 2016, the State System OPEB plan became closed to newly hired SCUPA, SPFPA, POA, 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, 2023.

- 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, 2023, is based is dated July 1, 2022, 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 6.5% in 2022, 6.0% in 2023, 5.5% in 2024 through 2025, with rates gradually decreasing from 5.4% in 2026 to 3.9% 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. 2% of vested former members are assumed to return to coverage each year upon reaching age 45.
- 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.
- APSCUF mortality rates based on PubT-2010 Above Median Income Mortality Table, including rates for disabled retirees and contingent survivors. All other groups mortality rates based on the PubG-2010 Above Median Income Mortality Table, including rates for disabled retirees and contingent survivors. Both incorporate rates based on a generational projection using Scale MP-2021 to reflect mortality improvement.
- The discount rate increased from 2.28% to 4.06%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2022.
- Participant data is based on census information as of July 1, 2022.
- Rates of withdrawal vary by age and years of service.
- Costs have been loaded by 0.5% 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, 2023, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the current healthcare cost trend rates (6.0% decreasing to 3.9%).

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

1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
$765,609	$902,031	$1,074,534

The following presents the State System's net OPEB liability at June 30, 2023, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (3.06%) or one percentage point higher (5.06%) than the current discount rate (4.06%).

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

1% Decrease 3.06%	Current Rate 4.06%	1% Increase 5.06%
$1,036,491	$902,031	$792,160

System Plan OPEB Liability
The System Plan's total OPEB liability of $902,031,114 was measured and determined by an actuarial valuation as of July 1, 2022.

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

Fiscal Year Ending		**June 30, 2023**
Balance beginning of year	$	1,393,960
Service cost		40,815
Interest		32,205
Changes of benefit terms		(8,221)
Differences between expected and actual experience		(209,238)
Changes of assumptions		(306,370)
Benefit payments		(41,120)
Net Changes		(491,929)
Balance end of year	$	902,031

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 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 coverage 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, 2023.

- 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 $120.00 per pay period for each current REHP eligible active employee during the period July 1, 2022 through June 30, 2023. The rate during the period July 1, 2021 through June 30, 2022 was also $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, 2022, 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 7.3%, with rates gradually decreasing to 3.9% in 2075 and later, based on the SOA-Getzen trend rate model version 2022_f4 for the December 31, 2021 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-2021.
- Participant data based on census information as of December 31, 2021, for the June 30, 2022, measurement date.

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

- Discount rate of 4.67% as of June 30, 2022.
- The discount rate was based on the long-term expected rate of return on assets held in the OPEB investment pool (6.75%) and a municipal bond rate of 3.54% based on the 20-year Bond Buyer GO Index as of the end of June 2022.

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%	5.10%
International equity	27.00%	5.50%
Fixed income	23.00%	1.60%
Real estate	8.00%	4.70%
Cash and cash equivalents	1.50%	0.00%
Private Equity	0.50%	8.30%
	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 3.6478% for the measurement date of June 30, 2022, and 4.0260% for the measurement date of June 30, 2021.

The following presents the State System's share of the REHP net OPEB liability at June 30, 2023, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.3% decreasing to 2.9%) or one percentage point higher (8.3% decreasing to 4.9%) than the current healthcare cost trend rates (7.3% decreasing to 3.9%).

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

1% Decrease (6.3% decreasing to 2.9%)	Healthcare Cost Trend Rates (7.3% decreasing to 3.9%)	1% Increase (8.3% decreasing to 4.9%)
$310,911	$359,910	$420,033

The following presents the State System's share of the REHP net OPEB liability at June 30, 2023, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (3.67%) or one percentage point higher (5.67%) than the current discount rate (4.67%).

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

1% Decrease 3.67%	Current Rate 4.67%	1% Increase 5.67%
$407,932	$359,910	$319,486

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 Annual Comprehensive 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, 2021, 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 0.75% of covered payroll for the fiscal year ended June 30, 2023, and 0.80% of covered payroll for the fiscal year ended June 30, 2022. 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 0.375% 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, 2022, measurement date, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2021, to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

- Valuation Date - June 30, 2021
- 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, 2020, determined the employer contribution rate for fiscal year 2022.
- 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-2020 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 4.09% at June 30, 2022, and 2.18% at June 30, 2021.
- 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 4.09%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2022, 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 in 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, 2022.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	100.00%	0.50%
	100.00%	

The net OPEB liability was measured as of June 30, 2022, 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, 2021, to June 30, 2022. 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 0.1780% and 0.1770% for the measurement dates of June 30, 2022 and 2021, respectively.

