

Pennsylvania's State System of Higher Education

Financial Statements and Supplementary Information for the Year Ended June 30, 2026

Pennsylvania's State System of Higher Education
Financial Statements for the Year Ended June 30, 2026
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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 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, 2026, 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 the other auditors, the accompanying 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, 2026, 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 96.66%, 95.00%, and 93.84%, respectively, of the assets, net assets, and revenues of the discretely presented component units as of June 30, 2026. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, 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.

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.

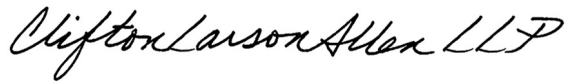
In performing an audit in accordance with GAAS, we:

- 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.

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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

King of Prussia, Pennsylvania
September 29, 2026

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

Management's Discussion and Analysis

(Unaudited)

The purpose of management's discussion and analysis (MD&A) is to help stakeholders understand what the financial statements and notes in this financial report reveal about Pennsylvania's State System of Higher Education's (State System) financial health and why it changed since last year. It has information drawn from those other parts of the report, along with staff-informed analysis to aid in understanding.

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, 717-720-4000.

Overview of the Financial Statements

The State System, a component unit of the Commonwealth of Pennsylvania (Commonwealth), comprises ten universities and the system office, serving approximately 83,000 degree-seeking students. The State System's consolidated financial statements present the financial position and activities as a single entity. In preparing these consolidated financial statements, all significant intercompany transactions and balances between the universities and the system office have been eliminated. This ensures that the financial statements reflect only the State System's external financial activities and relationships, providing readers with a clear and accurate picture of its overall financial health.

The State System's financial statements consist of the following:

- Cheyney University of Pennsylvania
- Commonwealth University of Pennsylvania
- East Stroudsburg University of Pennsylvania
- Indiana University of Pennsylvania
- Kutztown University of Pennsylvania
- Millersville University of Pennsylvania
- Pennsylvania Western University
- Shippensburg University of Pennsylvania
- Slippery Rock University of Pennsylvania
- West Chester University of Pennsylvania
- System Office

The consolidated financial statements of the State System include:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows

These basic financial statements are 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 the Governmental Accounting Standards Board (GASB).

Separately, the financial statements of discretely presented component units – such as university foundations and affiliated organizations – are included to provide users with information about entities that are legally separate from, but financially significant to, the State System. They are prepared in accordance with Financial Accounting Standards Board (FASB) requirements. The State System does not consider any of its component units to be major and has aggregated all component unit information into a separate single set of financial statements.

Pennsylvania's State System of Higher Education

Financial Statements, Year Ended June 30, 2026

The component units' financial statements include:

- Component Units Statement of Net Position (Statement of Financial Position)
- Component Units Statement of Revenues, Expenses and Changes in Net Position (Statement of Activities)

More details about the organization and reporting entity of the State System can be found in the first note to the financial statements, The Summary of Significant Accounting Policies.

The last section of this report presents the Notes to Financial Statements and the Required Supplementary Information. Together, they provide key details and context by expanding on reported amounts, explaining how those amounts were determined and disclosing information, such as certain contingencies, not included in the 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 costs, less accumulated depreciation, and right of use, subscription, or other intangible 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 (OPEB) liabilities such as health 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; compensated absences; 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 defeasances; 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, is the sum of Assets and Deferred Outflows of Resources less Liabilities and Deferred Inflows of Resources.

Statement of Revenues, Expenses and Changes in Net Position

The *Statement of Revenues, Expenses and Changes in Net Position* reports the revenues earned and the expenses incurred during the fiscal year. The result is reported as an increase or decrease in net position. In accordance with GASB requirements, the State System has classified revenues and expenses as either operating or nonoperating.

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, meet its obligations as they come due and its need for external financing.

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

Financial Summary and Detailed Analysis

Statement of Net Position

The following table provides a summary of the State System's statement of net position at June 30, 2026 and 2025.

<i>(in millions)</i>	<u>June 30, 2026</u>	<u>June 30, 2025</u>	<u>Change</u>
Assets			
Cash and investments	\$997	\$982	1.5%
Capital assets, net	2,100	2,124	(1.1%)
Other assets	877	993	(11.7%)
Deferred outflows of resources	203	259	(21.6%)
Total Assets and Deferred outflows	4,177	4,358	(4.2%)
Liabilities			
Compensated absences	135	134	0.7%
Net pension and OPEB liabilities	1,397	1,966	(28.9%)
Bonds payable	1,439	1,460	(1.4%)
Other liabilities	595	613	(2.9%)
Deferred inflows of resources	883	745	18.4%
Total Liabilities and Deferred Inflows	4,449	4,918	(9.6%)
Net Position			
Net investment in capital assets	1,082	1,039	4.1%
Restricted	242	207	16.9%
Unrestricted	(1,596)	(1,806)	11.6%
Total Net Position	(272)	(560)	51.4%
Total Liabilities, Deferred Inflows, Net Position	\$4,177	\$4,358	(4.2%)

Net Position

Overall, net position increased by \$288 million in fiscal year 2025-26. This compares to an increase of \$242 million in fiscal year 2024-25 from fiscal year 2023-24.

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 as they become due, often referred to as a "pay-as-you-go" basis.

The State System's liabilities related to unfunded future compensated absences, unfunded future pension and retiree healthcare costs amount to \$2.2 billion, inclusive of associated deferred inflows of resources (DIR) and deferred outflows of resources (DOR). The State System has no control over \$1.1 million of this amount, which represents its share of the retirement and post-employment benefit plans administered by the Commonwealth determines the benefit structures, and employer and retiree contribution rates for these plans.

Below is a summary of the effect of the three unfunded liabilities, including the related DOR and DIR on the State System's net position.

**Pennsylvania's State System of Higher Education
Financial Statements, Year Ended June 30, 2026**

<i>(in millions)</i>	<u>June 30, 2026</u>	<u>June 30, 2025</u>
Unrestricted net position including effect of unfunded liabilities	(\$1,596)	(\$1,806)
Pension liabilities, including DOR and DIR		
SERS pension	679	708
PSERS pension	60	66
Total Pension liabilities	<u>739</u>	<u>774</u>
OPEB liabilities, including DOR and DIR		
SSHE OPEB plan	994	1,181
REHP OPEB plan	329	388
PSERS OPEB Plan	3	3
Total OPEB liabilities	<u>1,326</u>	<u>1,572</u>
Compensated absences liability	135	134
Total Unfunded liabilities, including DOR and DIR	<u>2,200</u>	<u>2,480</u>
Unrestricted net position excluding effect of unfunded liabilities	<u>\$604</u>	<u>\$674</u>

Excluding the unfunded liabilities and related DOR and DIR, unrestricted net position decreased by \$70 million, or 10.4%, from \$674 million at June 30, 2025, to \$604 million at June 30, 2026.

More details about these liabilities can be found in the following notes to the financial statements: (8) Compensated Absences, (9) Pension Benefits and (10) Other Postemployment Benefits, as well as the Required Supplementary Information.

Revenues and Gains

The following table provides a summary of the State System's revenues and gains for the years ending June 30, 2026 and 2025.

<i>(in millions)</i>	<u>June 30, 2026</u>	<u>June 30, 2025</u>	<u>Change</u>
Operating Revenues			
Tuition and fees, net	\$559	\$530	5.5%
Grants and contracts	349	218	60.1%
Auxiliary enterprises, net	362	317	14.2%
Other	64	54	18.5%
Total Operating Revenues	<u>1,334</u>	<u>1,119</u>	19.2%
Nonoperating Revenues and Gains			
State appropriations	651	729	(10.7%)
Investment income, net, including unrealized gains and losses.	52	69	(24.6%)
Gifts, grants and other revenue or gains	63	251	(74.9%)
Total Nonoperating Revenues and Gains	<u>766</u>	<u>1,049</u>	(27.0%)
Total Revenues and Gains	<u>\$2,100</u>	<u>\$2,168</u>	(3.1%)

Overall, fiscal year 2025-26 operating revenues increased by 19.2% from the prior fiscal year due to reclassification of Pell grant revenue from nonoperating to operating, as well as increases in both net tuition and fee revenue and auxiliary operations. Nonoperating revenue decreased by 27.0%, due to the reclassification of Pell grant revenue, lower state appropriations, investment income and gifts and other

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

revenues or gains. Overall revenues and gains decreased slightly by 3.1% over the prior fiscal year. These changes are discussed further below.

Tuition and fee revenue

Tuition and fee revenue is shown net of discounts and allowances as well as bad debt expense. Discounts and allowances represent financial aid to students in the form of grants, scholarships, and waivers. Gross tuition and fees were \$941 million in fiscal year 2025-26 compared to \$902 million in fiscal year 2024-25.

In July 2025, the Board of Governors approved a \$139 per-semester increase in basic in-state undergraduate tuition. This change increased tuition by 3.6% and ended seven consecutive years of frozen rates. As a result, base tuition for most full-time Pennsylvania residents was \$3,997 per semester (\$7,994 for the full 2025-26 academic year). Out-of-state rates for undergraduate basic tuition increased from 3.46% - 5.24% across the system, ranging from \$8,234 to \$19,986 for the academic year. Graduate tuition rates saw similar increases, with basic graduate tuition rates of \$534 per credit for residents and \$801 per credit for nonresidents.

In addition, the State System saw enrollment increase from 82,509 to 83,005, or an increase of 496 based on fall student headcount for credit bearing and clock hour students. Undergraduate enrollment accounted for 411 of the increase with graduate enrollment accounting for 85.

<u>Year</u>	<u>Fall Enrollment</u>	<u>% Change</u>
2025	83,005	0.6%
2024	82,509	-0.2%
2023	82,688	-2.2%

Tuition and fee discounts were \$382 million in fiscal year 2025-26 compared to \$372 million in fiscal year 2024-25. Overall, net tuition and fee revenue increased by \$29 million, or 5.5% to 559 million. This compares to a decrease of \$65 million, or 10.9%, in fiscal year 2024-25 from fiscal year 2023-24.

Grants and contracts revenue

Operating grants and contracts revenue is composed of Pell grant revenue as well as other operating federal, state, local or private grants and contracts. During fiscal year 2025-26, the State System implemented Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements*. One effect of this statement was to reclassify Pell grant revenue from nonoperating revenues to operating revenues. Pell grant revenues for fiscal year 2025-26 totaled \$144 million, which accounts for the increase in grants and contracts revenue reflected under operating revenues, as well as for the majority of the decrease in gifts, grants and other revenue or gains reflected as nonoperating in the schedule above. Certain other grants and contracts are now reflected under nonoperating revenues whereas they were operating revenues in the prior fiscal year.

