



# Audited Financial Statements

THE PENNSYLVANIA STATE UNIVERSITY  
FISCAL YEAR ENDED JUNE 30, 2023



**PennState**

# University Officers

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## **THE PENNSYLVANIA STATE UNIVERSITY**

*as of November 9, 2023*

### **NEELI BENDAPUDI**

President

### **STEPHEN M. MASSINI**

Chief Executive Officer, Penn State Health

### **TABITHA R. OMAN**

Vice President  
and General Counsel

### **JUSTIN SCHWARTZ**

Executive Vice President  
and Provost

### **MICHAEL WADE SMITH**

Senior Vice President and Chief of Staff

### **SARA F. THORNDIKE**

Senior Vice President for  
Finance and Business/Treasurer

# Table of Contents

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|   |    |
|---|----|
| <b>University Officers</b> .....  | ii |
| <b>Letter from the Senior Vice President for Finance and Business/Treasurer</b> ..... | 1  |
| <b>Financial Overview</b> .....   | 3  |
| Operating Results.....  | 3  |
| Financial Position .....  | 6  |
| Investments .....   | 8  |
| Capital Assets and Debt .....   | 9  |
| Research and Sponsored Programs .....   | 10 |
| Looking Ahead.....  | 11 |
| <b>Independent Auditor's Report</b> .....   | 12 |
| <b>Consolidated Financial Statements</b> .....  | 14 |
| Statements of Financial Position .....  | 14 |
| Statements of Activities.....   | 16 |
| Statements of Cash Flows .....  | 18 |
| <b>Notes to Consolidated Financial Statements</b> .....                               | 20 |
| <b>Board of Trustees</b> .....  | 53 |









## Letter from the Senior Vice President for Finance and Business/Treasurer

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The Pennsylvania State University, under the leadership of President Neeli Bendapudi, improved its financial results to budget by almost \$90 million in the education and general fund that supports the University's core academic mission. The University has undergone significant change this past year. With a new senior leadership team, the University initiated several operational effectiveness reviews of business processes and projects to seek further efficiencies. These initiatives include improved financial reporting and analytics, a research support transformation project, and optimized service teams to support the University's essential units to continue to improve and support our student experience, enhance employee experiences, and identify cost efficiencies.

President Bendapudi shared her vision for the future of the University defined by building steadfastly on Penn State's purpose, enabling agility across the institution to respond to ever-changing needs, and leveraging the University's many strengths to realize strategic opportunities. The President announced six key goals that will launch the University forward over the next five years. They include enhancing student success, growing interdisciplinary research excellence, increasing land-grant impact, fostering diversity, equity, inclusion, and belonging, transforming Penn State's internal operations, and transforming health through academic and clinical synergy.

The University concluded its capital campaign "A Greater Penn State" in June 2022 raising more than \$2.2 billion in six years, setting a new campaign fundraising record. The University also finished its most recent five-year \$2.5 billion capital plan in June 2023 and launched a new five-year maintenance centric capital plan of \$2 billion that focuses on system renewals and construction and renovations that support student enrollment and success. Enrollments at the University Park campus continue to steadily increase and, under the leadership of a first-time Vice President for Enrollment Management, enrollment declines have leveled off at the Commonwealth Campuses.

This past year the University developed a new budget allocation model and, for the first time, budgeted all University funds for the next two fiscal years, including Board approved tuition, room, and board rates so students know what they will be charged before they enroll at the University. These changes align with the President's goals and set the University up for success as it works toward a balanced education and general fund budget by fiscal year 2026. With a focus on access, affordability, and continuous improvement, the University remains well-positioned to continue supporting student success and growing its highly impactful research enterprise into the future.

Sara F. Thorndike, Ed.D., MBA, CPA  
Senior Vice President for Finance & Business / Treasurer



# Financial Overview

The following section provides summarized results of the financial performance and position of the Pennsylvania State University (“Penn State”, or the “University”), and as a result it should be read alongside the accompanying consolidated financial statements and notes to the financial statements. All figures in this section are consolidated and – unless specifically noted – include the University, Penn State Health, and other subsidiaries (see note one to the financial statements).

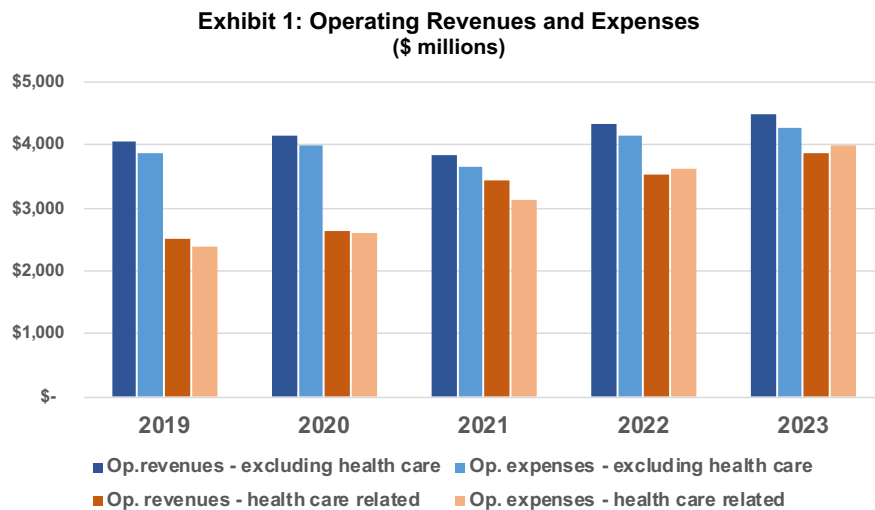
## OPERATING RESULTS

Penn State’s net assets increased by \$361 million during the fiscal year ended June 30, 2023 (FY2023), from growth in certain operating revenues, budgetary restraint of operating expenses, and a decline in the valuation of the University’s post-retirement liability. A condensed view of the consolidated statement of activities follows:

| <b>Condensed Statements of Activities</b>                 |                 |                 |
|---|-----------------|-----------------|
| <b>(\$ millions)</b>                                      |                 |                 |
|   | <b>2023</b>     | <b>2022</b>     |
| <b>Operating revenues</b>                                 |                 |                 |
| University – excluding health care related                | \$4,488         | \$4,339         |
| Health care related                                       | 3,867           | 3,529           |
| <b>Total</b>  | <b>8,355</b>    | <b>7,868</b>    |
| <b>Operating expenses</b>                                 |                 |                 |
| University – excluding health care related                | 4,272           | 4,155           |
| Health care related                                       | 3,997           | 3,615           |
| <b>Total</b>  | <b>8,269</b>    | <b>7,770</b>    |
| <b>Operating income (loss)</b>                            |                 |                 |
| University – excluding health care related                | 216             | 184             |
| Health care related                                       | (130)           | (86)            |
| <b>Total</b>  | <b>86</b>       | <b>98</b>       |
| <b>Nonoperating activities</b>                            |                 |                 |
| Related to postretirement benefit expense                 | 211             | 567             |
| Related to investments                                    | 68              | (816)           |
| Other   | 65              | 122             |
| <b>Total</b>  | <b>344</b>      | <b>(127)</b>    |
| Increase (decrease) in net assets – Penn State University | 430             | (29)            |
| Less change in noncontrolling interest                    | (69)            | 15              |
| Increase (decrease) in total net assets                   | 361             | (14)            |
| Beginning net assets                                      | 12,393          | 12,407          |
| <b>Ending net assets</b>                                  | <b>\$12,754</b> | <b>\$12,393</b> |



Exhibit 1, which follows, shows a breakdown of operating expenses and revenues for the last five fiscal years (distinguishing between healthcare related revenues / expenses and the rest of the University).



**Operating Revenues**

University operating revenues (excluding healthcare related revenues) increased by \$149 million, or 3.4%, in FY2023, with the most significant increases occurring in net tuition/fee revenues (increase of \$80 million, or 4.3%) and auxiliary enterprises (increase of \$58 million, or 11.9%, primarily in housing / food service and athletics).

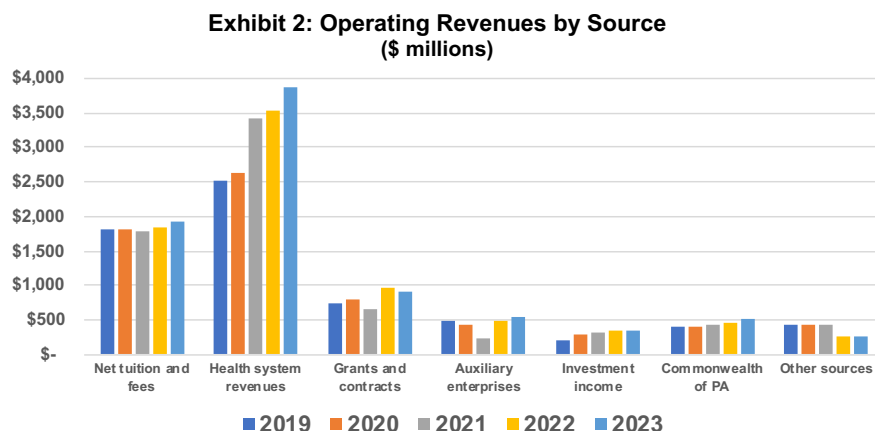
The Board of Trustees approved tuition increases for the 2022-23 academic year of 5% and 6% for University Park campus resident and nonresident undergraduates, respectively, and 2% and 3% for Commonwealth Campus resident and nonresident undergraduates, respectively. The Board also approved a 5% tuition increase for World Campus students and a 6% increase for graduate and professional students, regardless of campus or residency status.