The following presents the State System's share of the Premium Assistance net OPEB liability at June 30, 2023, 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%)**
$3,276	$3,277	$3,277

The following presents the State System's share of the Premium Assistance net OPEB liability at June 30, 2023, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (3.09%) or one percentage point higher (5.09%) than the current discount rate (4.09%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate at June 30, 2023 *(in thousands)*		
1% Decrease 3.09%	**Current Rate 4.09%**	**1% Increase 5.09%**
$3,705	$3,277	$2,918

(11) Right of Use Leases, Subscription Agreements and Financed Purchases

The State System routinely leases various facilities and equipment and enters into subscription-based information technology arrangements (SBITAs) 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 or subscription liability valuation. These are recognized as expenses in the period that they occur. For the fiscal year ended June 30, 2023, lease variable payments, mainly based on performance, totaled $954,000. There were no variable payments for the fiscal year ended June 30, 2023 for SBITAs. There were no termination penalties or residual guarantee payments expensed for the fiscal year ended June 30, 2023. Interest expense on leases and SBITAs for the fiscal year ended June 30, 2023 totaled $1,500,000 and $385,000 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 year ended June 30, 2023 totaled $4,001,000.

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

(in thousands)	Financed Purchases		Right of Use Leases with Third Parties		Right of Use Leases with Component Units		Subscription Liabilities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal Year Ending June 30								
2024	$8,089	$7,077	$2,975	$157	$5,769	$1,018	$7,771	$217
2025	7,827	6,795	2,307	118	5,882	811	6,208	103
2026	8,060	6,549	1,979	82	5,291	603	3,434	31
2027	8,309	6,294	1,829	52	3,989	395	1,073	2
2028	8,581	6,022	773	32	2,625	263	-	-
2029-2033	47,220	25,494	1,529	82	5,118	532	-	-
2034-2038	45,226	17,986	63	21	4,415	170	-	-
2039-2043	31,820	11,952	18	19	-	-	-	-
2044-2048	19,904	7,364	21	17	-	-	-	-
2049-2053	21,249	3,604	23	14	-	-	-	-
2054-2059	8,048	308	27	11	-	-	-	-
2059-2063	-	-	69	10	-	-	-	-
Total	$214,333	$99,445	$11,613	$615	$33,089	$3,792	$18,486	$353

The following summary provides aggregated information reported for June 30, 2023 financed purchases, right of use lease liabilities and subscription liabilities on SBITAs including additions, reductions and reported liabilities for the year then ended.

(in thousands)	Beginning Balance	Additions	Reductions	Ending Balance
Financed Purchases	$169,566	$53,215	($8,448)	$214,333
Leases, Third Parties	10,836	4,224	(3,447)	11,613
Leases, Comp Units	37,964	1,655	(6,530)	33,089
Subscription liabilites	15,014	13,464	(9,992)	18,486
Total	$233,380	$72,558	($28,417)	$277,521

(12) BONDS PAYABLE

Bonds payable on June 30, 2023 and 2022, 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 year ended June 30, 2023, was as follows.

Bonds Payable
June 30, 2023 and 2022
(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2022	Bonds Issued	Bonds Redeemed/ Refunded	Balance June 30, 2023	Current Portion
Series AI issued in August 2008,							
redeemed August 2022	32,115	0.00%	100	-	100	-	-
Series AN issued in March 2012,							
final maturity June 2023	76,810	0.00%	2,275	-	2,275	-	-
Series AO issued in July 2013,							
final maturity June 2038	30,915	4.16%	20,690	-	1,370	19,320	11,535
Series AP issued in May 2014,							
final maturity June 2024	46,110	5.00%	15,665	-	7,650	8,015	8,015
Series AQ issued in May 2015,							
final maturity June 2036	94,975	4.30%	47,900	-	7,880	40,020	8,275
Series AR issued in September 2015,							
final maturity June 2040	102,365	3.76%	83,740	-	3,315	80,425	3,475
Series AS issued in June 2016,							
final maturity June 2037	47,280	4.18%	31,700	-	2,850	28,850	2,990
Series AT issued in September 2016,							
final maturity June 2055	298,110	3.47%	254,675	-	8,480	246,195	8,880
Series AU issued in September 2017,							
final maturity June 2042	128,260	3.47%	98,300	-	9,135	89,165	7,245
Series AV issued in September 2018,							
final maturity June 2045	236,945	4.14%	194,890	-	11,190	183,700	11,200
Series AW issued in September 2019,							
final maturity June 2044	84,980	4.61%	72,780	-	9,060	63,720	17,095
Series AX issued in July 2020,							
final maturity June 2042	94,985	3.73%	84,635	-	4,585	80,050	4,820

Bonds Payable (continued)
June 30, 2023 and 2022
(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2022	Bonds Issued	Bonds Redeemed/ Refunded	Balance June 30, 2023	Current Portion
Series AY issued in October 2020,							
final maturity June 2036	78,925	1.65%	71,675	-	7,310	64,365	7,385
SERS 2021 issued in April 2021,							
final maturity June 2042	827,580	2.38%	793,355	-	36,715	756,640	36,860
Series AZ issued in June 2021,							
final maturity June 2047	142,710	2.76%	138,520	-	4,190	134,330	4,310
Total	**2,323,065**		**1,910,900**	**-**	**116,105**	**1,794,795**	**132,085**

Principal and interest requirements to maturity are as follows.