Auxiliary enterprises, net

Auxiliary enterprises, net revenue includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of student union and recreation centers, net of discounts. Gross auxiliary enterprises revenue totaled \$402 million in fiscal year 2025-26, up from \$360 million in fiscal year 2024-25. Auxiliary discounts were \$40 million in fiscal year 2025-26 compared to \$43 million in fiscal year 2024-25. Overall, net auxiliary enterprises revenue increased by \$45 million, or 14.2% to \$362 million. This compares to a decrease of \$13 million, or 3.9%, in fiscal year 2024-25 from fiscal year 2023-24. The increase in the current year gross and net revenues was due to overall increases in food services revenue of approximately \$6.3 million, housing revenues of approximately \$2.8 million and an increase in rental income of \$25 million.

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State appropriations

For fiscal year 2025-26, the State System received \$651 million in appropriations, consisting of \$626 million in General Fund appropriations and \$25 million from the Commonwealth's Key '93 Fund (Keystone Recreation, Park, and Conservation Fund) financed through the Realty Transfer Tax to support deferred maintenance. This compares to \$729 million in fiscal year 2024-25, consisting of \$621 million in General Fund appropriations, an \$85 million special appropriation from the Commonwealth's Facility Transition Account (an account within the General Fund), and \$23 million from the Key '93 Fund.

During fiscal year 2024-25, the State System received a special appropriation of \$85 million, from the Commonwealth's Facility Transition Account, a restricted account within the General Fund. These funds were designated for facilities transition costs, bond debt service payments, loan repayments, and other related obligations. Additional details regarding the use of these funds for bond debt service can be found in the footnotes to the financial statements, (12) Bonds Payable.

Expenses and Losses

The following table provides a summary of the State System's expenses and losses for the years ending June 30, 2026 and 2025.

<i>(in millions)</i>	<u>June 30, 2026</u>	<u>June 30, 2025</u>	<u>Change</u>
Operating Expenses			
Instruction	\$544	\$616	(11.7%)
Research and public services	79	90	(12.2%)
Academic support	146	162	(9.9%)
Student services	169	183	(7.7%)
Institutional support	229	254	(9.8%)
Operations and maintenance of plant	115	113	1.8%
Depreciation and amortization	188	184	2.2%
Student aid	29	33	(12.1%)
Auxiliary enterprises	257	237	8.4%
Total Operating Expenses	1,756	1,872	(6.2%)
Nonoperating Expenses and Losses			
Debt related expenses	52	52	0.0%
Loss on disposal / acquisition of assets	3	2	50.0%
Total Nonoperating Expenses and Losses	55	54	1.9%
Total Expenses and Losses	\$1,811	\$1,926	(6.0%)

Overall, fiscal year 2025-26 operating expenses and losses decreased by 6.2% from the prior fiscal year. Nonoperating expenses and losses increased slightly by 1.9%. Overall expenses and losses decreased by 6.0% over the prior fiscal year. These changes are discussed below.

Operating expenses

A significant portion of the decrease in costs related to instruction, research and public services, academic support, student services, and institutional support is due to the decrease in the unfunded liability related to the State System's defined benefit healthcare plan. The July 1, 2025 actuarial valuation and measurement reflects the implementation of a fully insured Medicare Advantage PPO plan for Medicare-eligible retirees and covered spouses, which materially reduced the total OPEB liability. Compared to the prior fiscal year, this

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

resulted in a decrease of \$119M in OPEB related expenses. Additional details regarding the State System Plan can be found in the footnotes to the financial statements, (10) Other Postemployment Benefits.

In addition, overall full-time equivalent workforce declined by 127 from 9,334 in fiscal year 2024-25 to 9,207 in fiscal year 2025-26. Fiscal year 2025-26 expenses were also lower due to reduced expense related to compensated absences as compared to the prior year. In fiscal year 2024-25, an enhanced sick leave program was offered to APSCUF faculty which increased expenses in fiscal year 2024-25 by \$8.0 million.

These decreases were offset, in part, by salary and benefit increases under various collective bargaining contracts currently in place, as well as related increases for nonrepresented employees. Overall employee raises ranged from 1.63% to 4.38% in fiscal year 2025-26. In addition, the State System experienced increased costs related to its self-insured health plan for employees and retirees of approximately \$14 million. This increase was due to the increased use of healthcare benefits and GLP-1 drugs by members.

Salaries, wages, and benefits expense comprise 60% of operating expenses. The table below provides a comparison of salaries, wages, and benefits expense.

<i>(in millions)</i>	<u>June 30, 2026</u>	<u>June 30, 2025</u>	<u>Change</u>
Salaries and wages	\$920	\$930	(1.1%)
Employee benefit contributions			
Healthcare	171	157	8.9%
Pension and OPEB	196	199	(1.5%)
Other benefits	99	97	2.1%
Total Employer Benefits Contributions	466	453	2.9%
Noncash Pension and OPEB Expense	(324)	(214)	51.4%
Total Salaries, Wages and Benefits	<u>\$1,062</u>	<u>\$1,169</u>	(9.2%)

Debt related expenses

Debt related expenses include interest expense as well as expenses related to costs of debt issuance and related ongoing maintenance costs as well as the amortization of debt premiums and discounts which are reflected in interest expense on the Statement of Revenues, Expenses and Changes in Net Position.

For fiscal year 2025-26, interest expense on long-term debt, which approximates 2.8% of total expenses, decreased 2.2% to \$51 million in fiscal year 2025-26 from \$52 million in fiscal year 2024-25. This decrease was due to lower overall debt balances with outstanding debt at June 30, 2026 of \$1.439 billion compared to \$1.460 billion at June 30, 2025.

Debt transaction costs totaled \$924 thousand for fiscal year 2025-26. This cost includes \$519 thousand related to the issuance of new debt discussed in the next section on Significant Capital Asset and Long-Term Financing Activity. The other costs incurred of \$405 thousand relate to bond accounting and maintenance fees related to outstanding debt. Previously, these costs were reflected as operating expenses but are now reflected as other nonoperating expenses due to the requirements of GASB Statement No. 103, *Financial Reporting Model Improvements*.

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Significant Capital Assets and Long-Term Financing Activity

Overall, the carrying value of capital assets, original cost minus accumulated depreciation, decreased slightly by 1.1% to \$2.100 billion at June 30, 2026 compared to \$2.124 billion at June 30, 2025. This overall change included \$168 million of additions to capital assets in fiscal year 2025-26, including \$47 million for facilities, \$70 million in construction in progress and \$19 million in leased facilities and subscription-based information technology arrangements. This compares to \$126 million in total additions in fiscal year 2024-25.

During fiscal year 2025-26, two universities began construction on auxiliary housing renovation and expansion projects that are being financed through the State System's November 2025 Series BA bond issuance. Kutztown University will upgrade infrastructure systems within a traditional-style residence hall to improve operational efficiency and safety, while also adding air conditioning and a larger elevator. As of June 30, 2026, approximately \$21 million is included in construction in progress related to this project. This project is expected to be completed in fiscal year 2026-27. West Chester University's housing expansion and renovation project will upgrade infrastructure systems, roofs, and windows within eleven apartment-style buildings and add one additional floor to each building to help address strong demand for on-campus housing. As of June 30, 2026, approximately \$5 million is included in construction in progress related to this project. The project related to the initial bond is expected to be in the third quarter of 2028. The project related to the second bond is expected to be completed in the third quarter of 2031. More information on this additional bond issuance can be found in the Currently Known Facts, Decisions, or Conditions section below. Demand for on-campus housing continues to support these projects, and the universities are implementing pricing strategies to support the additional debt service associated with these projects.

In July 2025, the State System's Board of Governors approved the issuance of bonds to finance the Kutztown University and West Chester University housing projects described above. The transaction was completed in November 2025 and generated approximately \$69 million in proceeds. Cost of issuance associated with the transaction totaled \$519 thousand and are reported as nonoperating expenses in fiscal year 2025-26.

In addition to this capital asset activity reflected on the Statement of Net Position, the State System is also allocated a portion of funds within the Commonwealth's capital funding budget. These funds are primarily designated for renovation, replacement, or demolition of existing education and general (E&G) buildings, with all projects managed under the direction of the Commonwealth. Because the Commonwealth retains ownership of any capital project it directly funds, the State System does not record the value of these projects as assets or revenue, except for any direct contributions made by the State System to such projects. In fiscal year 2025-26, the State System was allocated \$70 million, a level consistent with the prior year.

Total bonds payable decreased to \$1.439 billion at June 30, 2026 from \$1.460 billion as of June 30, 2025. The most prominent aspect of that change was an \$88 million decrease in bonds payable due to bond principal payments in 2025-26. This was offset by the issuance of \$67 million of bonds, as previously mentioned. Additional details regarding bond activity can be found in the footnotes to the financial statements, (12) Bonds Payable.

In October 2025, Moody's Investors Service, Inc. maintained the State System's bond rating of Aa3, and stable outlook. The stable outlook reflects Moody's expectations that continued successful execution of the system redesign initiative will enhance prospects for sustainability, aligning expense structures to anticipated smaller enrollment levels. The outlook also reflects expectations of continued solid liquidity, growing Commonwealth financial support and steady declines in bonded debt. At the same time, Moody's maintained the State System's Environmental, Social, and Governance (ESG) and Credit Impact Scores (CIS) of CIS-3. CIS-3 reflects the State System's elevated exposure to social risks, including weak regional demographics and highly competitive market conditions, while strong fiscal management and robust strategic planning frameworks partly

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

mitigates its exposure to ESG risks. In October 2025, Fitch Ratings maintained the State System's rating of A+ and revised the outlook to positive from stable. The positive outlook revision is driven by several years of growth in Commonwealth support, coupled with recent enrollment stabilization following a multi-year period of substantial enrollment declines.

Currently Known Facts, Decisions, or Conditions

The State System is aware of various factors that are expected to have a significant impact on the net position or that are expected to produce significant differences from current-period results of operations. These include the following:

- [Upcoming bond defeasance](#)
- [Indiana University of Pennsylvania's College of Osteopathic Medicine](#)
- [Tuition rate increase for 2026-27](#)
- [West Chester's additional bond issuance in 2028-29](#)

Upcoming bond defeasance

The Commonwealth's General Appropriations Act of 2026 (Act 1A of 2026) included a \$78.1 million appropriation to the State System for facilities transition and improvements, with funding designated for the defeasance of debt associated with capital projects at Commonwealth University's Mansfield and Bloomsburg campuses, Millersville University, and Shippensburg University. The transaction is expected to be completed during the fourth quarter of calendar year 2026 and is projected to generate approximately \$102 million in debt service savings through fiscal year 2046-47, strengthening the System's long-term financial position and providing greater flexibility to support strategic priorities and student success initiatives.

As part of the above-mentioned defeasance transaction, Slippery Rock University intends to strategically invest \$5 million of university reserves to defease a portion of its Education & General-related debt. This proactive use of institutional resources is projected to generate approximately \$1.6 million in debt service savings through fiscal year 2036-37, strengthening the university's long-term financial position.