University federal grants and contracts revenues decreased by \$93 million in FY2023, or 11.3%, due to COVID-related funding of \$150 million received in FY2022 that was not awarded in FY2023.

Health system operating revenues increased by \$338 million, or 9.6%, in FY2023. Penn State Health recognized consolidated net patient service revenue of \$3.4 billion for the year ended June 30, 2023, which increased approximately \$203.5 million, or 6.3%, from FY2022. This increase was primarily due to the full year of Hampden Medical Center, which opened in October 2021, and the addition of Lancaster Medical Center which opened October 2022. Consolidated net patient service revenue reflects amounts recognized from all other payors and patients.

Health system other income decreased \$35.1 million, or 10%, in FY2023, mainly due to the lack of COVID-related provider relief funds which were recognized during 2022.

Recent trends in consolidated operating revenues are illustrated below in exhibit 2.



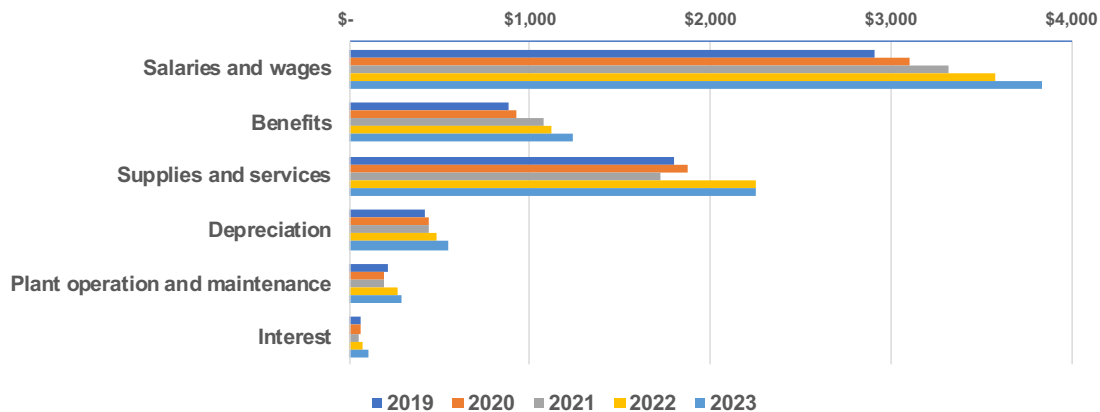
### Operating Expenses

University operating expenses (excluding healthcare related expenses) increased by \$117 million, or 2.8%, in FY2023, with most of the increase attributable to personnel costs (increase of \$161 million, or 6%). The growth in personnel costs is due to an across-the-board general salary increase of 2.5%, a modest increase in net FTEs, and increased benefits expense. Depreciation and interest expense increased \$24 million and \$9 million, respectively, while other non-personnel expenses decreased by \$80 million, or 7.5%.

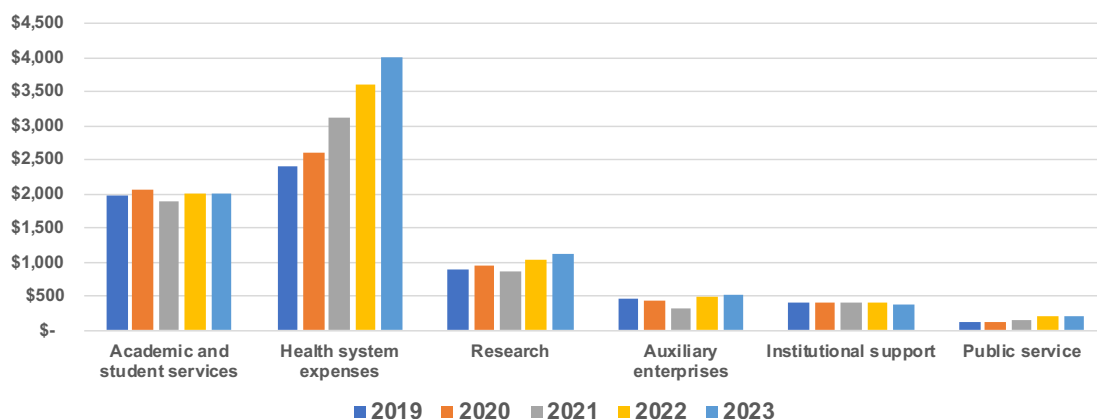
Health system operating expenses increased by \$382 million, or 10.6%, in FY2023. Personnel cost increased by \$216.7 million, or 10.7%, primarily due to the full year of Hampden Medical Center (opened in October 2021) and the addition of Lancaster Medical Center in October 2022. During FY2023, Penn State Health also implemented staff salary increases, retention bonuses, and sign on bonuses to remain competitive in the local market and address staffing challenges. Additionally, Penn State Health purchased services increased by \$51.4 million, or 11.5%; contracted labor for clinical providers and physicians is the major driver of this increase. Lastly, interest expense increased by \$25.4 million, reflecting the interest on both Hampden and Lancaster Medical Center bonds.

Recent trends in consolidated operating expenses are illustrated below in exhibits 3 and 4.

**Exhibit 3: Operating Expenses by Natural Classification**  
(\$ millions)



**Exhibit 4: Operating Expenses by Function**  
(\$ millions)



(Note: FY2021 operating expenses in exhibit 4 include adjustments not included in audited financial statements)

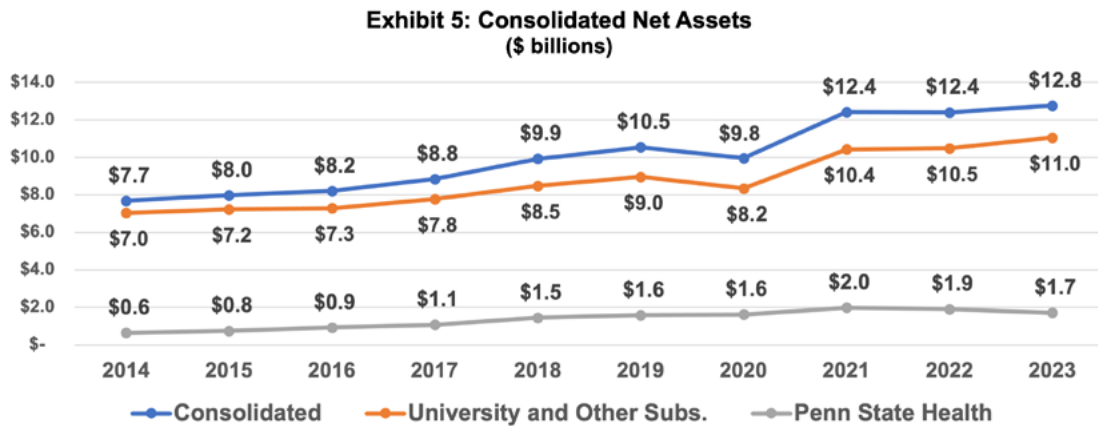
### Non-Operating Activities

Penn State’s increase in net assets in FY2023 is attributable largely to positive non-operating revenues, including non-operating investment return and favorable adjustments to the post-retirement liability. Favorable premium adjustments and resulting future claims assumptions alongside rising interest rates had the combined effect of lowering the valuation of the University’s post-retirement liability by \$250 million, of which \$211 million is reflected as non-operating revenue.

### FINANCIAL POSITION

Penn State’s assets totaled \$19.7 billion at June 30, 2023, increasing by \$264 million, or 1.4%, during FY2023. On the other side of the balance sheet, Penn State’s liabilities totaled \$7.0 billion at June 30, 2023, decreasing by \$97 million, or -1.4%, during FY2023.

Over the last ten fiscal years, Penn State’s consolidated net assets have grown at an annualized rate of 5.8%. Exhibit 5 illustrates ending consolidated net asset balances for the last ten fiscal years.



As described more fully in note two to the financial statements, the University restated beginning net assets for FY2022 (i.e. net assets as of July 1, 2021) and certain FY2022 activity to correct for certain errors related to the classification of net assets. While net assets *in total* were not adjusted as part of this restatement, \$442.3 million was reclassified from without donor restrictions to with donor restrictions as of June 30, 2021; ending FY2022 net assets were adjusted by \$477.6 million from what was previously reported. The funds reclassified and now presented with donor restrictions include (1) commitments made by the University (from institutional reserves) to match donor contributions, (2) funds formed from pooled donor contributions for specific purposes that have been invested long-term at the decision of the University, and (3) unspent distributions from donor-restricted endowments.

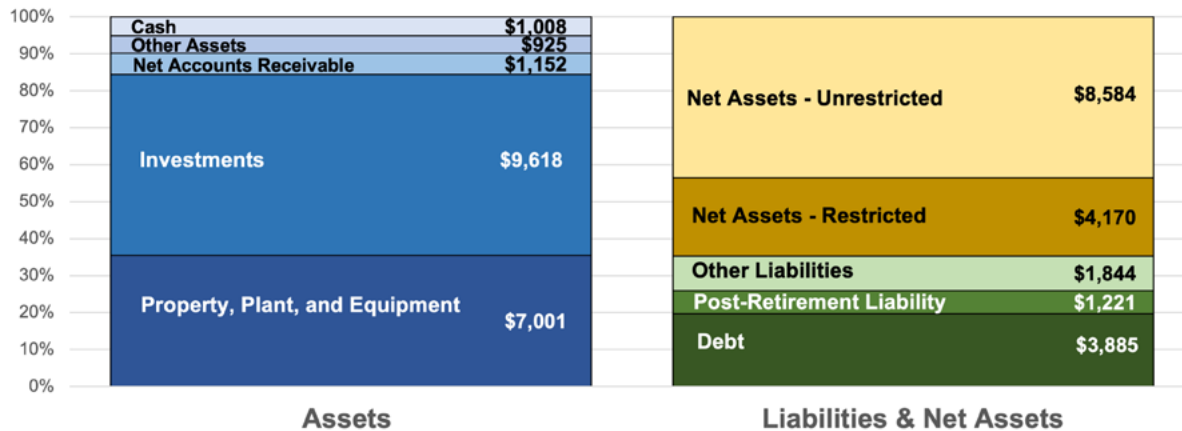
A condensed version of Penn State’s statement of financial position follows, along with a graphical representation of the consolidated statement of financial position at June 30, 2023 in exhibit 6.