(in thousands)	Principal	Interest	Total
2024	$ 132,085	$ 56,180	$ 188,265
2025	98,185	52,176	150,361
2026	98,270	49,191	147,461
2027	103,650	46,205	149,855
2028	104,505	43,074	147,579
2029–2033	489,160	167,609	656,769
2034–2038	440,100	95,146	535,246
2039–2043	280,235	32,179	312,414
2044–2048	43,810	4,041	47,851
2049–2053	3,505	865	4,370
2054–2055	1,290	89	1,379
Total	**$1,794,795**	**$ 546,755**	**$ 2,341,550**

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) Rating Actions

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. The next rating update from Moody's is anticipated in the fall of 2023. In March 2023, Fitch Ratings reviewed the State System's rating of A+ with stable outlook and no rating change was made.

(14) Deferred Outflows of Resources and Deferred Inflows of Resources

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2023, follow.

(in thousands)		June 30, 2023
Deferred Outflows of Resources		
Pension related (see note 9)	$	272,954
OPEB related (see note 10)		207,960
Unamortized loss on refunding of debt		4,243
Total Deferred Outflows of Resources	$	485,157
Deferred Inflows of Resources		
Lease receivable related (see note 4)	$	14,495
Pension related (see note 9)		72,454
OPEB related (see note 10)		865,904
Unamortized gain on refunding of debt		2,181
Split-interest agreements		8
Total Deferred Inflows of Resources	$	955,042

(15) 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, 2023, 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
As a result of self-reported compliance issues reported in August 2015, Cheyney University entered into a settlement agreement with the U.S. Department of Education (ED) in February 2020 which resulted in (1) an assessment of $14,308,377, (2) waiver of its rights to any administrative appeal, and (3) entry into an acceptable repayment agreement with ED. Cheyney has made payments against the principal amount outstanding totaling $4.6 million through June 30, 2023.

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 as of June 30, 2023.

During fiscal year 2022-23, Cheyney was required to perform a reconciliation of Title IV funds covering the years 2015-16 through 2021-22. Per the Federal Student Aid (FSA) website, Title IV reconciliation is the process by which a school reviews and compares Title IV aid (grants, loans, and campus-based aid) recorded on ED's systems with the information in the school's internal records. Through reconciliation, disbursement and cash discrepancies are identified and resolved. This reconciliation process is subject to an agreed upon procedures audit which was completed in March 2023. Cheyney successfully completed the reconciliation process; however, ED had stipulated in advance that Cheyney would not receive the Title IV grants associated with these prior years and as such Cheyney wrote off aid funds totaling $13 million for the seven years covered by the reconciliation process. This was recorded as a reduction to net tuition revenue in the results for fiscal year 2022-23.

The university is still awaiting receipt of approximately $10.6 million in federal student financial aid funds as of June 30, 2023. The delay in receipt of ED funds contributes to the university's tight cash flow toward the end of the fiscal year. During fiscal year 2022-23, the State System provided a short-term note amounting to $2.5 million to Cheyney University to meet its cash needs. This note is being repaid by the university in fiscal year 2023-2024. In August 2023, Cheyney received an HCM2 payment of $3.4M, in relation to the 2021-22 period and is working closely with the Department of Education surrounding the anticipated 21-22 and 22-23 payments.

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 implement program and operating efficiencies, is undertaking fundraising campaigns, and is seeking ways to develop income-producing strategies using campus assets and strategic alliances with third parties.

Cheyney's eligibility and certification to participate in Title IV programs was set to expire June 30, 2023, at the end of the five-yar Title IV certification period. An institution is certified by ED for a specific period of time, which may vary by institution. Cheyney submitted its recertification application and supporting documentation in March 2023. In accordance with a letter from ED dated March 27, 2023, Cheyney had remained on a month-to-month eligibility status for Title IV programs through September 14, 2023, at such time, Cheyney's Title IV recertification was formally approved and will be effective through June 2026.