Indiana University of Pennsylvania's College of Osteopathic Medicine

Indiana University of Pennsylvania (IUP) earned pre-accreditation status from the American Osteopathic Association's Commission on Osteopathic College Accreditation (COCA) for its College of Osteopathic Medicine (COM) in May 2026, permitting the University to recruit and admit students and begin medical instruction within its approved curriculum. IUP's COM is expected to be the only college of osteopathic medicine affiliated with a public university in Pennsylvania.

IUP plans to enroll its inaugural class in fall 2027. Under COCA requirements, IUP's COM must phase-in enrollment over 3 years, with the first-year enrollment limited to 50 percent of capacity, second-year enrollment limited to 75 percent of capacity, and full enrollment of 120 students achieved in the third year. During the launch of the COM and at least until the first class graduates, the University plans to fund all COM-related activities with funds raised, grants obtained, and fees charged to students enrolled in the program. No E&G funds from IUP or the State System - other than those provided specifically for or generated by the COM - will be used to support the planning and operations of the COM during that period.

In May 2026, IUP's Council of Trustees approved the annual tuition rates for the 2027-28 academic year of \$43,200 for Pennsylvania residents and \$65,000 for nonresident students.

Tuition rate increase for 2026-27

In July 2026, the State System's Board of Governors approved a \$172 per-semester, or 4.3% increase in basic in-state undergraduate tuition, bringing the tuition rate for full-time, in-state, undergraduate students to \$8,338

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

per year. While this is the second consecutive year of a rate increase, tuition at any State System university remains the lowest in the state for a bachelor's degree.

West Chester's additional bond issuance in 2028-29

In fiscal year 2028-29, a bond will be issued for West Chester University to complete the \$92 million housing renovation and expansion project previously mentioned in the Significant Capital Assets and Long-Term Financing Activity section. This bond will cover the costs associated with Phase II of the project.

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
Financial Statements, Year Ended June 30, 2026

Statement of Net Position

(dollars in thousands)

Assets and Deferred Outflows of Resources

Current Assets

Cash and cash equivalents	\$82,874
Short-term investments	171,575
Accounts receivable, students, net	43,548
Accounts receivable, other	25,067
Governmental grants and contracts receivable	27,348
Prepaid expenses	51,808
Current portion of loans receivable	906
Due from component units	15,540
Other current assets	9,782
Total Current Assets	428,448

Noncurrent Assets

Restricted cash and cash equivalents	39,723
Long-term investments, including endowments	702,532
Beneficial interests	32,973
Loans receivable	791
Due from component units	2,535
Non-depreciable capital assets	129,713
Depreciable or amortizable capital assets, net of accumulated depreciation and amortization	1,970,399
Other noncurrent assets	667,293
Total Noncurrent Assets	3,545,959

Total Assets

3,974,407

Deferred Outflows of Resources

202,627

Total Assets and Deferred Outflows of Resources

\$4,177,034

See accompanying Notes to Financial Statements.

Pennsylvania's State System of Higher Education
Financial Statements, Year Ended June 30, 2026

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

Liabilities, Deferred Inflows of Resources, and Net Position

Current Liabilities

Accounts payable and accrued expenses	\$184,324
Unearned revenue	48,609
Deposits, student	6,258
Workers' compensation liability	6,424
Compensated absences liability	17,196
Postemployment benefit obligations	45,216
Lease, subscription and financed purchase obligations	28,022
Bonds payable	95,635
Due to component units	10,129
Other current liabilities	30,226
Total Current Liabilities	472,039

Noncurrent Liabilities

Unearned revenue	969
Workers' compensation liability	16,131
Compensated absences liability	117,522
Net pension liability	733,274
Postemployment benefit obligation	618,778
Lease, subscription and financed purchase obligations	219,859
Bonds payable	1,343,180
Other noncurrent liabilities	44,705
Total Noncurrent Liabilities	3,094,418

Total Liabilities

3,566,457

Deferred Inflows of Resources

882,307

Net Position

Net investment in capital assets	1,082,382
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	72,177
Student loans	70
Other	1,664
Expendable:	
Scholarships and fellowships	56,265
Capital projects	60,723
Other	50,934
Unrestricted	(1,595,945)
Total Net Position	(271,730)

Total Liabilities, Deferred Inflows of Resources, and Net Position

\$4,177,034

See accompanying Notes to Financial Statements.

Pennsylvania's State System of Higher Education
Financial Statements, Year Ended June 30, 2026

Statement of Revenues, Expenses and Changes in Net Position
(dollars in thousands)

Operating Revenues	
Tuition and fees, net	\$559,244
Grants and contracts – Pell Grants	144,314
Grants and contracts - Other	204,962
Sales and services	47,194
Auxiliary enterprises, net	361,816
Other operating revenues, net	16,939
Total Operating Revenues	<u>1,334,469</u>
Operating Expenses	
Instruction	543,888
Research and Public Service	78,777
Academic support	145,974
Student services	168,555
Institutional support	229,418
Operations and maintenance of plant	115,042
Depreciation and amortization	188,135
Student aid	28,927
Auxiliary enterprises	256,862
Total Operating Expenses	<u>1,755,578</u>
Operating Loss	<u>(421,109)</u>
Noncapital Subsidies	
State appropriations, general and restricted	625,755
Grants and contracts revenue	8,227
Gifts other than for capital purposes	39,184
Other noncapital subsidies	4,304
Total Noncapital Subsidies	<u>677,470</u>
Operating Loss and Noncapital Subsidies	<u>256,361</u>
Other Nonoperating Revenues (Expenses)	
Investment income and expenses	52,307
Debt related revenues and expenses	(51,542)
Gain and loss on disposal of assets	(3,230)
State appropriations, capital	25,388
Capital gifts and grants	9,031
Total Other Nonoperating Revenues (Expenses)	<u>31,954</u>
Increase (Decrease) in Net Position	<u>288,315</u>
Net Position – beginning of year	<u>(560,045)</u>
Net Position – end of year	<u>(\$271,730)</u>

See accompanying Notes to Financial Statements.

Pennsylvania's State System of Higher Education
Financial Statements, Year Ended June 30, 2026

Statement of Cash Flows

(dollars in thousands)

Cash Flows from Operating Activities

Tuition and fees, net	\$564,175
Grants and contracts	211,688
Payments to suppliers for goods and services	(471,964)
Payments to employees	(1,339,216)
Loans issued to students	(961)
Loans collected from students	142
PLUS, Stafford, and other loan receipts (non-Perkins)	618,782
PLUS, Stafford, and other loan disbursements (non-Perkins)	(618,782)
Student aid	(30,285)
Auxiliary enterprise charges	362,377
Sales and services	47,530
Other operating receipts	18,157
Net cash used in operating activities	<u>(638,357)</u>

Cash Flows from Noncapital Financing Activities

State appropriations	625,755
Gifts and nonoperating grants for other than capital purposes	186,589
Principal paid on prefunding pension bond	(37,575)
Agency transactions, net	344
Net cash provided by noncapital financing activities	<u>775,113</u>

Cash Flows from Capital Financing Activities

Proceeds from capital debt and leases	106,928
Capital appropriations	25,388
Capital grants and gifts received	8,925
Proceeds from sales of capital assets	639
Purchases of capital assets	(130,935)
Principal paid on capital debt and leases	(126,665)
Interest paid on debt and leases	(55,879)
Net cash used in capital financing activities	<u>(171,599)</u>

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	19,554,152
Interest on investments	45,736
Purchase of investments	(19,467,732)
Net cash provided by investing activities	<u>132,156</u>

Net Increase (Decrease) in Cash and Cash Equivalents

97,313

Cash and cash equivalents – beginning of year

25,284

Cash and cash equivalents – end of year

\$122,597

See accompanying Notes to Financial Statements.

Pennsylvania's State System of Higher Education
Financial Statements, Year Ended June 30, 2026

Statement of Cash Flows (continued)
(dollars in thousands)

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating Income (Loss)	(\$421,109)
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Adjustments to reconcile operating loss to net cash used in operating activities:

Pell grants revenue	(144,314)
Depreciation and amortization expense	188,135
Expenses paid by the Commonwealth or donors	4,304
Effect of changes in operating assets, liabilities, deferred outflows of resources, and deferred inflows of resources:	
Receivables, net	8,684
Other assets	109,654
Accounts payable	(36,605)
Unearned revenue	2,079
Student deposits	156
Compensated absences	681
Loans to students and employees	(819)
Net pension activity	(34,822)
Net other postemployment benefits activity	(246,064)
Other liabilities	25,305
Deferred inflows of resources related to lease receivable	(93,622)
Net cash used in operating activities	(\$638,357)

Noncash activities

Capital assets included in payables	\$14,490
Capital assets acquired by notes payable (financed purchase)	3,824
Capital assets acquired by new right of use leases	4,356
Capital assets acquired by new right of use leases with Component Units	4,049
Capital assets acquired by new subscription agreements	10,399
Capital assets acquired by gift or appropriation	106
Commonwealth on-behalf contributions to PSERS	\$4,304

See accompanying Notes to Financial Statements.

Pennsylvania's State System of Higher Education
Financial Statements, Year Ended June 30, 2026

Component Units Statement of Net Position
(dollars in thousands)

Assets

Cash and cash equivalents	\$105,123
Short-term investments	27,867
Accounts and interest receivable	6,985
Contributions and pledges receivable	27,774
Due from universities	2,795
Inventories and prepaid expenses	5,182
Other current assets	20,196
Total Current Assets	195,922
Restricted cash and cash equivalents	85,493
Long-term investments	966,157
Land, buildings, and equipment, net of accumulated depreciation	409,905
Right of use assets, net of accumulated amortization	6,704
Other assets	134,202
Total Noncurrent Assets	1,602,461
Total Assets	\$1,798,383

Liabilities

Accounts and interest payable	\$18,506
Deferred revenue	8,907
Annuity liabilities	4,368
Due to universities	15,760
Deposits payable	51,679
Current portion of lease liabilities	480
Current portion of bonds and notes payable	75,663
Other current liabilities	13,487
Total Current Liabilities	188,850
Lease liabilities, net of current portion	87,858
Bonds and notes payable, net of current portion	517,097
Other noncurrent liabilities	2,664
Total Noncurrent Liabilities	607,619
Total Liabilities	796,469

Net Assets

Without donor restrictions	187,245
With donor restrictions	814,669
Total Net Assets	1,001,914
Total Liabilities and Net Assets	\$1,798,383

See accompanying Notes to Financial Statements.