**Condensed Statements of Financial Position**  
(\$ millions)

|   | June 30, 2023   | June 30, 2022     |
|---|-----------------|-------------------|
| <b>Assets</b>                           |                 |                   |
|   |                 | <i>(Restated)</i> |
| Cash and cash equivalents               | \$1,008         | \$1,058           |
| Receivables, net                        | 1,152           | 1,070             |
| Investments                             | 9,618           | 9,596             |
| Property, plant, and equipment, net     | 7,001           | 6,886             |
| Other assets                            | 925             | 830               |
| <b>Total assets</b>                     | <b>\$19,704</b> | <b>\$19,440</b>   |
| <b>Liabilities</b>                      |                 |                   |
| Accounts payable and accrued expenses   | \$932           | \$984             |
| Debt                                    | 3,885           | 3,769             |
| Accrued post-retirement liability       | 1,221           | 1,471             |
| Other liabilities                       | 912             | 823               |
| <b>Total liabilities</b>                | <b>6,950</b>    | <b>7,047</b>      |
| <b>Net Assets</b>                       |                 |                   |
| Without donor restrictions              | 8,584           | 8,379             |
| With donor restrictions                 | 4,170           | 4,014             |
| <b>Total net assets</b>                 | <b>12,754</b>   | <b>12,393</b>     |
| <b>Total liabilities and net assets</b> | <b>\$19,704</b> | <b>\$19,440</b>   |

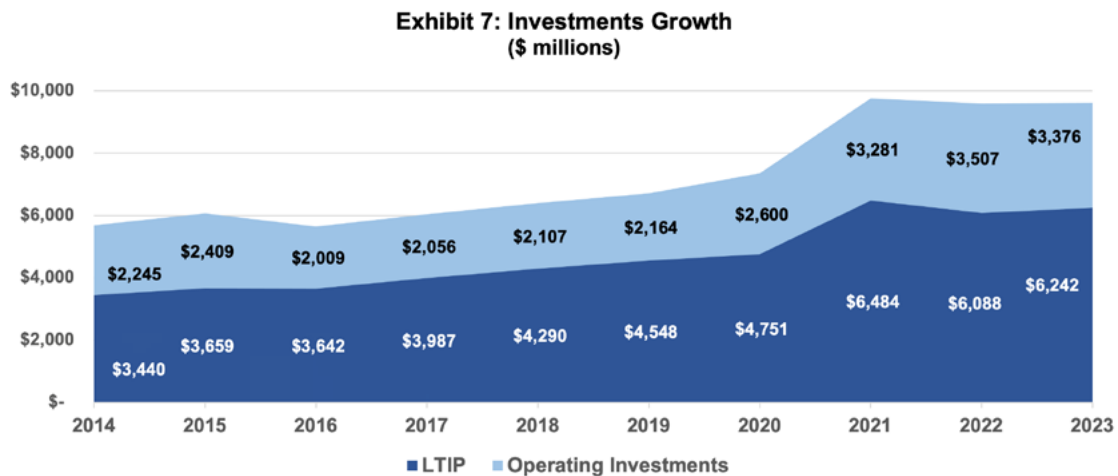
**Exhibit 6: Consolidated Financial Position at June 30, 2023**  
(\$ millions)



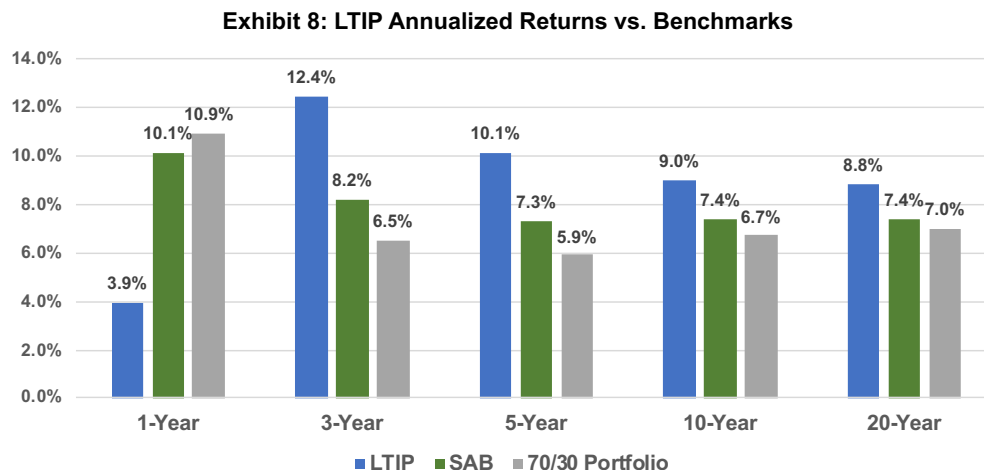
## INVESTMENTS

The Office of Investment Management (OIM) is tasked with the day-to-day management and administration of the University’s long-term and operating investments. Under the governance and oversight of the Penn State Investment Council (PSIC) and Board of Trustees, OIM executes on the University’s investment policy statement, striving for desired risk-adjusted returns to fund short, medium, and long-range liquidity needs.

The Long-Term Investment Pool (LTIP) is the University’s investment portfolio containing most of its donor-endowed funds, in addition to other funds functioning as endowments, all with long-term investment objectives. This commingled pool operates similarly to a mutual fund, with each participating fund owning units of the pool.



The LTIP had a one-year return of 3.9% in FY2023 and annualized 3-, 5-, 10-, and 20-year returns of 12.4%, 10.1%, 9.0%, and 8.8%, respectively. The 3-, 5-, 10-, and 20-year annualized returns all exceed the LTIP’s tactical *Strategic Allocation Benchmark* (or “SAB”), as well as a passive composite benchmark consisting of 70% MSCI All Country World Index and 30% Bloomberg US Aggregate Bond Index (a 70/30 stocks/bonds passive portfolio).



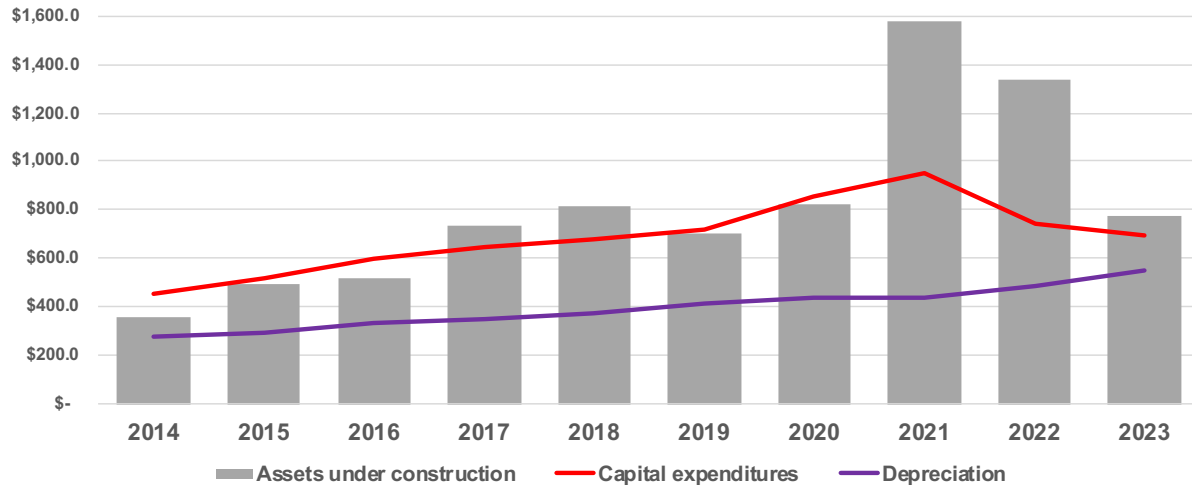
<sup>1</sup> SAB consists of index returns representing the following asset classes: public equities (46%), private equity (20%), fixed income (10%), diversifying strategies (12%), and real assets (12%).

## CAPITAL ASSETS AND DEBT

In FY2023 the University is nearing the end of a multi-year capital plan, with capital expenditures exceeding \$3.9 billion over the last five years (including outlay for equipment). As of June 30, 2023, there are assets under construction (or *construction in progress*) of \$771 million, down from a peak of over \$1.5 billion at the end of FY2021.

Exhibit 9 illustrates recent trends in capital expenditures, assets under construction, and depreciation expense.