As provided by Section 498 of the Higher Education Act of 1965, as amended (HEA), the U.S. Secretary of Education determines whether institutions seeking to participate, or are participating, in the programs authorized pursuant to Title IV of the HEA (Title IV, HEA programs) 20 U.S.C. 1070 et. Seq., meet, or continue to meet, the institutional eligibility, financial responsibility, and administrative capability requirements for participation in the Title IV, HEA programs. One method for providing this required oversight is through program reviews. In March 2023, Cheyney was notified that ED would conduct an unannounced program review. This review was completed and in May 2023, Cheyney received an oral overview of the corrective action that needed to be developed, which was consequently developed by Cheyney.

In April 2023, Middle States Commission of Higher Education (MSCHE) requested a Supplemental Information Report (SIR) due May 22, 2023. This report was submitted on May 19, 2023, by Cheyney and addressed the areas outlined by MSCHE including additional information on Title IV responsibilities (Standard II, Standard VI, and Requirement of Affiliation 5).

In June 2023, Middle States Commission of Higher Education (MSCHE) requested a Supplemental Information Report (SIR) due August 1, 2023. This report was submitted on July 31, 2023, by Cheyney and addressed the areas outlined by MSCHE including additional information on Title IV responsibilities (Standard II, Standard VI, and Former Requirement of Affiliation 11). An evaluation visit was scheduled for then occurred September 2023 and the Commission is anticipated to review the information in its November 2023 meeting.

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, 2023, were approximately $45,700,000.

Labor Concentration
Approximately 85% of PASSHE's full-time equivalent (FTE) employees are covered by nine collective bargaining agreements. During 2022-23, new collective bargaining agreements were established for police supervisors and security officers with the International Union, Security, Police, and Fire Professionals of America (SPFPA) and PASSHE Officers Association (POA) through August 31, 2025. The collective bargaining agreements with the other 7 unions expired on June 30, 2023. The terms of the prior contracts remain in effect until successor agreements are reached. In August 2023, the Commonwealth and AFSCME signed a four-year contract, the provisions of which apply to the State System's clerical, administrative, technical, maintenance and trade employees whom AFSCME represents, which is approximately 26% of the State System's labor force.

(16) Subsequent Events

On July 15, 2023, the State System redeemed $11,125,000 principal amount of the Series AO-2 revenue bonds originally issued in July 2013 by PHEFA. The redemption was performed to reduce debt service by approximately $3,300,000 at Indiana University of Pennsylvania.

The 2023-24 State budget, which was signed by Governor Shapiro on August 3, 2023, establishes the Facility Transition Account as a restricted account in the General Fund to make early repayment of debt service on PASSHE owned facilities in the amount of $65,431,000. These funds are specifically associated with debt of Pennsylvania Western University.

Required Supplementary Information

Year Ended June 30, 2023

(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%
2022-23	4.15%	$948,291	$283,603	334%	61.50%

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%
2022-23	$92,544	$92,544	$0	$285,524	32.41%

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	Commonwealth's Proportionate Share	Total	State System's Covered-Employee Payroll	State System's Proportionate 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%
2022-23	0.1788%	$79,492	$79,492	$158,984	$55,460	143%	61.3%

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%
2022-23	$9,342	$9,342	$0	$55,460	16.84%

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

Fiscal Year	Beginning OPEB Liability	Service cost	Interest	Changes of benefit terms	Differences between expected and actual experience	Changes of assumptions	Benefit payments	Ending OPEB Liability
2017-18	$1,559,134	$48,636	$39,441	$0	$0	($143,201)	($43,968)	$1,460,042
2018-19	$1,460,042	$42,364	$46,251	($1,018)	($175,819)	($11,542)	($45,671)	$1,314,607
2019-20	$1,314,607	$35,611	$39,561	$0	$0	($68,676)	($41,864)	$1,279,239
2020-21	$1,279,239	$33,131	$43,290	$0	($150,225)	$291,462	($44,263)	$1,452,634
2021-22	$1,452,634	$44,750	$27,454	$0	$0	($91,484)	($39,394)	$1,393,960
2022-23	$1,393,960	$40,815	$32,205	($8,221)	($209,238)	($306,370)	($41,120)	$902,031

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.*

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

Fiscal Year	Covered Employee Payroll	OPEB Liability as a Percent of Covered Payroll
2017-18	$592,245	246.53%
2018-19	$582,841	225.55%
2019-20	$582,841	219.48%
2020-21	$570,846	254.47%
2021-22	$570,846	244.19%
2022-23	$515,352	175.03%

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%
2022-23	3.648%	$359,910	$100,940	357%	5.92%

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%
2022-23	$8,291	$8,291	$0	$125,654	6.60%

Schedule of Proportionate Share of PSERS Net OPEB Liability

Determined as of PSERS' June 30 measurement dates

(in thousands)

	PSERS Net OPEB 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%
2022-23	0.1780%	$3,277	$3,277	$6,554	$52,352	6.26%	6.86%

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%
2022-23	$204	$204	$0	$55,460	0.37%

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