Pennsylvania's State System of Higher Education
Financial Statements, Year Ended June 30, 2026

Component Units Statement of Activities

(dollars in thousands)

Changes in Net assets without donor restrictions	
Contributions	\$7,216
Sales and services	27,992
Student fees	30,830
Grants and contracts	19,972
Rental Income	87,217
Investment return, net	28,296
Other revenues and grants	20,813
Net assets released from restrictions	62,824
Total Revenues and Gains	<u>285,160</u>
Expenses and Losses	
Program services:	
Scholarships and grants	37,965
Student activities and programs	30,508
University stores	18,470
Housing	79,455
Other programs	68,076
Management and general	28,714
Fundraising	12,646
Other expenses and losses	(3,409)
Total Expenses and Losses	<u>272,425</u>
Change in Net assets without donor restrictions	<u>12,735</u>
Changes in Net assets with donor restrictions	
Contributions	61,048
Investment return, net	78,825
Other revenues and gains	2,603
Other expenses and losses	16,794
Net assets released from restrictions	(62,824)
Change in Net assets with donor restrictions	<u>96,446</u>
Change in Total Net assets	<u>109,181</u>
Net assets – beginning of year	<u>892,733</u>
Net assets – end of year	<u>\$1,001,914</u>

See accompanying Notes to Financial Statements.

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

Notes to Financial Statements

(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 in Act 188. The State System comprises ten 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 the related cash flows. Grants and comparable items are recognized as revenue as soon as all eligibility requirements are 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 the 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

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

features. No modifications for these differences have been made to the component units' financial information presented herein.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses include all revenues and expenses except those defined as nonoperating under GASB Statement No. 103, *Financial Reporting Model Improvements*. 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 that are exchange or exchange-like transactions are recorded as operating revenue. Operating expenses include all expenses not classified as nonoperating.

Nonoperating revenues and expenses are limited to the following categories: subsidies received and provided, contributions to permanent and term endowments, revenues and expenses related to financing, resources from the disposal of capital assets and inventory, and investment income and expenses.

Subsidies include operating and capital appropriations, capital gifts, transfers, and certain grants and contributions. Financing-related nonoperating items include interest expense, costs of debt issuance, and amortization of debt premiums and discounts. Investment income and expenses include interest income, dividends, realized and unrealized gains and losses, and investment-related costs. Gains and losses on the disposal of capital assets are also 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 or 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 plan investments, changes in the State System's proportion of expenses and liabilities of each plan as a whole, differences between the State System's contributions and its proportionate share of contributions, and the State System's contributions subsequent to the respective plan valuation measurement dates.
- 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 classification 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.

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

- 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 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 or 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 on 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 acquired or constructed prior to July 1, 1983, as well as certain capital assets acquired thereafter using Commonwealth-appropriated funds, are owned by the Commonwealth and made available to the universities. Because the State System does not own these assets nor is it responsible for the related debt service, no value is recorded for such assets in the accompanying financial statements. Capital projects funded and managed directly by the Commonwealth—primarily related to educational and general facilities—remain titled to the Commonwealth and are therefore excluded; however, when a university contributes its own funds to such projects, its proportionate share is capitalized consistent with State System policy.

Capital assets acquired or constructed by the universities after June 30, 1983, through the use of university funds or the incurrence of debt are recorded at cost, or acquisition value if donated, and depreciated over their estimated useful lives. The State System capitalizes assets with a useful life of two years or more and a cost greater than \$10,000 (\$5,000 prior to July 1, 2025).

Buildings and improvements are depreciated using the straight-line method over estimated useful lives ranging from 10 to 40 years. Equipment and furnishings are depreciated over lives ranging from 3 to 10 years. Library books are capitalized on a composite basis and depreciated over 10 years.

Assets acquired under financed leases are recorded at the lower of the present value of minimum lease payments or the fair value of the asset. Right-to-use lease assets and subscription-based information technology arrangements are recorded in accordance with GASB standards at the present value of applicable payments. Amortization of such assets is included in depreciation and amortization expense over the shorter of the agreement term or the asset's useful life.

Normal repair and maintenance expenditures are expensed as incurred. The State System does not capitalize collections of art, rare books, historical items, or similar assets held for public exhibition, education, or research.

Pennsylvania's State System of Higher Education

Financial Statements, Year Ended June 30, 2026

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, 2026.

Leases and Subscription-Based Information Technology Arrangements

The State System enters lease arrangements and subscription-based information technology arrangements (SBITAs) to support operational needs. Short-term arrangements with a maximum possible term of 12 months or less and variable payments based on future performance are recognized as expense or revenue in the period incurred.

For arrangements subject to the requirements of GASB Statements No. 87 or 96 that exceed the applicable reporting threshold, the State System recognizes a lease or subscription liability and a related intangible right-to-use asset measured at the present value of future payments over the contract term. Residual value guarantees and renewal or purchase options are included in the measurement when reasonably certain to be exercised. Right-to-use assets are reported with capital assets, and related liabilities are reported as long-term debt in the statement of net position. These assets are amortized over the contract term.

The State System also acts as a lessor for certain real estate leases and recognizes lease receivables and deferred inflow of resources based on the present value of expected lease payments. Lease receivables are reported within current and noncurrent assets, and deferred inflows are amortized evenly over the lease term.

The State System uses its estimated incremental borrowing rate as the discount rate unless the implicit rate is readily determinable. A minimum reporting threshold of \$30,000 was effective July 1, 2025; prior agreements were subject to a \$25,000 threshold. Lease and SBITA balances are remeasured when amendments or other events significantly affect expected payments.

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 fiscal year.

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 participate in one of three retirement plans upon employment. The State System also provides healthcare and tuition benefits to eligible employees, which vary by labor group.

For purposes of measuring the net pension liability, related deferred outflows and inflows of resources, and pension expense, the State System relies on information reported by the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS). Benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with plan terms. Investments are reported at fair value.

For purposes of measuring other postemployment benefits (OPEB) liabilities, related deferred outflows and inflows of resources, and OPEB expense, the State System uses information reported by the System Plan, Retired Employees Health Program (REHP), and Premium Assistance Program. Benefit payments are recognized when due and payable in accordance with benefit terms, and investments are reported at fair value.

Pennsylvania's State System of Higher Education

Financial Statements, Year Ended June 30, 2026

Scholarships and Waivers

In accordance with the National Association of College and University Business Officers (NACUBO), in Advisory 2023-01, the State System allocates the cost of scholarship, waivers, and other student financial aid between Discounts and allowances (netted against tuition and fees, and auxiliary enterprises) and Student aid expense. 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 GAAP 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 no effect on the beginning of year net assets reflected in the accompanying Component Units Statement of Activities.

New Accounting Standards

During the fiscal year ended June 30, 2026, the State System implemented Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements*, and Statement No. 104, *Disclosure of Certain Capital Assets*. Statement No. 103 enhances the financial reporting model by refining requirements related to management's discussion and analysis, presentation of unusual or infrequent items, and certain proprietary fund presentation matters. Statement No. 104 improves capital asset disclosures by requiring separate presentation for certain types of tangible and intangible capital assets, including lease assets and subscription-based information technology arrangement assets. Implementation of these standards had no impact on the State System's net position.

(2) Deposits and Investments

On June 30, 2026, the carrying amount of the State System's demand and time deposits and certificates of deposit was \$122,672,000, compared to bank balances of \$119,165,000, with the difference primarily attributable to items in transit. Of the bank balances, \$3,132,000 were insured or collateralized by U.S. Treasury obligations held by the Federal Reserve Banks in the name of the financial institutions; \$38,768,000 were uninsured and uncollateralized; and \$77,265,000 were uninsured but collateralized in accordance with the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 permits financial institutions to meet collateral requirements through pooled collateral pledged with their trust departments.

Board of Governors Policy 1986-02-A, *Investment*, authorizes the State System to invest operating funds in a range of fixed-income and money market instruments and establishes permitted investment categories, credit quality requirements, and concentration limits. Authorized investments include U.S. government securities, repurchase agreements, commercial paper, municipal and corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and System Investment Fund loans, each subject to specified ratings, issuer concentration, and portfolio percentage limitations. Restricted nonexpendable funds and amounts designated by the Board or university trustees may also be invested in corporate equities and approved pooled common funds. Universities may use local financial institutions for routine banking activities

Pennsylvania's State System of Higher Education Financial Statements, Year Ended June 30, 2026

and may accept donated investments when risk is limited to the investment itself; restricted gifts of investments are excluded from the investment policy.

The State System invests funds prudently in accordance with legal and ethical standards, with primary emphasis on safety of principal and liquidity for operating funds. Portfolio diversification and regular performance monitoring are employed to manage risk. Speculative investments—including commodities, derivatives, equities (for operating funds), real or personal property, private placements, and unlisted securities—are prohibited.

Commercial paper is limited to P-1 and P-2 rated instruments, and municipal and corporate bonds must meet minimum long-term rating requirements. Investments in CMOs and asset-backed securities are restricted to Aaa-rated instruments and are subject to concentration limits. System Investment Fund loans and bridge notes are limited to five-year terms and are subject to portfolio allocation limits.

CMOs are subject to interest rate-related extension or contraction risk; however, the State System does not hold interest-only or principal-only CMOs. Credit risk is evaluated using Moody's Investors Service ratings. Interest rate risk is monitored using modified duration, with a target duration of 1.8 years and an upper limit of 2.5 years for the intermediate-term operating portfolio; duration targets do not apply to long-term investments.

Investments are measured and disclosed in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Fair value measurements are classified within the fair value hierarchy based on the observability of valuation inputs. Level 1 investments are valued using quoted prices in active markets; Level 2 investments are valued using observable market inputs, including matrix pricing; and Level 3 investments are valued using management assumptions due to the absence of observable market data. Certain investments measured at net asset value (NAV) are excluded from the fair value hierarchy.

Commonfund investments held by universities are reported at NAV based on the fair value of the underlying fund assets. Redemption terms vary by fund but generally permit withdrawals on a weekly or monthly basis with required advance notice.

State System Pool Deposits and Investments

The carrying values (fair values) of deposits and investments for the State System's pooled fund in M&T Bank on June 30, 2026 are as follows.

State System Pooled Deposits and Investments

June 30, 2026

(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				\$47,204
Investments				
Commercial paper	2	P1	0.04	107,672
Government money market mutual fund	2	Aaa	0.00	545
U.S. government and agency obligations	2	Aa1	0.00	226,312
Asset-backed securities	2	Aaa	0.43	74,727
Collateralized mortgage obligations (CMOs)	2	Aa1	2.11	164,844

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	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Corporate bonds and notes	2	Aaa	1.73	2,113
	2	Aa2	2.08	16,006
	2	Aa3	2.21	41,257
	2	A1	1.68	46,549
	2	A2	1.97	38,197
	2	A3	2.31	38,627
	2	Baa1	1.47	7,776
	2	Baa3	0.61	4,515
Total Investments				<u>769,140</u>
Total State System Pooled Deposits and Investments				<u><u>\$816,344</u></u>

Of the investments noted above at June 30, 2026, \$47,203,000 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, 2026 are as follows.