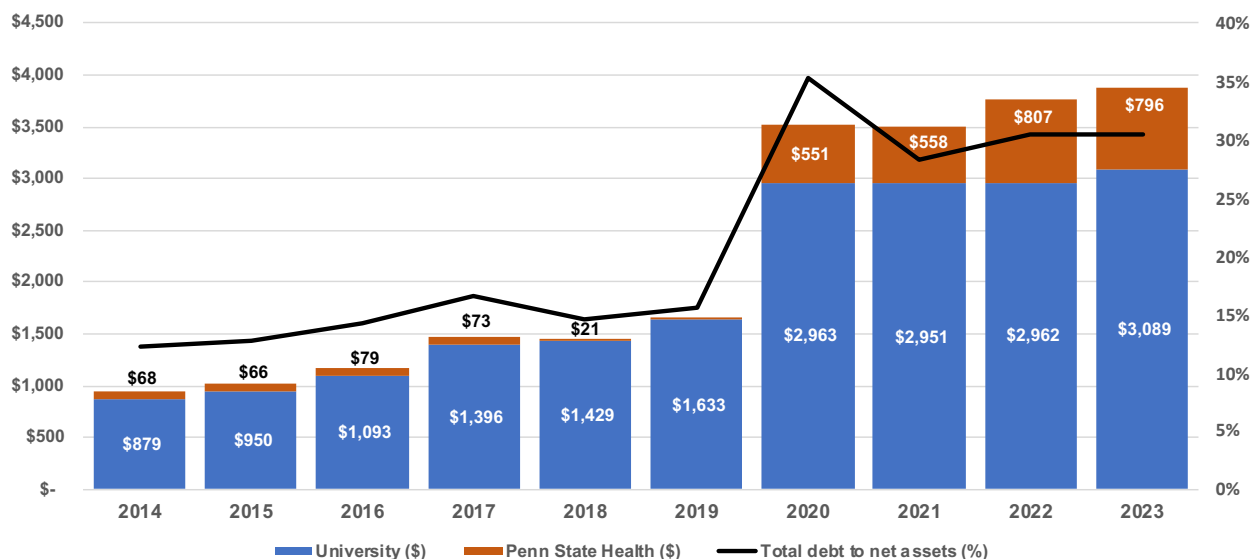
**Exhibit 9: Assets Under Construction, Capital Expenditures, and Depreciation**  
(\$ millions)



Major capital expenditures in FY2023 included over \$379 million in building construction costs, with the new College of Engineering West building as the highest single project (\$62 million in FY2023, \$117 million total since commencement of project). Improvements to land and infrastructure totaled \$25 million in FY2023, and spend on equipment and information technology capital assets totaled \$82 million.

The University's portfolio of outstanding long-term debt is the result of borrowings to fund capital projects as well as specific borrowing made to prefund a significant portion of the University's unfunded actuarial liability with Commonwealth of Pennsylvania's State Employees' Retirement System (SERS). In April of 2020, the University entered into an agreement with SERS to prefund \$1.061 billion of its unfunded liability in exchange for credits against future contributions (\$93.3 million of credits in both FY2023 and FY2022). The University issued bonds in May of 2020 (series 2020D) in the amount of \$1.065 billion in connection with this prefunding, and the resulting increase in the University's debt load is evident as illustrated on exhibit 10:

**Exhibit 10: Long-Term Debt**  
(\$ millions)



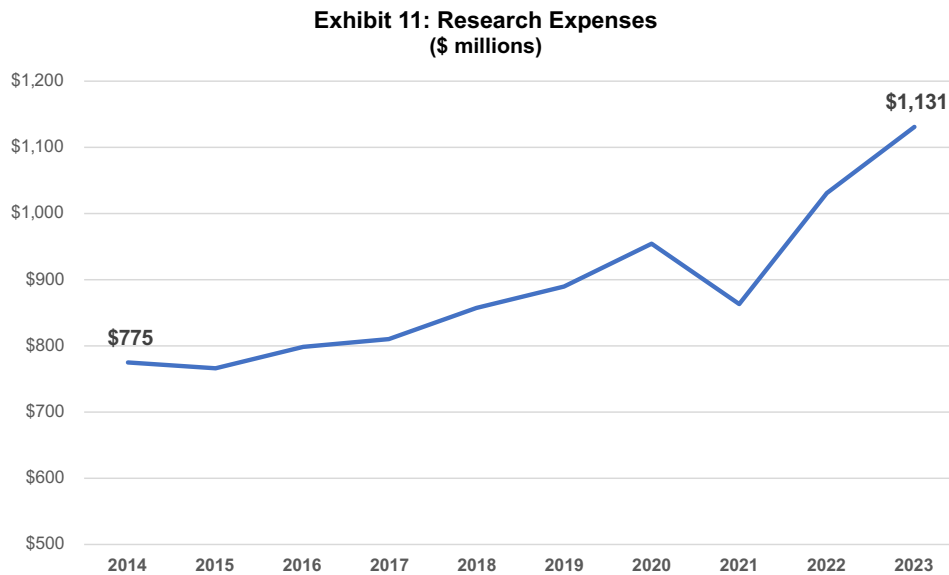


The University issued new tax-exempt bonds in June of 2023 (series 2023) in the amount of \$204 million, par, plus a premium of \$27 million, for total proceeds of \$231 million; the all-in cost of capital for the series 2023 bonds is 4.15%. The series 2023 bonds were issued to finance all or a portion of the costs of remaining East Halls renovations, Beaver Stadium renovations, construction and equipping of the Susan Welch Liberal Arts Building, and several other capital projects at University Park and at various Commonwealth Campuses.

## RESEARCH AND SPONSORED PROGRAMS

Penn State is a top 30 U.S. research university, as designated by the National Science Foundation’s Higher Education Research and Development (HERD) survey, with twelve disciplines – from psychology to atmospheric science and materials engineering – ranking in the top ten for research expenditures.

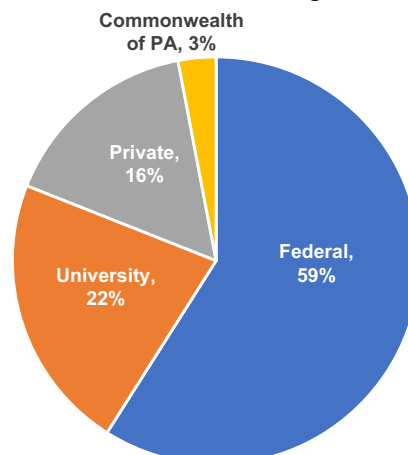
Exhibit 11 illustrates the growth in research expenditures over the last ten fiscal years.



Over the last ten years, research expenditures have grown at an annualized rate of 4.3%; the annualized growth since fiscal year 2021, however, is 14.4%, with FY2023 research spend exceeding \$1.1 billion.

The University’s research expenditures are funded by federal, private, state, and other sources; the largest federal sponsor is the Office of Naval Research (an executive branch agency within the U.S. Department of Defense). The breakdown of FY2023 research funding follows in exhibit 12.

**Exhibit 12: Research Funding in FY2023**



## **LOOKING AHEAD**

### ***New Budget Model***

Beginning with fiscal year 2024, Penn State has rolled out a new, data-driven education and general funds budget allocation model. The University also developed all funds budgets for fiscal years 2024 and 2025, which have been approved by the Board of Trustees.

### ***2024-2028 Capital Plan***

The University's 2024-2028 Capital Plan is a maintenance-centric plan focused on system renewals and projects that support student success and enrollment. This plan – totaling \$2.2 billion – is a smaller investment in University general funds resources than the previous capital plan from a sheer dollars perspective, but it includes crucial updates to address aging campus facilities, infrastructure, and building systems.

### ***Presidential Vision and Goals***

President Neeli Bendapudi has established a vision for Penn State defined by building steadfastly on Penn State's purpose, enabling agility across the institution to respond to ever-changing needs, and leveraging the University's many strengths to realize strategic opportunities. The University will be working on the following strategic goals over the next five years.

- Enhance student success
- Grow interdisciplinary research excellence
- Increase Land-Grant impact
- Foster diversity, equity, inclusion, and belonging
- Transform internal operations
- Transform health through academic and clinical synergy

## Independent Auditor's Report

To the Board of Trustees  
The Pennsylvania State University

### Report on the Audit of the Consolidated Financial Statements

#### **Opinion**

We have audited the consolidated financial statements of The Pennsylvania State University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2023 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2023 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the University and to meet our 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 opinion.

#### **Report on Prior Year Consolidated Financial Statements and Restatement**

The consolidated financial statements of the University as of June 30, 2022 were audited by other auditors, who expressed an unmodified opinion on those consolidated financial statements on November 21, 2022 prior to the restatement described in Note 2.

As part of our audit of the 2023 consolidated financial statements, we also audited the adjustments described in Note 2 that were applied to restate the 2022 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2022 consolidated financial statements of the University other than with respect to the adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2022 consolidated financial statements as a whole.

#### **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.



To the Board of Trustees  
The Pennsylvania State University

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 and *Government Auditing Standards* 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 consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 University'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University'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.

### ***Other Information***

Management is responsible for the accompanying financial overview, which is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Our opinion on the consolidated financial statements does not cover such information, and we do not express an opinion or any form of assurance thereon.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2023 on our consideration of The Pennsylvania State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Pennsylvania State University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Pennsylvania State University's internal control over financial reporting and compliance.