**University Local Deposits and Investments
June 30, 2026
(in thousands)**

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				\$75,454
Certificates of deposit				<u>15</u>
Total Deposits				<u>75,469</u>
Investments				
U.S. government and agency obligations	1		0.00	566
	2		4.88	7,576
Bond mutual funds	1		2.10	5,744
	2		4.19	2,161
	NAV		0.12	10,890
Debt securities	1	A2	1.91	200
	1	A3	2.84	371
	1	Baa1	2.88	325
	1	NR	0.00	505
	2	Aaa	4.88	104
	2	Aa2	4.88	167
	2	Aa3	4.88	351
	2	A1	4.88	458
	2	A2	4.88	720
	2	A3	4.88	661
	2	Baa1	4.88	615
	2	Baa2	4.88	177

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	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Equity / balanced mutual funds	1			10,628
	2			33,933
	3			2,286
	NAV			22,559
Common stocks	1			3,894
Total Investments				104,891
Total University Local Deposits and Investments				<u>\$180,360</u>

For the year ended June 30, 2026, gross investment revenue totaled \$48,656,000. After recognizing unrealized gain on investments of \$7,319,000 and deducting investment expenses of \$719,000, net investment revenue totaled \$55,256,000.

(3) Student Revenue and Accounts Receivable

Accounts receivable for tuition and fees charged to current and former students totaled \$78,234,000 at June 30, 2026. Of this amount, \$34,686,000 is estimated to be uncollectible based on 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 on management's assessment of individual accounts.

Tuition and fee revenue is reported net of scholarship discounts and allowances. Gross tuition and fee revenue totaled \$940,876,000 at June 30, 2026. After deducting student grants, waivers, and scholarships of \$372,589,000, which are recognized as discounts against tuition and fee revenue, and bad debt expense of \$9,043,000, net tuition and fee revenue was \$559,244,000.

Revenue from auxiliary enterprises, which primarily comprises fees from student food and housing, student recreation centers, and student unions, is reported net of discounts. Gross auxiliary revenue totaled \$386,422,000 at June 30, 2026. After deducting calculated auxiliary discounts of \$39,559,000 and bad debt expense of \$372,000, net auxiliary enterprises revenue was \$346,491,000.

(4) Lease Receivables

The State System leases various land or facilities to third parties and component units. The following summary provides the aggregated information reported for June 30, 2026, for lease receivables including additions and reductions for the year then ended.

Lease Receivable June 30, 2026				
<i>(in thousands)</i>	Beginning Balance	Additions	Reductions	Ending Balance
Lease receivable, Third Parties	\$87,038	\$422	(\$80,347)	\$7,113
Lease receivable, Component Units	7,451	49	(190)	7,310
Total	\$94,489	\$471	(\$80,537)	\$14,423

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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 they occur. For the fiscal year ended June 30, 2026, the State System recognized lease revenue of \$1,207,000 and interest income of \$197,000 from leases with third parties, excluding the effect of an adjustment recorded during fiscal year 2026 to reverse lease revenue previously recognized in fiscal year 2025. After recognition of this adjustment, reported lease revenue and interest income from third-party leases were \$(5,595,000) and \$(643,000), respectively. The State System also recognized variable lease income of \$497,000 from third-party leases. For leases with component units, the State System recognized lease revenue of \$302,000, interest income of \$161,000, and variable lease income of \$75,000.

(5) Beneficial Interests

At June 30, 2026, the fair value of beneficial interests totaled \$32,973,000. Of this amount, \$32,972,000 represents gifts that donors placed in trust in perpetuity with third parties, with the respective universities receiving a restricted revenue stream in accordance with the donor's wishes; and \$1,000 represents 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, 2026 are as follows.

Capital Assets June 30, 2026 <i>(in thousands)</i>				
	Beginning Balance (Restated)	Additions	Retirements / Adjustments	Ending Balance
Land	\$33,777	\$-	\$(110)	\$33,667
Construction in progress	64,112	70,249	(38,315)	96,046
Total Capital Assets Not Being Depreciated	97,889	70,249	(38,425)	129,713
Buildings, including improvements	3,501,557	47,141	13,096	3,561,794
Improvements other than buildings	367,644	6,565	3,450	377,659
Equipment and furnishings	570,311	25,156	(5,398)	590,069
Software	8,296	-	(435)	7,861
Other intangible assets	36	-	-	36
Library Books	69,888	246	(722)	69,412
Right-to-use assets land	1,586	1,111	(689)	2,008
Right-to-use assets buildings	92,326	7,058	(1,168)	98,216
Right-to-use assets equipment	4,024	236	(280)	3,980
Right-to-use assets subscriptions	84,033	10,398	(5,368)	89,063
Total Capital Assets Being Depreciated or Amortized	\$4,699,701	\$97,911	\$2,486	\$4,800,098

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	Beginning Balance (Restated)	Additions	Retirements / Adjustments	Ending Balance
Less accumulated depreciation and amortization:				
Buildings, including improvements	(1,721,498)	(118,063)	9,165	(1,830,396)
Improvements other than buildings	(257,197)	(13,316)	1,739	(268,774)
Equipment and furnishings	(503,446)	(23,872)	12,198	(515,120)
Software	(8,297)	(1)	435	(7,863)
Other intangible assets	(36)	-	-	(36)
Library Books	(67,704)	(498)	715	(67,487)
Right-to-use assets land	(1,353)	(211)	690	(874)
Right-to-use assets buildings	(71,889)	(5,509)	741	(76,657)
Right-to-use assets equipment	(2,090)	(760)	266	(2,584)
Right-to-use assets subscriptions	(40,124)	(25,905)	6,121	(59,908)
Total Accumulated Depreciation and Amortization	(2,673,634)	(188,135)	32,070	(2,829,699)
Total Capital Assets Being Depreciated, Net	2,026,067	(90,224)	34,556	1,970,399
Capital Assets, Net	\$2,123,956	\$(19,975)	(\$3,869)	\$2,100,112

(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 the relevant actuarial study, the universities contributed \$1,554,000 to the Reserve Fund during the years ended June 30, 2026.

For the years ended June 30, 2026, the aggregate liability for claims under the self-insurance limit was \$7,186,000. The Reserve Fund assets of \$15,368,000 were equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2026. Changes in the workers' compensation claims liability in fiscal years 2026 are shown below.

**Workers' Compensation Liability
June 30, 2026
(in thousands)**

(in thousands)	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2026	\$20,782	\$6,220	(\$4,448)	\$22,554

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(8) Compensated Absences

Compensated absences represent leave for which employees may receive payment either when leave is used for time off, upon termination or retirement if certain requirements are met. The State System's compensated absences primarily include annual leave and personal leave, sick leave, and other qualifying leave types. Certain types of leave that are dependent upon the occurrence of a sporadic event (such as parental leave, military leave, and jury duty leave) are recognized as liabilities when the leave commences, to the extent such leave is determined to be material.

Leave that has been used but not yet paid as of the financial statement date is included in accrued payroll liabilities and not reported as part of the compensated absences liability.

Changes in the compensated absences liability in fiscal years 2026 are shown below.

**Compensated Absences Liability
June 30, 2026
(in thousands)**

<i>(in thousands)</i>	Beginning Balance	Additions*	Reductions*	Ending Balance
2026	\$134,036	\$682	-	\$134,718

* The change in the compensated absences liability is presented as a net change.

(9) Pension Benefits

Employees of the State System participate in one of the following retirement plans upon employment:

- Commonwealth of Pennsylvania Employees' Retirement System (SERS)
- Public School Employees' Retirement System (PSERS)
- Alternative Retirement Plan (ARP)

The table below provides the total of the State System's pension liabilities, deferred outflows of resources, deferred inflows of resources, pension expense and contributions related to these various plans for the fiscal year ended June 30, 2026.

<i>(in thousands)</i>	SERS	PSERS	ARP	Total
Net Pension Liabilities	\$663,715	\$69,559	\$ -	\$733,274
Deferred Outflows of Resources				
Difference between expected and actual experience	25,998	1,173	-	27,171
Net difference between projected and actual investment earnings	-	-	-	-
Changes in assumptions	12,441	-	-	12,441
Difference between employer and proportionate share of contributions	1,387	(87)	-	1,300
Changes in proportion	-	509	-	509
Contributions after measurement date	52,879	10,089	-	62,968
Total Deferred Outflows of Resources	\$92,705	\$11,684	\$-	\$104,389

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(in thousands)

	SERS	PSERS	ARP	Total
Deferred Inflows of Resources				
Difference between expected and actual experience	\$79	\$585	\$	\$664
Net difference between projected and actual investment earnings	73,099	244	-	73,343
Difference between employer and proportionate share of contributions	773	-	-	773
Changes in proportion	34,342	1,092	-	35,434
Total Deferred Inflows of Resources	\$108,293	\$1,921	\$-	\$110,214
Pension Expense, excluding prefunding credit	\$64,189	\$8,478	\$46,520	\$119,187
Contributions recognized by the plans	\$93,133	\$10,088	N/A	\$103,221

The State System will recognize the \$52,879,000 reported as 2026 SERS deferred outflows of resources, and the \$10,089,000 reported as 2026 PSERS deferred outflows of resources, both resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2027. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows.

Amortization of Net Pension Deferred Outflows and Inflows of Resources
(in thousands)

Fiscal Year Ended	SERS	PSERS
June 30, 2027	\$24,883	\$1,652
June 30, 2028	(41,989)	(493)
June 30, 2029	(29,059)	(775)
June 30, 2030	(22,302)	(710)
Total	(\$68,467)	(\$326)

State Employees' Retirement System (SERS)

Plan Description: SERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania. SERS also administers defined contribution and hybrid retirement plans for employees hired on or after January 1, 2019. SERS is reported as a component unit / pension trust fund of the Commonwealth. SERS issues a publicly available audited Annual Comprehensive Financial Report (ACFR) that includes detailed information about the plan's fiduciary net position, investment policies, plan-level actuarial assumptions, and other plan-wide disclosures required by GASB 68, *Accounting and Financial Reporting for Pensions*. Because this ACFR is publicly available, the State System has omitted plan-level disclosures as permitted under GASB 68.

The SERS ACFR can be accessed at: www.sers.pa.gov.

Prefunding Arrangement: In November 2021, the State System made a one-time prefunding payment of \$825 million to SERS using bond proceeds, as permitted under Pennsylvania Act 105. In return, SERS provides scheduled contribution credits through fiscal year 2051. These credits reduce recognized pension expense but do not reduce the SERS net pension liability reported in the financial statements. Pension expense was

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reduced by \$48,000,000 during fiscal year 2026 as a result of this arrangement. The remaining prefunding balance of \$684,147,000 at June 30, 2026 is reflected as an asset in the financial statements and is not reflected in the tables and schedules included in the footnotes or required supplementary information related to the SERS plan.

Benefits: SERS provides retirement, disability, and death benefits. Benefit provisions are established through statute. Normal retirement benefits are based on years of service and final average salary, with reduced benefit formulas and hybrid defined benefit/defined contribution options or a straight 401(a) defined contribution option applicable to later employee cohorts.

Contributions: Contribution rates for employees and employers vary by membership class and plan type. For fiscal year ended June 30, 2026, the State System contributed \$93,133,000 to SERS defined benefit plan and \$1,002,000 to the SERS defined contribution plan, which equaled the contractually required contributions.

Actuarial Assumptions: The SERS net pension liability was measured as of December 31, 2025. Key assumptions in the SERS plan's actuarial valuation include an assumed rate of return of 6.875%, inflation of 2.50%, salary increases based on an average of 5.43%, the entry age actuarial cost method, and mortality based on PubG-2016 tables with generational improvement.

Employer-Specific Net Pension Liability and Related Amounts: At June 30, 2026, the State System's proportionate share of the SERS net pension liability was \$663,715,000, based on a proportion of 3.8656%, measured at December 31, 2025. The State System's proportion decreased from the prior measurement date by 0.1181%. The allocation percentage assigned to each participating employer is based on a projected contribution method.

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 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, 2025, are summarized below.

Asset Class	Target Allocation	Long-Term Real Rate of Return
Private equity	16.00%	5.11%
Real estate	7.00%	3.84%
U.S. equity	37.00%	2.34%
International developed equity	14.00%	5.04%
Emerging markets equity	2.00%	5.53%
Fixed income	19.00%	1.98%
Inflation protection (TIPS)	3.00%	1.35%
Cash	2.00%	0.23%
	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.

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Sensitivity of Net Pension Liability: The SERS net pension liability is sensitive to changes in the assumed rate of return. The sensitivity analysis showing the impact of a one-percentage-point increase or decrease is presented in the accompanying table.

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

1% Decrease	Current Rate	1% Increase
5.875%	6.875%	7.875%
\$845,995	\$663,715	\$390,723

Public School Employees' Retirement System (PSERS)

Plan Description: PSERS is a cost-sharing, multiple-employer defined benefit pension plan providing retirement, disability, and death benefits to eligible public education employees. PSERS is administered under state statute and reported as a component unit / pension trust fund of the Commonwealth. PSERS issues a publicly available audited Annual Comprehensive Financial Report (ACFR) that includes detailed information about the plan's fiduciary net position, investment policies, plan-level actuarial assumptions, and other plan-wide disclosures required by GASB 68, *Accounting and Financial Reporting for Pensions*. Because this ACFR is publicly available, the State System has omitted plan-level disclosures as permitted under GASB 68.

The PSERS ACFR can be accessed at: www.psers.pa.gov.

Benefits Provided: Benefits are determined based on membership class, years of service, age, and final average salary.

Contributions: For the fiscal year ended June 30, 2026, the actuarially determined employer contribution rate was 32.96% of covered payroll. In accordance with statute, the Commonwealth contributed 50% of the employer contribution on behalf of the State System. The State System contributed \$10,088,000, equal to its required contractual contribution of 16.48%. For the PSERS defined contribution plan, the actuarially required employer contribution rate was 0.42% of active members' annual covered payroll, depending upon the plan chosen by the employee. The State System contributed \$40,000 for the year ended June 30, 2026, equal to its required contractual contribution of 0.21%.

Actuarial Assumptions: The PSERS net pension liability was measured as of June 30, 2025. Key assumptions in the PSERS plan's actuarial valuation include an assumed rate of return of 7.00%, inflation of 2.50%, salary increases based on an average of 4.50%, and mortality based on PUB-2010 tables with generational improvement.

Employer-Specific Net Pension Liability and Related Amounts: At June 30, 2026, the State System's proportionate share of the PSERS net pension liability was \$69,559,000, based on a proportion of 0.1792%. The State System's proportion decreased from the prior measurement date by 0.0019%. The allocation percentage assigned to each participating employer using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. The total PSERS net pension liability associated with the State System was \$139,118,000 with \$69,559,000 of this amount associated to the Commonwealth's proportionate share this liability.

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

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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 about 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. For the year ended June 30, 2025, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 9.65%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	32.00%	4.20%
Private equity	12.00%	6.80%
Fixed income	34.00%	3.50%
Commodities	4.00%	3.90%
Infrastructure	10.00%	5.90%
Real estate	8.00%	6.40%
	100.00%	

The discount rate used to measure the total PSERS pension liability was 7.000%. 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' plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Sensitivity of Net Pension Liability: The PSERS net pension liability is sensitive to changes in the assumed rate of return. The sensitivity analysis showing the impact of a one-percentage-point increase or decrease is presented in the accompanying table.

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%
\$93,856	\$69,559	\$49,032

Alternative Retirement Plan (ARP)

The ARP is a defined contribution plan administered by the State System. Benefits are based solely on contributions and investment earnings. Act 188 empowers the Board to establish and amend benefit provisions. The State Employees' Retirement Code establishes the employer contribution rates for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualified compensation. The State System's contribution rate is 9.29% of qualifying compensation, and totaled \$46,520,000 for the year ended June 30, 2026. No pension liability or deferred inflows or outflows are reported for the ARP.

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(10) Other Postemployment Benefits (OPEB)

The State System provides postemployment healthcare and other non-pension benefits to eligible retirees through one of the following OPEB plans:

- State System Plan (System Plan)
- Retired Employees Health Program (REHP)
- PSERS Health Insurance Premium Assistance Program (Premium Assistance)

The table below provides the total of the State System's OPEB liabilities, deferred outflows of resources, deferred inflows of resources, OPEB expense and contributions related to these various plans for the fiscal year ended June 30, 2026.

<i>(in thousands)</i>	System Plan	REHP	Premium Assistance	Total
Net OPEB Liabilities	\$472,358	\$188,730	\$2,906	\$663,994
Deferred Outflows of Resources				
Difference between expected and actual experience	-	4,743	7	4,750
Net difference between projected and actual investment earnings	-	-	1	1
Changes in assumptions	5,275	4,189	116	9,580
Changes in proportion	-	36,294	49	36,343
Contributions after measurement date	29,352	15,865	188	45,405
Total Deferred Outflows of Resources	34,627	61,091	361	96,079
Deferred inflows of resources				
Difference between expected and actual experience	436,783	84,734	53	521,570
Net difference between projected and actual investment earnings	-	2,498	-	2,498
Change in assumptions	119,802	39,923	499	160,224
Changes in proportion	-	73,730	139	73,869
Total Deferred Inflows of Resources	\$556,585	\$200,885	\$691	\$758,161
OPEB Expense	\$(157,297)	\$(43,406)	\$81	\$(200,622)
Contributions recognized by the plans	N/A	\$15,865	\$188	\$16,053

The State System will recognize the deferred outflows of resources resulting from contributions after the measurement date totaling \$29,352,000 for the System Plan, \$15,865,000 for the REHP plan and \$188,000 for the Premium Assistance Plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2027. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows.

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Amortization of Net OPEB Deferred Outflows and Inflows of Resources (in thousands)

Fiscal Year Ended	System Plan	REHP	Premium Assistance
June 30, 2027	(\$186,630)	(\$64,508)	(\$172)
June 30, 2028	(186,631)	(46,933)	(175)
June 30, 2029	(100,696)	(28,065)	(58)
June 30, 2030	(77,353)	(8,630)	(66)
June 30, 2031	-	(7,523)	(47)
Total	(\$551,310)	(\$155,659)	(\$518)

State System Plan (System Plan)

Plan Description: The System Plan is a single-employer self-insured defined benefit healthcare plan administered by the System Office. Act 188 authorizes the Board to establish and amend benefit provisions and to require the System Office to pay OPEB benefits as they become due. Effective January 16, 2016, the System Plan was closed to newly hired State College and University Professional Association (SCUPA), Security, Police and Fire Professionals of America (SPFPA), PASSHE Officers Association (POA), Office of Professional Employees International Union (OPEIU), and nonrepresented employees; newly hired Association of Pennsylvania State College and University Faculties (APSCUF) employees (faculty and coaches) continue to be eligible to participate in the Plan. The System Plan does not hold assets in a trust that is dedicated to providing benefits and is therefore administered on a pay-as-you-go basis.

Benefits Provided: The System Plan provides eligible retirees and their eligible dependents with healthcare benefits, including hospital, medical/surgical, prescription drug coverage, and a Medicare supplement for individuals age 65 and older. Retiree coverage varies based on the benefits in effect at the time of retirement and may continue for the retiree's lifetime. Spouse coverage generally ceases upon the retiree's death, although surviving spouses may continue coverage at full cost. Dependent coverage is available for non-spouse dependents up to age 19, or age 25 for full-time students. Certain employee groups receive pre-Medicare benefits that mirror active employee benefits based on retirement date, while all other pre-Medicare retirees continue to receive the benefits in effect at retirement.

Membership: As of the July 1, 2024 actuarial valuation, the plan covered 10,975 participants (down from 11,307 as of July 1, 2022), including 5,476 active employees that may be entitled to receive benefit payments upon retirement, 484 retired participants entitled to but not yet receiving benefits and 5,015 retired participants receiving benefits.

Contributions: Plan members receiving benefits contribute toward the cost of coverage at rates that vary based on retirement date, Medicare eligibility, and applicable collective bargaining agreements. Certain retiree groups are not required to make contributions, while others contribute a fixed dollar amount or a percentage of premium or final salary, with contribution requirements potentially changing over time in accordance with plan provisions. For fiscal year ended June 30, 2026, the State System contributed \$29,352,000 to the plan.

Actuarial Assumptions: The System Plan OPEB liability was measured as of July 1, 2025, using an actuarial valuation prepared as of July 1, 2024. 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 cost method used was entry age.

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Significant assumptions included a discount rate of 4.81% (4.29% in the prior valuation), based on a 20-year high-grade municipal bond index, healthcare cost trend rates beginning at 7.0% and gradually declining to 4.0% over time, and mortality assumptions based on PUB-2010 tables with generational improvement. The July 1, 2025 measurement reflects the implementation of a fully insured Medicare Advantage PPO plan for Medicare-eligible retirees and covered spouses, which materially reduced the total OPEB liability. Other actuarial assumptions, including participation, retirement, and withdrawal rates, were based on the Plan's experience and expectations. Participant data was based on census information as of July 1, 2024.

Total OPEB Liability: At June 30, 2026, the System Plan's Total OPEB liability was \$472,358,000. The changes in the Total OPEB liability are provided in the following table.

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

Fiscal Year Ended	June 30, 2026
Balance beginning of year	\$838,185
Service cost	21,382
Interest	36,028
Changes in benefit terms	0
Difference between expected and actual experience	(372,546)
Changes of assumptions	(14,221)
Benefit payments	(36,470)
Net changes	(365,827)
Balance end of year	\$472,358

Sensitivity of Total OPEB Liability: The total OPEB liability is sensitive to changes in the discount rate and healthcare cost trend rate assumptions. The effects of a one-percentage-point increase or decrease in these assumptions on total OPEB liability are presented in the accompanying sensitivity tables.