*Alente & Moran, PLLC*

November 9, 2023

# Consolidated Financial Statements

| <b>THE PENNSYLVANIA STATE UNIVERSITY</b><br><b>CONSOLIDATED STATEMENTS OF FINANCIAL POSITION</b><br><b>ASSETS</b><br><b>JUNE 30, 2023 AND 2022</b><br>(in thousands) |                      |                      |
|--|----------------------|----------------------|
|  | June 30, 2023        | June 30, 2022        |
| <b>Current assets:</b>   |                      |                      |
| Cash and cash equivalents  | \$ 1,007,504         | \$ 1,058,303         |
| Short-term investments   | 1,560,597            | 1,549,884            |
| Deposits held by bond trustees   | 212,274              | 91,521               |
| Deposits held for others   | 38,012               | 34,460               |
| Accounts receivable, net of allowances   | 940,216              | 846,172              |
| Contributions receivable, net  | 47,701               | 40,306               |
| Loans to students, net of allowances   | 3,264                | 3,952                |
| Inventories  | 90,572               | 85,662               |
| Prepaid expenses and other assets  | 110,579              | 127,277              |
| <b>Total current assets</b>  | <b>4,010,719</b>     | <b>3,837,537</b>     |
| <b>Noncurrent assets:</b>  |                      |                      |
| Deposits held by bond trustees   | 56,215               | 100,097              |
| Contributions receivable, net  | 136,385              | 152,443              |
| Loans to students, net of allowances   | 25,474               | 28,052               |
| Total investment in plant, net   | 7,001,411            | 6,885,672            |
| Beneficial interest in perpetual trusts  | 28,117               | 26,240               |
| Investments  | 8,057,417            | 8,045,673            |
| Operating lease right-of-use assets, net   | 164,769              | 172,590              |
| Other assets   | 223,789              | 191,385              |
| <b>Total noncurrent assets</b>   | <b>15,693,577</b>    | <b>15,602,152</b>    |
| <b>Total assets</b>  | <b>\$ 19,704,296</b> | <b>\$ 19,439,689</b> |

See notes to consolidated financial statements

**THE PENNSYLVANIA STATE UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**LIABILITIES AND NET ASSETS (as restated)**  
**JUNE 30, 2023 AND 2022**  
(in thousands)

|   | <b>June 30, 2023</b> | <i>(as restated)</i><br><b>June 30, 2022</b> |
|---|----------------------|--|
| <b>Current liabilities:</b>                       |                      |  |
| Accounts payable and other accrued expenses       | \$ 932,120           | \$ 984,226                                   |
| Deferred revenue                                  | 216,382              | 180,066                                      |
| Long-term debt                                    | 116,498              | 110,633                                      |
| Present value of annuities payable                | 7,871                | 7,720  |
| Accrued postretirement benefits                   | 53,408               | 54,119                                       |
| Refundable United States Government student loans | 3,078                | 3,898  |
| Operating lease liabilities                       | 26,393               | 21,442                                       |
| <b>Total current liabilities</b>                  | <b>1,355,750</b>     | <b>1,362,104</b>                             |
| <b>Noncurrent liabilities:</b>                    |                      |  |
| Deposits held in custody for others               | 27,962               | 22,269                                       |
| Deferred revenue                                  | -                    | 563  |
| Long-term debt                                    | 3,769,425            | 3,658,417                                    |
| Present value of annuities payable                | 59,702               | 56,275                                       |
| Accrued postretirement benefits                   | 1,167,601            | 1,417,337                                    |
| Refundable United States Government student loans | 13,103               | 17,233                                       |
| Operating lease liabilities                       | 144,114              | 150,800                                      |
| Other liabilities                                 | 412,420              | 362,071                                      |
| <b>Total noncurrent liabilities</b>               | <b>5,594,327</b>     | <b>5,684,965</b>                             |
| <b>Total liabilities</b>                          | <b>6,950,077</b>     | <b>7,047,069</b>                             |
| <b>Net assets:</b>                                |                      |  |
| Without donor restrictions                        | 8,584,561            | 8,379,319                                    |
| With donor restrictions                           | 4,169,658            | 4,013,301                                    |
| <b>Total net assets</b>                           | <b>12,754,219</b>    | <b>12,392,620</b>                            |
| <b>Total liabilities and net assets</b>           | <b>\$ 19,704,296</b> | <b>\$ 19,439,689</b>                         |

*See notes to consolidated financial statements*

**THE PENNSYLVANIA STATE UNIVERSITY  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2023  
(in thousands)**

|   | Without<br>Donor Restrictions | With<br>Donor Restrictions | Total               |
|---|-------------------------------|----------------------------|---------------------|
| <b>Operating revenues and other support:</b>                      |                               |                            |                     |
| Tuition and fees, net of discounts of \$297,199                   | \$ 1,917,557                  | \$ -                       | \$ 1,917,557        |
| Commonwealth of Pennsylvania -                                    |                               |                            |                     |
| Appropriations  | 326,542                       | -                          | 326,542             |
| Special contracts   | 120,341                       | -                          | 120,341             |
| Department of General Services projects                           | 73,622                        | -                          | 73,622              |
| United States Government grants and contracts                     | 735,527                       | -                          | 735,527             |
| Private grants and contracts                                      | 163,129                       | -                          | 163,129             |
| Gifts and pledges   | 109,920                       | 17,070                     | 126,990             |
| Investment return, net  | 198,551                       | 137,828                    | 336,379             |
| Sales and services of educational activities                      | 103,804                       | 232                        | 104,036             |
| Auxiliary enterprises   | 542,730                       | -                          | 542,730             |
| Health System revenue   | 3,866,539                     | -                          | 3,866,539           |
| Other sources   | 41,581                        | -                          | 41,581              |
| Net assets released from restrictions                             | 139,999                       | (139,999)                  | -                   |
| <b>Total operating revenues and other support</b>                 | <b>8,339,842</b>              | <b>15,131</b>              | <b>8,354,973</b>    |
| <b>Operating expenses:</b>  |                               |                            |                     |
| Educational and general -   |                               |                            |                     |
| Academic and student services                                     | 2,011,757                     | -                          | 2,011,757           |
| Research  | 1,131,235                     | -                          | 1,131,235           |
| Public service  | 213,839                       | -                          | 213,839             |
| Institutional support   | 384,503                       | -                          | 384,503             |
| <b>Total educational and general</b>                              | <b>3,741,334</b>              | <b>-</b>                   | <b>3,741,334</b>    |
| Auxiliary enterprises   | 529,924                       | -                          | 529,924             |
| Health System expense   | 3,997,337                     | -                          | 3,997,337           |
| <b>Total operating expenses</b>                                   | <b>8,268,595</b>              | <b>-</b>                   | <b>8,268,595</b>    |
| <b>Increase in net assets from operating activities</b>           | <b>71,247</b>                 | <b>15,131</b>              | <b>86,378</b>       |
| <b>Nonoperating activities:</b>                                   |                               |                            |                     |
| Gifts and pledges   | -                             | 77,118                     | 77,118              |
| Current year investment returns                                   | 21,911                        | 45,489                     | 67,400              |
| Changes in funds held by others in perpetuity                     | -                             | 1,877                      | 1,877               |
| Loss on disposal of assets  | (2,329)                       | -                          | (2,329)             |
| Nonperiodic change in postretirement benefit plan                 | 189,862                       | -                          | 189,862             |
| Other components of net periodic postretirement benefit cost      | 21,313                        | -                          | 21,313              |
| Actuarial adjustment on annuities payable                         | -                             | (11,447)                   | (11,447)            |
| Net asset transfer due to donor intent                            | (28,189)                      | 28,189                     | -                   |
| <b>Increase in net assets from nonoperating activities</b>        | <b>202,568</b>                | <b>141,226</b>             | <b>343,794</b>      |
| <b>Increase in net assets - The Pennsylvania State University</b> | <b>273,815</b>                | <b>156,357</b>             | <b>430,172</b>      |
| <b>Noncontrolling interest:</b>                                   |                               |                            |                     |
| Excess of expenses over revenues                                  | (68,573)                      | -                          | (68,573)            |
| <b>Decrease in net assets - noncontrolling interest</b>           | <b>(68,573)</b>               | <b>-</b>                   | <b>(68,573)</b>     |
| <b>Increase in total net assets</b>                               | <b>205,242</b>                | <b>156,357</b>             | <b>361,599</b>      |
| <b>Net assets at the beginning of the year, as restated</b>       | <b>8,379,319</b>              | <b>4,013,301</b>           | <b>12,392,620</b>   |
| <b>Net assets at the end of the year</b>                          | <b>\$8,584,561</b>            | <b>\$4,169,658</b>         | <b>\$12,754,219</b> |

*See notes to consolidated financial statements*



**THE PENNSYLVANIA STATE UNIVERSITY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2022 (as restated)**  
(in thousands)