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

1% Decrease 3.81%	Current Rate 4.81%	1% Increase 5.81%
\$529,115	\$472,358	\$424,758

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

1% Decrease 6.0% decreasing to 3.0%	Current Rate 7.0% decreasing to 4.0%	1% Increase 8.0% decreasing to 5.0%
\$399,445	\$472,358	\$563,024

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Retired Employees Health Program (REHP)

Plan Description: The Retired Employees Health Program (REHP) is a single-employer, defined benefit other postemployment benefits plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The plan is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an administrative 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. Because this ACFR is publicly available, the State System has omitted plan-level disclosures as permitted under GASB 68.

The ACFR can be accessed at: <https://www.pa.gov/agencies/budget>.

Benefits: The REHP provides eligible retirees and their eligible dependents with postemployment healthcare benefits for the retiree's lifetime. Benefits include medical, prescription drug, and Medicare-related coverage. Coverage options and retiree cost-sharing requirements vary based on date of hire, retirement date, bargaining unit, and Medicare eligibility. Surviving spouses may continue coverage at full cost, subject to plan provisions.

Contributions: Employer contribution requirements are established by the Commonwealth in accordance with statutory authority. Employers contribute to the REHP based on a per-pay-period retiree health assessment for each eligible active employee. Contribution rates are subject to change at the discretion of the Commonwealth and are intended to fund current benefit costs and a portion of the long-term obligation. For fiscal year ended June 30, 2026, the State System contributed \$15,865,000 to the plan.

Actuarial Assumptions: The REHP net OPEB liability was measured as of June 30, 2025. Key assumptions in the plan's actuarial valuation include discount rate of 6.68% (6.09% in the prior year), based on a blend of the long-term expected rate of return on REHP plan investments and a municipal bond index; healthcare cost trend assumptions, and mortality rates based on PUB-2010 tables with generational improvement.

Employer-Specific Net OPEB Liability and Related Amounts: At June 30, 2026, the State System's proportionate share of the REHP net OPEB liability was \$188,730,000, based on its relative contributions compared to all participating employers. At June 30, 2026, the State System's proportion was 3.3996%. The State System's proportion decreased from the prior measurement date by 0.1261%.

The long-term expected rate of return on REHP plan investments was determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over extended periods of time to produce 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:

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Target Asset Allocation

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. equity	42.00%	4.90%
Non-U.S. equity	22.00%	10.60%
U.S. fixed income	22.00%	2.50%
Public REITs	3.00%	0.00%
Infrastructure	4.00%	4.30%
Core real estate	5.00%	3.80%
Cash and cash equivalents	1.00%	0.90%
Private equity	1.00%	8.70%
	100.00%	

Sensitivity of REHP Net OPEB Liability: The REHP net OPEB liability is sensitive to changes in the discount rate and healthcare cost trend rate assumptions. The effects of a one-percentage-point increase or decrease in these assumptions on net OPEB liability are presented in the accompanying sensitivity tables.

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

1% Decrease	Current Rate	1% Increase
5.68%	6.68%	7.68%
\$211,125	\$188,730	\$169,256

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

1% Decrease	Current Rate	1% Increase
7.6%	8.6%	9.6%
\$164,244	\$188,730	\$217,805

PSERS Health Insurance Premium Assistance (Premium Assistance)

Plan Description: The Health Insurance Premium Assistance Program (Premium Assistance) is a cost-sharing, multiple-employer OPEB plan administered by the Public School Employees' Retirement System (PSERS). The Program is authorized by state statute and provides premium assistance payments to eligible retirees of participating employers, including the State System. PSERS is responsible for the administration and investment oversight of the Program. PSERS issues a publicly available audited Annual Comprehensive Financial Report (ACFR) that includes detailed information about the plan's fiduciary net position, investment policies, plan-level actuarial assumptions, and other plan-wide disclosures. Because this ACFR is publicly available, the State System has omitted plan-level disclosures.

The PSERS ACFR can be accessed at: www.psers.pa.gov.

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Benefits: Eligible retirees may receive premium assistance payments equal to the lesser of \$100 per month or the retiree's out-of-pocket cost for qualified health insurance coverage. Retirees must meet statutory eligibility requirements and obtain coverage through approved programs to qualify for benefits. Program benefits are not subject to automatic increases and may be modified only through legislative action.

Contributions: Employer contribution rates are established by PSERS in accordance with applicable statutory provisions and actuarial determinations. Contributions are structured to ensure sufficient reserves to pay Premium Assistance benefits expected to become due in the near term. In accordance with statute, a portion of the employer contribution requirement is paid directly by the Commonwealth on behalf of participating employers. For the fiscal year ended June 30, 2026, the contractually required employer contribution rate was 0.62% of covered payroll. In accordance with statute, the Commonwealth contributed 50% of the employer contribution on behalf of the State System. The State System contributed \$188,000, equal to its required contractual contribution of 0.31%.

Actuarial Assumptions: The Premium Assistance net OPEB liability is measured using actuarial assumptions that reflect the Program's short-term, pay-as-you-go funding structure. The discount rate of 4.81% (4.21% in the prior year) is based on a high-grade municipal bond index due to the absence of long-term prefunding. Other assumptions include healthcare participation rates, mortality assumptions based on PUB-2010 tables with generational improvement, and benefit payment limits established in statute.

Employer-Specific Net OPEB Liability and Related Amounts: At June 30, 2026, the State System's proportionate share of the Premium Assistance plan net OPEB liability was \$2,906,000, based on its relative covered payroll compared to all participating employers. At June 30, 2026, the State System's proportion was 0.1767%. The State System's proportion decreased from the prior measurement date by 0.0026%.

Investments consist primarily of short term assets designed to protect principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The PSERS OPEB plan's policy about the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. 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.

For the year ended June 30, 2025, the annual money-weighted rate of return on PSERS OPEB plan investments, net of PSERS OPEB plan investment expense, was 4.90%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

Target Asset Allocation

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	100.00%	1.700%
	<u>100.00%</u>	

Sensitivity of Net OPEB Liability: The Premium Assistance plan net OPEB liability is sensitive to changes in the discount rate and healthcare cost trend rate assumptions. The effects of a one-percentage-point increase or decrease in these assumptions on net OPEB liability are presented in the accompanying sensitivity tables.

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**Sensitivity of the Premium Assistance Net OPEB Liability
to Changes in the Discount Rate
(in thousands)**

1% Decrease	Current Rate	1% Increase
3.81%	4.81%	5.81%
\$3,269	\$2,906	\$2,601

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

1% Decrease	Current Rate	1% Increase
5.6% decreasing to 4.0%	6.6% decreasing to 5.0%	7.6% decreasing to 6.0%
\$2,906	\$2,906	\$2,906

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

The State System leases various facilities and equipment and enters 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, 2026, lease and subscription variable payments, based on performance, totaled \$310,000. There were no termination penalties or residual guarantee payments expensed for the fiscal year ended June 30, 2026. Interest expense on leases and SBITAs for the fiscal year totaled \$975,000 and \$682,000, 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 totaled \$3,758,000.

The following schedule provides the future minimum principal and interest payments to maturing for financed purchases, right-to-use leases and SBITAs.

<i>(in thousands)</i>	Financed Purchases Principal	Financed Purchases Interest	Third Party L e a s e s Principal	Third Party L e a s e s Interest	Component Unit Leases Principal	Component Unit Leases Interest	Subscription Liabilities Principal	Subscription Liabilities Interest
Fiscal year ending June 30								
2027	\$10,701	\$6,426	\$3,798	\$202	\$4,657	\$499	\$8,765	\$435
2028	10,935	6,086	2,791	121	3,451	337	5,672	188
2029	10,930	5,738	1,007	82	2,574	199	3,130	62
2030	10,058	5,397	832	63	1,686	135	1,059	11
2031	9,610	5,078	623	50	1,189	104	90	-
2032-2036	46,170	20,638	1,710	97	4,606	311	-	-
2037-2041	38,481	13,982	17	20	1,552	24	-	-
2042-2046	24,892	9,006	20	18	-	-	-	-
2047-2051	19,717	5,136	22	15	-	-	-	-
2052-2056	17,027	1,270	25	12	-	-	-	-
2057-2061	-	-	29	9	-	-	-	-
2062+	-	-	54	6	-	-	-	-
Total	\$198,521	\$78,757	\$10,928	\$695	\$19,715	\$1,609	\$18,716	\$696

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The following summary provides aggregated information reported for June 30, 2026 financed purchases, right-to-use lease liabilities, and subscription liabilities on SBITAs including additions, reductions and reported liabilities for the year then ended.

<i>(in thousands)</i>	Beginning Balance	Additions	Reductions	Ending Balance
Financed purchases	\$203,613	\$3,824	(\$8,915)	\$198,522
Leases, Third Parties	11,015	4,356	(4,443)	10,928
Leases, Component Units	21,503	4,049	(5,836)	19,716
Subscription liabilities	27,399	10,399	(19,083)	18,715
Total	\$263,530	\$22,628	(\$38,277)	247,881

(12) Bonds Payable

Bonds payable on June 30, 2026, 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 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).

In April 2021, the State System issued Series of 2021 bonds through PEDFA, the proceeds of which were used to make a one-time prefunding payment to SERS pursuant to Pennsylvania Act 105 of November 2019, resulting in a schedule of credits against future annual SERS contributions. These contribution credits are applied annually and are available to support debt service on the Series of 2021 bonds; additional information regarding the prefunding arrangement is included in the Pension footnote.

Activity for the various bond series for the year ended June 30, 2026 is provided in the following table.

Bonds Payable
(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2025	Bonds Issued	Bonds Redeemed / Refunded	Balance June 30, 2026	Current Portion
Series AQ issued May 2015, final maturity June 2036	\$94,975	3.37%	\$22,265	-	\$5,120	\$17,145	\$1,485
Series AR issued Sept 2015, final maturity June 2040	102,365	3.67%	65,695	-	3,435	62,260	3,540
Series AS issued June 2016, final maturity June 2037	47,280	3.77%	22,090	-	2,985	19,105	3,135
Series AT issued Sept 2016, final maturity June 2044	298,110	3.81%	178,605	-	7,385	171,220	7,760
Series AU issued Sept 2017, final maturity June 2042	128,260	3.31%	66,005	-	6,835	59,170	7,160
Series AV issued Sept 2018, final maturity June 2045	236,945	4.08%	166,490	-	5,810	160,680	6,050

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Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2025	Bonds Issued	Bonds Redeemed / Refunded	Balance June 30, 2026	Current Portion
Series AW issued Sept 2019, final maturity June 2044	\$84,980	4.25%	\$30,000	\$-	\$4,420	\$25,580	\$4,635
Series AX issued July 2020, final maturity June 2042	94,985	3.37%	67,140	-	4,765	62,375	5,000
Series AY issued Oct 2020, final maturity June 2036	78,925	1.89%	33,425	-	4,950	28,475	4,630
SERS 2021 issued April 2021, final maturity June 2042	827,580	2.61%	682,640	-	37,575	645,065	46,670
Series AZ issued June 2021, final maturity June 2047	142,710	2.74%	125,585	-	4,560	121,025	4,685
Series BA issued November 2025, final maturity June 2055	67,295	4.49%	-	67,295	580	66,715	885
Total	\$2,204,410		\$1,459,940	\$67,295	\$88,420	\$1,438,815	\$95,635

Principal and interest requirements to maturity are shown in the following table.