|  | Without<br>Donor Restrictions | With<br>Donor Restrictions | Total               |
|--|-------------------------------|----------------------------|---------------------|
| <b>Operating revenues and other support:</b>                                 |                               |                            |                     |
| Tuition and fees, net of discounts of \$258,744                              | \$ 1,837,714                  | \$ -                       | \$ 1,837,714        |
| Commonwealth of Pennsylvania -   |                               |                            |                     |
| Appropriations   | 323,792                       | -                          | 323,792             |
| Special contracts  | 81,408                        | -                          | 81,408              |
| Department of General Services projects                                      | 50,023                        | -                          | 50,023              |
| United States Government grants and contracts                                | 829,026                       | -                          | 829,026             |
| Private grants and contracts   | 141,371                       | -                          | 141,371             |
| Gifts and pledges  | 92,849                        | 27,237                     | 120,086             |
| Investment return, net   | 221,938                       | 112,439                    | 334,377             |
| Sales and services of educational activities                                 | 101,041                       | -                          | 101,041             |
| Auxiliary enterprises  | 485,062                       | -                          | 485,062             |
| Health System revenue  | 3,528,452                     | -                          | 3,528,452           |
| Other sources  | 35,025                        | -                          | 35,025              |
| Net assets released from restrictions  | 169,294                       | (169,294)                  | -                   |
| <b>Total operating revenues and other support</b>                            | <b>7,896,995</b>              | <b>(29,618)</b>            | <b>7,867,377</b>    |
| <b>Operating expenses:</b>   |                               |                            |                     |
| Educational and general -  |                               |                            |                     |
| Academic and student services  | 2,013,944                     | -                          | 2,013,944           |
| Research   | 1,033,349                     | -                          | 1,033,349           |
| Public service   | 202,408                       | -                          | 202,408             |
| Institutional support  | 419,691                       | -                          | 419,691             |
| <b>Total educational and general</b>   | <b>3,669,392</b>              | <b>-</b>                   | <b>3,669,392</b>    |
| Auxiliary enterprises  | 485,294                       | -                          | 485,294             |
| Health System expense  | 3,614,830                     | -                          | 3,614,830           |
| <b>Total operating expenses</b>  | <b>7,769,516</b>              | <b>-</b>                   | <b>7,769,516</b>    |
| <b>Increase (decrease) in net assets from operating activities</b>           | <b>127,479</b>                | <b>(29,618)</b>            | <b>97,861</b>       |
| <b>Nonoperating activities:</b>  |                               |                            |                     |
| Gifts and pledges  | -                             | 137,819                    | 137,819             |
| Current year investment returns  | (478,361)                     | (337,832)                  | (816,193)           |
| Changes in funds held by others in perpetuity                                | -                             | (3,691)                    | (3,691)             |
| Loss on disposal of assets   | (5,174)                       | -                          | (5,174)             |
| Nonperiodic change in postretirement benefit plan                            | 627,220                       | -                          | 627,220             |
| Other components of net periodic postretirement benefit cost                 | (60,067)                      | -                          | (60,067)            |
| Actuarial adjustment on annuities payable                                    | -                             | (6,802)                    | (6,802)             |
| Net asset transfer due to donor intent                                       | (20,060)                      | 20,060                     | -                   |
| <b>Increase (decrease) in net assets from nonoperating activities</b>        | <b>63,558</b>                 | <b>(190,446)</b>           | <b>(126,888)</b>    |
| <b>Increase (decrease) in net assets - The Pennsylvania State University</b> | <b>191,037</b>                | <b>(220,064)</b>           | <b>(29,027)</b>     |
| <b>Noncontrolling interest:</b>  |                               |                            |                     |
| Excess of revenues over expenses   | 14,976                        | -                          | 14,976              |
| <b>Increase in net assets - noncontrolling interest</b>                      | <b>14,976</b>                 | <b>-</b>                   | <b>14,976</b>       |
| <b>Increase (decrease) in total net assets</b>                               | <b>206,013</b>                | <b>(220,064)</b>           | <b>(14,051)</b>     |
| <b>Net assets at the beginning of the year - as previously stated</b>        | <b>8,615,611</b>              | <b>3,791,060</b>           | <b>12,406,671</b>   |
| Net asset reclassification   | (442,305)                     | 442,305                    | -                   |
| <b>Net assets at the beginning of the year, as restated</b>                  | <b>8,173,306</b>              | <b>4,233,365</b>           | <b>12,406,671</b>   |
| <b>Net assets at the end of the year, as restated</b>                        | <b>\$8,379,319</b>            | <b>\$4,013,301</b>         | <b>\$12,392,620</b> |

See notes to consolidated financial statements

**THE PENNSYLVANIA STATE UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**  
(in thousands)

|  | June 30, 2023      | June 30, 2022      |
|--|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>   |                    |                    |
| Increase (decrease) in net assets  | \$ 361,599         | \$ (14,051)        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities - |                    |                    |
| Actuarial adjustment on annuities payable  | 11,454             | 6,805              |
| Contributions restricted for long-term investment  | (104,297)          | (166,153)          |
| Interest and dividends restricted for long-term investment                                   | (22,551)           | (43,692)           |
| Net realized and unrealized (gains) losses on long-term investments                          | (301,052)          | 650,546            |
| Depreciation and amortization expense  | 549,574            | 481,589            |
| Noncash lease expense  | 6,086              | (2,187)            |
| Write-offs and disposals of assets   | 30,334             | 5,174              |
| Contributions of land, buildings and equipment   | (2,045)            | (1,419)            |
| Provision for bad debts  | 44,098             | 4,451              |
| Decrease (increase) in deposits held for others  | 6,248              | (2,917)            |
| Increase in receivables  | (126,565)          | (171,305)          |
| Increase in inventories  | (4,910)            | (13,059)           |
| (Increase) decrease in prepaid expenses and other assets                                     | (17,583)           | 82,991             |
| Decrease in accounts payable and other accrued expenses                                      | (1,757)            | (113,135)          |
| Increase in deferred revenue   | 35,753             | 9,971              |
| Decrease in accrued postretirement benefits  | (250,446)          | (589,228)          |
| <b>Net cash provided by operating activities</b>   | <b>213,940</b>     | <b>124,381</b>     |
| <b>Cash flows from investing activities:</b>   |                    |                    |
| Purchase of land, buildings and equipment  | (693,602)          | (742,661)          |
| Increase in deposits held by bond trustees   | (140,454)          | (106,334)          |
| Repayments and advances on student loans   | (1,461)            | (1,235)            |
| Collections on student loans   | 4,074              | 5,145              |
| Purchase of investments  | (3,934,661)        | (4,076,999)        |
| Proceeds from sale of investments  | 4,213,256          | 3,595,795          |
| <b>Net cash used in investing activities</b>   | <b>(552,848)</b>   | <b>(1,326,289)</b> |
| <b>Cash flows from financing activities:</b>   |                    |                    |
| Contributions restricted for long-term investment  | 104,297            | 166,153            |
| Interest and dividends restricted for long-term investment                                   | 22,551             | 43,692             |
| Payments of annuity obligations  | (7,876)            | (7,727)            |
| Proceeds from long-term debt   | 236,758            | 514,300            |
| Principal payments on long-term debt   | (119,885)          | (262,580)          |
| Refundable federal student loans   | (7,211)            | (7,317)            |
| <b>Net cash provided by financing activities</b>   | <b>228,634</b>     | <b>446,521</b>     |
| <b>Net decrease in unrestricted and restricted cash and cash equivalents</b>                 | <b>(110,274)</b>   | <b>(755,387)</b>   |
| <b>Unrestricted and restricted cash and cash equivalents at the beginning of the year</b>    | <b>1,149,601</b>   | <b>1,904,988</b>   |
| <b>Unrestricted and restricted cash and cash equivalents at the end of the year</b>          | <b>\$1,039,327</b> | <b>\$1,149,601</b> |

*Supplemental disclosures of cash flow information (Notes 2 and 9)*  
See notes to consolidated financial statements



# Notes to Consolidated Financial Statements

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## 1. THE UNIVERSITY AND RELATED ENTITIES

The Pennsylvania State University (“University”), which was founded in 1855 as an instrumentality of the Commonwealth of Pennsylvania (“Commonwealth” or “Pennsylvania”), is organized as a non-profit corporation under the laws of the Commonwealth. As Pennsylvania’s land grant university, the University is committed to improving the lives of the people of Pennsylvania, the nation and the world through its integrated, tri-part mission of high-quality teaching, research and outreach. In addition to its main campus located in University Park, PA, the University has a physical presence throughout the Commonwealth at its twenty-three commonwealth campuses, and a virtual presence globally via its World Campus.

As a state-related institution, the University receives an annual appropriation from the Commonwealth. The Commonwealth’s General Assembly is not obligated to appropriate funding to the University, and there is no assurance that future appropriations will be made at either historical levels or to the extent requested by the University. The University’s operating appropriation from the Commonwealth was \$326.5 million and \$323.8 million for the years ended June 30, 2023 and 2022, respectively.

Governance of the University, including oversight of administration and financial operations, is vested solely with the University’s Board of Trustees (the “Board”). The Board is comprised of thirty-eight members. Thirty-six of the trustees are voting members, nine of whom are either appointed by the Governor of the Commonwealth or are cabinet-level members of the Governor’s administration. The remaining voting members are elected by alumni (nine), elected by agricultural societies active in the Commonwealth (six), elected by the Board representing business and industry (six), elected by the Board as at-large members (three), a student trustee (one), an academic trustee (one), and the immediate past president of the Penn State Alumni Association (one).

### **BASIS OF PRESENTATION**

The financial statements of the University include, on a consolidated basis, the consolidated financial statements of Penn State Health (“Health System”), a Pennsylvania non-profit corporation, and its wholly owned subsidiaries (see Note 13 for additional information), and the financial statements of The Corporation for Penn State and its subsidiaries (“Corporation”). The Corporation is a non-profit member corporation organized in 1985 for the exclusive purpose of benefiting and promoting the interests of the University, the Corporation’s sole member. The Corporation’s financial statements consist primarily of the assets and revenues of The Pennsylvania College of Technology (“Penn College”), a wholly owned subsidiary of the Corporation. All transactions among the University, the Health System, and the Corporation have been eliminated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **BASIS OF ACCOUNTING**

The University’s consolidated financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the source of authoritative GAAP.

The University’s consolidated financial statements include statements of financial position, activities and cash flows. In accordance with FASB ASC requirements, net assets and the changes in net assets are classified as with donor restrictions or without donor restrictions.

*Net assets with donor restrictions* are net assets subject to donor-imposed restrictions, either in perpetuity or for a specified time or purpose. Net assets with perpetual restrictions consist primarily of the historical amounts of endowed gifts. Additionally, contributions receivable and remainder interests which are required by donors to be retained in perpetuity are included at their estimated net present values. Net assets restricted by time or purpose consist of contributions receivable and remainder interests that are not required to be held in perpetuity. In addition, endowment appreciation and net unrealized losses on donor-restricted endowment funds for which historical cost exceeds market value are included.