Principal and Interest Requirements
(in thousands)

Fiscal Year Ended June 30	Principal	Interest	Total
2027	\$95,635	\$45,682	\$141,317
2028	96,510	42,852	139,362
2029	97,080	39,915	136,995
2030	95,400	36,891	132,291
2031	96,930	33,923	130,853
2032-2036	438,330	128,443	566,773
2037-2041	383,400	60,604	444,004
2042-2046	108,960	14,165	123,125
2047-2051	14,890	3,923	18,813
2052-2055	11,680	1,191	12,871
Total	\$1,438,815	\$407,589	\$1,846,404

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 the 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.

On October 31, 2023 and September 12, 2024, the State System completed in-substance defeasances totaling \$114,035,000 of outstanding bonds, consisting of eleven bond series originally issued between May 2014 and October 2020 and eight bond series originally issued between May 2015 and October 2020, respectively. As of June 30, 2026, the principal amount of in-substance defeased debt that remains outstanding related to these defeasances totals \$35,545,000 and \$51,690,000, respectively, compared to \$42,150,000 and \$55,075,000 as of June 30, 2025.

On November 12, 2025, PHEFA issued Series BA tax-exempt revenue bonds in the amount of \$67,295,000. The net proceeds from the Series BA revenue bonds were used to finance capital projects at Kutztown University and West Chester University. In connection with the bond issuance, the State System entered into

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a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of the bonds.

The Series BA Bonds were issued to provide funds to the System to finance the cost of (i) the construction and renovation of certain student housing known as the South Campus Apartments, comprised of eleven (11) facilities on the campus of West Chester University of Pennsylvania; (ii) the construction and renovation of certain student housing known as Johnson Hall, comprised of one (1) facility on the campus of Kutztown University of Pennsylvania; (iii) the payment of capitalized interest on the Series BA Bonds through December 15, 2027; and (iv) contingencies and payment of costs and expenses incident to the issuance of the Series BA Bonds.

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

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2026 are provided in the following table.

Deferred Inflows and Outflows of Resources (in thousands)

	June 30, 2026
Deferred Outflows of Resources	
Pension related (see note 9)	\$104,389
OPEB related (see note 10)	96,079
Unamortized loss on refunding of debt	2,159
Total Deferred Outflows of Resources	<u>\$202,627</u>
Deferred Inflows of Resources	
Lease receivable (see note 4)	\$13,075
Pension related (see note 9)	110,214
OPEB related (see note 10)	758,161
Unamortized gain on refunding of debt	850
Split-interest agreements	7
Total Deferred Inflows of Resources	<u>\$882,307</u>

(14) 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. 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, 2026, the State System estimates

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that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements.

Insurance

The State System is self-insured for workers' compensation losses (see Note 7) and participates in the Commonwealth's risk management program for other risks of loss. Management does not expect the resolution of insurance claims or related litigation to have a material adverse effect on the accompanying financial statements.

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2026, were approximately \$47,736,000.

Indiana University Proposed College of Osteopathic Medicine

Indiana University of Pennsylvania (IUP) earned pre-accreditation status for its College of Osteopathic Medicine (COM). As part of the accreditation process with the Commission on Osteopathic College Accreditation (COCA), the university was required to deposit funds totaling \$37.5 million into two separate, segregated reserve accounts on August 1, 2025 -- the Operating Reserve Fund and Escrow Reserve Fund. The Escrow Reserve Funds are required to be used solely to pay teach-out costs of students, should such a determination be reached. Both reserve accounts are required to be maintained until graduation of the first class of students. Funds in these accounts must be invested in publicly traded money market funds (or such other investments as specifically approved) and interest earned on such investments must be maintained in the funds. The agreements also require certain minimal level of funds to be maintained in these accounts over their life.

Labor Concentration

Approximately 84% of the State System's full-time equivalent (FTE) employees are covered by eight collective bargaining agreements. Seven of those agreements are effective through June 30, 2027 and include the following: American Federation of State, County, and Municipal Employees (AFSCME); APSCUF; APSCUF Non-Faculty Athletic Coaches; OPEIU; SCUPA; Service Employees International Union (SEIU); and Pennsylvania Doctors Alliance (PDA). The agreement with the POA is effective through August 31, 2028.

(15) Subsequent Events

Bond Defeasance Funds

The Commonwealth's General Appropriations Act of 2026 (Act 1A of 2026) included a state appropriation to the State System in the amount of \$78,102,000 for facilities transition and improvements. The funding is intended to be used by the State System to allocate no less than \$78,102,000 for the defeasance of debt incurred for capital projects at various universities and campuses across the State System, specifically Commonwealth University – Mansfield and Bloomsburg campuses, Millersville University, and Shippensburg University. This transaction is anticipated to occur in fourth quarter of calendar year 2026.

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Required Supplementary Information
(Unaudited)

Schedule of State System's Proportionate Share of SERS Net Pension Liability (NPL)
Determined as of SERS' December 31 measurement dates
(in thousands)

Fiscal Year	Proportion	Proportionate Share	Covered-Employee Payroll	Proportionate Share of NPL as a % of Covered-Employee Payroll	Fiduciary Net Position as a % of Total Pension Liability
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%
2023-24	4.06%	858,718	288,184	298%	65.30%
2024-25	3.98%	802,940	295,745	271%	67.70%
2025-26	3.87%	663,715	294,251	225%	73.30%

Schedule of State System's SERS Contributions
Determined as of SERS' December 31 measurement dates
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contribution as a % of Covered-Employee Payroll
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%
2023-24	99,236	99,236	0	294,495	33.70%
2024-25	95,296	95,296	0	294,462	32.36%
2025-26	93,133	93,133	0	294,360	31.64%

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Schedule of State System's Proportionate Share of PSERS Net Pension Liability (NPL)

Determined as of PSERS' June 30 measurement dates

(in thousands)

Fiscal Year	Proportion	State System's Proportionate Share	Common-wealth's Proportionate Share	Total Proportionate Share	Covered-Employee Payroll	Proportionate Share of NPL as a % of Covered-Employee Payroll	Fiduciary Net Position as a % of Total Pension Liability
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	176%	54.3%
2021-22	0.1777%	72,958	72,958	145,916	50,192	145%	63.7%
2022-23	0.1788%	79,492	79,492	158,984	52,352	152%	61.3%
2023-24	0.1834%	81,588	81,588	163,176	55,801	146%	61.9%
2024-25	0.1811%	75,799	75,799	151,598	56,937	133%	64.6%
2025-26	0.1792%	69,559	69,559	139,118	58,563	119%	68.0%

Schedule of State System's PSERS Contributions

Determined as of PSERS' June 30 measurement dates

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contribution as a % of Covered-Employee Payroll
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	52,900	16.82%
2021-22	8,896	8,896	0	53,184	16.73%
2022-23	9,342	9,342	0	55,460	16.84%
2023-24	9,486	9,486	0	58,119	16.32%
2024-25	9,783	9,783	0	60,262	16.23%
2025-26	10,089	10,089	0	62,018	16.27%

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Schedule of State System's OPEB Liability
Determined as of June 30 measurement dates
(in thousands)

Fiscal Year	Beginning OPEB Liability	Service Cost	Interest	Change of benefit terms	Difference 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
2023-24	902,031	25,367	36,829	0	0	10,551	(37,415)	937,363
2024-25	937,363	26,330	38,929	0	(115,000)	(10,503)	(38,934)	838,185
2025-26	838,185	21,382	36,028	0	(372,546)	(14,221)	(36,470)	472,358

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. This schedule is intended to show information for 10 years – additional years will be displayed as they become available.

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

Fiscal Year Ended June 30	Covered Employee Payroll	OPEB Liability as a % 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%
2023-24	515,352	181.89%
2024-25	531,606	157.67%
2025-26	531,606	88.85%

Note to Schedule: This schedule is intended to show information for 10 years – additional years will be displayed as they become available.

Pennsylvania's State System of Higher Education
Financial Statements, Year Ended June 30, 2026

Schedule of State System's Proportionate Share of REHP Net OPEB Liability

Determined as of REHP's June 30 measurement dates

(in thousands)

Fiscal Year	Proportion	Proportionate Share	Covered-Employee Payroll	Proportionate Share of OPEB Liability as a % of Covered-Employee Payroll	Fiduciary Net Position as a % 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%
2023-24	3.029%	235,554	105,080	224%	8.81%
2024-25	3.526%	245,647	104,417	235%	11.61%
2025-26	3.400%	188,730	120,258	157%	16.38%

Note to Schedule: This schedule is intended to show information for 10 years – additional years will be displayed as they become available.

Schedule of State System's REHP Contributions

Determined as of REHP's June 30 measurement dates

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contribution as a % 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	125,657	6.60%
2023-24	18,688	18,688	0	131,030	14.26%
2024-25	17,841	17,841	0	132,369	13.48%
2025-26	15,865	15,865	0	133,088	11.92%

Note to Schedule: This schedule is intended to show information for 10 years – additional years will be displayed as they become available.

**Pennsylvania's State System of Higher Education
Financial Statements, Year Ended June 30, 2026**

Schedule of State System's Proportionate Share of PSERS Net OPEB Liability
Determined as of PSERS' June 30 measurement dates
(in thousands)

Fiscal Year	Proportion	State System's Proportionate Share	Common- wealth's Proportionate Share	Total Proportionate Share	Covered- Employee Payroll	Proportionate Share of Net OPEB as a % of Covered- Employee Payroll	Fiduciary Net Position as a % 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%
2023-24	0.1821%	3,295	3,295	6,590	55,801	5.90%	7.22%
2024-25	0.1793%	3,185	3,185	6,370	56,937	5.59%	7.13%
2025-26	0.1767%	2,906	2,906	5,812	58,563	4.96%	7.50%

Note to Schedule: This schedule is intended to show information for 10 years – additional years will be displayed as they become available.

Schedule of State System's PSERS OPEB Contributions
Determined as of PSERS' June 30 measurement dates
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contribution as a % 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%
2023-24	184	184	\$0	\$58,119	0.32%
2024-25	189	189	\$0	\$60,262	0.31%
2025-26	188	188	\$0	\$62,018	0.30%

Note to Schedule: This schedule is intended to show information for 10 years – additional years will be displayed as they become available.