*Net assets without donor restrictions* are net assets not subject to donor-imposed restrictions. These net assets may be designated for specific purposes at the discretion of management or may otherwise be limited by contractual agreements with outside parties. Revenue from donor-restricted sources is reclassified as revenue without donor restrictions when the circumstances of the restriction have been fulfilled. Donor-restricted contributions whose restrictions are met within the same fiscal year are reported as revenue without donor restrictions. All expenses from operations are reported as a reduction of net assets without donor restrictions since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

## **RESTATEMENT**

The accompanying financial statements for the year ended June 30, 2022 have been restated to correct certain errors related to the classification of certain donor gifts and related matching restrictions that should have been reported as with donor restrictions in prior years. There was no impact to total net assets or to cash flows. The following financial statement line items that were affected by the change:

| <i>(in thousands of dollars)</i>                                  | <b>As previously reported</b> | <b>Adjustment</b> | <b>As restated</b>   |
|---|-------------------------------|-------------------|----------------------|
| <b>Net assets as of July 1, 2021:</b>                             |                               |                   |                      |
| Without donor restrictions  | \$ 8,615,611                  | \$ (442,305)      | \$ 8,173,306         |
| With donor restrictions   | 3,791,060                     | 442,305           | 4,233,365            |
| <b>Total</b>  | <b>\$ 12,406,671</b>          | <b>\$ -</b>       | <b>\$ 12,406,671</b> |
| <b>Fiscal year 2022 activity:</b>                                 |                               |                   |                      |
| Operating revenues:   |                               |                   |                      |
| Gifts and pledges without donor restrictions                      | \$ 95,753                     | \$ (2,904)        | \$ 92,849            |
| Gifts and pledges with donor restrictions                         | 24,333                        | 2,904             | 27,237               |
| Investment return, net without donor restrictions                 | 332,803                       | (110,865)         | 221,938              |
| Investment return, net with donor restrictions                    | 1,574                         | 110,865           | 112,439              |
| Net assets released from restrictions without donor restrictions  | 50,545                        | 118,749           | 169,294              |
| Net assets released from restrictions with donor restrictions     | (50,545)                      | (118,749)         | (169,294)            |
| Nonoperating activities:  |                               |                   |                      |
| Current year investment returns without donor restrictions        | (458,155)                     | (20,206)          | (478,361)            |
| Current year investment returns with donor restrictions           | (358,038)                     | 20,206            | (337,832)            |
| Net asset transfer due to donor intent without donor restrictions | -                             | (20,060)          | (20,060)             |
| Net asset transfer due to donor intent with donor restrictions    | \$ -                          | \$ 20,060         | \$ 20,060            |
| <b>Net assets as of June 30, 2022:</b>                            |                               |                   |                      |
| Without donor restrictions  | \$ 8,856,910                  | \$ (477,591)      | \$ 8,379,319         |
| With donor restrictions   | 3,535,710                     | 477,591           | 4,013,301            |
| <b>Total</b>  | <b>\$ 12,392,620</b>          | <b>\$ -</b>       | <b>\$ 12,392,620</b> |



## **RECLASSIFICATION**

Certain 2022 revenue amounts have been reclassified to conform to the 2023 presentation to reflect recovery of indirect costs in Commonwealth of Pennsylvania – special contracts, United States Government grants and contracts, and private grants and contracts revenue line items. Additionally, certain 2022 operating expense amounts have been reclassified to conform to the 2023 presentation related to subsidiary eliminations within academic and student services, research, public service, institutional support, and auxiliary enterprises.

## **USE OF ESTIMATES**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts on the financial statements and the disclosure of investments, fair value measurements, postretirement benefits, and contingencies and commitments. Actual results could differ from those estimates.

## **REVENUE RECOGNITION**

### ***Tuition***

Tuition revenue is recognized over the course of each semester (summer, fall, spring) as instruction is provided to students. Tuition is due from students by the beginning of each applicable semester. Overdue payments are reflected in accounts receivable as the University has an unconditional right to payment.

Tuition receipts of \$71.8 million, included in deferred revenue at June 30, 2022, were recognized during the year ended June 30, 2023. Tuition receipts of \$72.0 million, included in deferred revenue at June 30, 2021, were recognized during the year ended June 30, 2022. Institutional financial aid provided by the University for tuition and fees is reflected as a reduction of tuition and fee revenue. As tuition contracts have a duration of one year or less, the University has elected to apply the optional exemption prescribed by ASC 606-10-50-14 and, as such, has not disclosed the aggregate transaction price allocated to unsatisfied performance obligations or the time at which the revenue associated with these unsatisfied performance obligations is expected to be recognized. At June 30, unsatisfied performance obligations under tuition contracts relate solely to summer semester instruction to be provided in July and August of the subsequent year. Transaction prices for tuition and fees are determined and allocated based on the applicable published tuition and fees schedules.

### ***Grants and Contracts***

Grants and contracts revenue is recognized over time as the eligible grant activities are conducted. Grants and contracts deemed to be exchange transactions fall under the scope of ASC Topic 606, Revenue from Contracts with Customers. The performance obligation for each grant or contract is deemed to be the research or program work itself. Work completed under grants and contracts does not result in assets that can be sold to other customers and the University is entitled to payment for the work completed to date. Grants and contracts that are deemed to be contributions fall under the scope of ASC Topic 958, Not-for-Profit Entities. These are deemed to be conditional contributions, as eligible expenditures must be incurred in order to have a right of release of funding from the sponsor. Most grants and contracts are cost reimbursement basis, and incurred expenditures are periodically billed to the customer for reimbursement.

Grants and contracts receipts of \$36.9 million, included in deferred revenue at June 30, 2022, were recognized during the year ended June 30, 2023. Grants and contracts receipts of \$32.9 million, included in deferred revenue at June 30, 2021, were recognized during the year ended June 30, 2022. The University has entered into numerous grants and contracts, with periods of performance ending at various dates from July 1, 2023 through December 31, 2050. The estimated performance obligations remaining under these grants and contracts as of June 30, 2023 total \$1.142 billion. Transaction prices for grants and contracts are determined and allocated based on the budgets included in the respective award agreements.

### ***Sales and Services of Educational Activities and Auxiliary Enterprises***

Revenues from sales and services of educational activities and auxiliary enterprises consist primarily of health services, housing and food services, intercollegiate athletics, campus operations, and hospitality services. Performance obligations associated with these contracts consist of the provision of goods or services, and significant judgment is involved to determine whether the performance obligations are satisfied over time or at a point in time. Typically, revenue associated with semester-based contracts, such as housing and food services, is recognized over the course of the semester as services are provided. For other contracts, such as health services, athletic ticket sales, hotel room charges, and other campus operations, revenue is recognized at a point in time, when the good or service is provided.

Contracts included in sales and services of educational activities and auxiliary enterprises are typically one year or less in length. As such, receipts included in deferred revenue at June 30, 2022 and 2021 were recognized during the years ended June 30, 2023 and 2022. In addition, the University has elected to apply the optional exemption prescribed by ASC 606-10-50-14 and, as such, has not disclosed the aggregate transaction price allocated to unsatisfied performance obligations or the time at which the revenue associated with these unsatisfied performance obligations is expected to be recognized. At June 30, unsatisfied performance obligations under sales and services of educational activities and auxiliary enterprises relate primarily to summer semester housing and food services to be provided in July and August of the subsequent year, as well as athletic events held during the fall semester. Transaction prices for sales and services of educational activities and auxiliary enterprises are typically straightforward and explicitly stated in the contract.

### **Health System**

Patient care service revenue is reported at the amount that reflects the consideration to which the Health System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Health System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Health System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Health System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Health System's hospital receiving inpatient acute-care services or patients receiving services in the Health System's outpatient centers or other clinical settings. The Health System measures the performance obligation from admission into the hospital, or the commencement of an outpatient services or other visit, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services or other visit. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the Health System's patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Health System does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Health System has elected to apply the optional exemption provided in ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Health System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Health System's policy, and implicit price concessions provided to uninsured patients. The Health System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Health System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Health System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Health System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2023 and 2022, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Health System's mission, care is provided to patients regardless of their ability to pay. Therefore, the Health System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Health System expects to collect based on its collection history with those patients.

Patients who meet the Health System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The amount of charges foregone under the Health System's charity care policy was \$90.6 million and \$81.9 million for the years ended June 30, 2023 and 2022, respectively. The direct and indirect costs of charity care, based on a ratio of the Health System's operational costs to its gross charges, was \$40.8 million and \$38.6 million for the years ended June 30, 2023 and 2022, respectively.

The Health System has agreements with third party payors that provide for reimbursements at amounts different from its established rates. Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, Blue Cross/Blue Shield, and HMO programs that are subject to audit by fiscal intermediaries.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care entities have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in entities entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Health System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Health System. In addition, the contracts the Health System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Health System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2023 or 2022.

Additionally, during 2023 and 2022, the Health System recognized \$6.2 million and \$6.3 million, respectively, of net patient service revenue as a result of Medical Assistance payments made by the Commonwealth of Pennsylvania. These payments are intended to help offset medical education costs.

The Health System recognizes revenue related to retail pharmacy at a point in time. Retail pharmacy sales are recognized within Health System revenue on the accompanying consolidated statements of activities and totaled \$120.6 million and \$90.5 million during the years ended June 30, 2023 and 2022, respectively.

### **Overall**

The University has elected to use the practical expedient prescribed by ASC 606-10-32-18, in which the promised amount of consideration need not be adjusted for the effects of a significant financing component if the period between when promised goods or services are transferred to a customer and when the customer pays for the goods or services is expected to be one year or less at contract inception.

### **CONTRIBUTIONS**

Unconditional promises to give are recognized as revenues and receivables in the year made and consist of written or oral promises to contribute to the University in the future. Contributions receivable are recorded as donor-restricted revenue, either due to purpose restrictions and/or the implicit time restriction inherent in the future date at which the contribution is to be received. The amounts are present valued based on timing of expected collections.

## **FAIR VALUE OF FINANCIAL INSTRUMENTS**

The University has provided fair value estimates for certain financial instruments. Fair value information presented in the financial statements is based on information available at June 30, 2023 and 2022. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and other accrued expenses approximate fair value because of the terms and relatively short maturity of these financial instruments. The carrying values of the University's loans to students are also reasonable estimates of their fair value, as the total outstanding loans to students as of June 30, 2023 and 2022 have been made at the rates available to students for similar loans at such times. Investments are reported at fair value as disclosed in Note 4. The fair value of the University's bonds payable is disclosed in Note 8. See Note 6 for further discussion of fair value measurements.

## **CASH FLOWS**

The following items are included as supplemental disclosure to the statements of cash flows for the years ended June 30:

| <i>(in thousands of dollars)</i>  | <b>2023</b>         | <b>2022</b>         |
|---|---------------------|---------------------|
| Supplemental reconciliation data:   |                     |                     |
| Cash and cash equivalents as shown in the statements of financial position                                  | \$ 1,007,504        | \$ 1,058,303        |
| Restricted cash and cash equivalents included in deposits held by bond trustees                             | 3,779               | 67,362              |
| Restricted cash and cash equivalents included in deposits held for others                                   | 28,044              | 23,936              |
| <b>Total unrestricted and restricted cash and cash equivalents as shown in the statements of cash flows</b> | <b>\$ 1,039,327</b> | <b>\$ 1,149,601</b> |
| Other supplemental data:  | <b>2023</b>         | <b>2022</b>         |
| Interest paid   | \$ 136,092          | \$ 115,323          |

Capitalized costs accrued related to construction are \$84.5 million and \$78.8 million as of June 30, 2023 and 2022, respectively. Taxes paid for 2023 and 2022 are considered immaterial. Cash and cash equivalents include certain investments in highly liquid instruments with remaining maturities of 90 days or less, except for such assets held by the University's investment managers as part of their long-term investment strategies. Short-term investments include other current investments held for general operating purposes with maturities greater than 3 months but less than 12 months.

## **ACCOUNTS RECEIVABLE**

Accounts receivable at June 30 consists of the following:

| <i>(in thousands of dollars)</i>                               | <b>2023</b>       | <b>2022</b>       |
|--|-------------------|-------------------|
| Grants and contracts, net of allowance of \$3,100 and \$2,330  | \$ 255,462        | \$ 212,050        |
| Patient accounts receivable                                    | 568,116           | 531,271           |
| Student receivables, net of allowance of \$63,525 and \$14,845 | 54,802            | 49,780            |
| Other, net of allowance of \$12 and \$8,263                    | 61,836            | 53,071            |
| <b>Total accounts receivable, net</b>                          | <b>\$ 940,216</b> | <b>\$ 846,172</b> |

The University maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known factors, historical experience, and other currently available evidence. Receivables are written off when management determines they will not be collected. During the year ended June 30, 2023, the University changed its process for delinquent student receivable collections, resulting in an increased gross receivable offset by an increased allowance.

## **LOANS TO STUDENTS**

Loans to students are disbursed to qualified students based on need and include loans granted by the University from institutional resources and under federal government loan programs. Students enter a grace period upon ceasing at least half-time enrollment status. The grace period varies depending on the type of loan. Upon expiration of the grace period, interest begins to accrue, and repayment begins one month thereafter. Repayments of these loans are made directly to the University. Loans to students are uncollateralized and carry default risk.

Funds advanced by the federal government of \$16.2 million and \$21.1 million at June 30, 2023 and 2022, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. The federal liability related to the Perkins loan program will be reduced through the return of funds as required by the Department of Education.

Loans to students consisted of the following at June 30:

| <i>(in thousands of dollars)</i>                                      | <b>2023</b>      | <b>2022</b>      |
|---|------------------|------------------|
| Loans to students:  |                  |                  |
| Federal government loan programs:                                     |                  |                  |
| Perkins loan program  | \$ 14,250        | \$ 20,641        |
| Health Professions Student Loans and Loans for Disadvantaged Students | -                | 1                |
| <b>Federal government loan programs</b>                               | <b>14,250</b>    | <b>20,642</b>    |
| Institutional loan programs   | 18,411           | 18,806           |
|   | <b>32,661</b>    | <b>39,448</b>    |
| Less allowance for doubtful accounts:                                 |                  |                  |
| Balance, beginning of year  | (7,444)          | (3,050)          |
| Provision for doubtful accounts                                       | 3,521            | (4,394)          |
| <b>Balance, end of year</b>   | <b>(3,923)</b>   | <b>(7,444)</b>   |
| <b>Loans to students, net</b>   | <b>\$ 28,738</b> | <b>\$ 32,004</b> |

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts according to the terms of the loan. Further, the University does not evaluate credit quality of student loans receivable after the initial approval of the loan. Loans to students are considered past due when payment is not received by the due date, and interest continues to accrue until the loan is paid in full or written off. When loans to students are deemed uncollectible, an allowance for doubtful accounts is established.

The University considers the age of the amounts outstanding in determining the collectability of loans to students. The aging of the loans to students based on days delinquent and the related allowance for doubtful accounts at June 30 are as follows:

| <i>(in thousands of dollars)</i>             |                        |                   |                    |                      |                  |
|--|------------------------|-------------------|--------------------|----------------------|------------------|
| <b>2023</b>                                  | <b>45 days or less</b> | <b>46-75 days</b> | <b>76-105 days</b> | <b>Over 105 days</b> | <b>Total</b>     |
| Loans to students:                           |                        |                   |                    |                      |                  |
| Federal government loan programs             | \$ 13,713              | \$ 20             | \$ 16              | \$ 501               | \$ 14,250        |
| Institutional loan programs                  | 15,024                 | 17                | 12                 | 3,358                | 18,411           |
| <b>Total loans to students</b>               | <b>\$ 28,737</b>       | <b>\$ 37</b>      | <b>\$ 28</b>       | <b>\$ 3,859</b>      | <b>32,661</b>    |
| Allowance for doubtful accounts:             |                        |                   |                    |                      |                  |
| Federal government loan programs             |                        |                   |                    |                      | (1,421)          |
| Institutional loan programs                  |                        |                   |                    |                      | (2,502)          |
| <b>Total allowance for doubtful accounts</b> |                        |                   |                    |                      | <b>(3,923)</b>   |
| <b>Total loans to students, net</b>          |                        |                   |                    |                      | <b>\$ 28,738</b> |

| <i>(in thousands of dollars)</i>             |                        |                   |                    |                      |                  |
|--|------------------------|-------------------|--------------------|----------------------|------------------|
| <b>2022</b>                                  | <b>45 days or less</b> | <b>46-75 days</b> | <b>76-105 days</b> | <b>Over 105 days</b> | <b>Total</b>     |
| Loans to students:                           |                        |                   |                    |                      |                  |
| Federal government loan programs             | \$ 17,468              | \$ 33             | \$ 30              | \$ 3,111             | \$ 20,642        |
| Institutional loan programs                  | 16,485                 | 26                | 25                 | 2,270                | 18,806           |
| <b>Total loans to students</b>               | <b>\$ 33,953</b>       | <b>\$ 59</b>      | <b>\$ 55</b>       | <b>\$ 5,381</b>      | <b>39,448</b>    |
| Allowance for doubtful accounts:             |                        |                   |                    |                      |                  |
| Federal government loan programs             |                        |                   |                    |                      | (4,889)          |
| Institutional loan programs                  |                        |                   |                    |                      | (2,555)          |
| <b>Total allowance for doubtful accounts</b> |                        |                   |                    |                      | <b>(7,444)</b>   |
| <b>Total loans to students, net</b>          |                        |                   |                    |                      | <b>\$ 32,004</b> |

## **INVENTORIES**

Inventories are stated at the lower of cost or net realizable value on the first-in, first-out basis.

## **INVESTMENTS**

The University's noncurrent investments are comprised of the University's endowment and other investments held for general operating purposes. The University's investments are reported at fair value in the accompanying financial statements with gains and losses included in the consolidated statement of activities. The University believes that the estimated fair value is a reasonable estimate of market value as of June 30, 2023 and 2022. The fair value estimations include assumptions and methods that were reviewed by University management. The estimated fair value amounts for public securities held by the University with readily determinable fair values have been based on information as supplied by the various financial institutions that act as trustees or custodians for the University.



Because private investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material. The fair values of these private investments are determined based upon financial information provided by the investment manager.

The University authorizes certain investment managers to purchase derivative securities to attain a desired market position; and the University may directly invest in derivative securities to attain a desired market position. The University does not trade or issue derivative financial instruments other than through the investment management practices noted above. The University records derivative securities at fair value with gains and losses reflected in the consolidated statements of activities.

### **BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

The University is the beneficiary of certain perpetual trusts held and administered by outside trustees. The fair value of these trust assets has been recorded as net assets with donor restrictions and related beneficial interest in perpetual trusts in the consolidated financial statements.

### **INVESTMENT IN PLANT**

Total investment in plant as of June 30 is comprised of the following:

| <i>(in thousands of dollars)</i>      | <b>2023</b>         | <b>2022</b>         |
|---------------------------------------|---------------------|---------------------|
| Land                                  | \$ 187,985          | \$ 181,833          |
| Buildings                             | 9,243,547           | 8,892,700           |
| Improvements other than buildings     | 887,180             | 807,507             |
| Equipment                             | 2,195,927           | 2,071,893           |
| Assets under construction             | 771,342             | 850,068             |
| <b>Total plant</b>                    | <b>13,285,981</b>   | <b>12,804,001</b>   |
| Less accumulated depreciation         | (6,284,570)         | (5,918,329)         |
| <b>Total investment in plant, net</b> | <b>\$ 7,001,411</b> | <b>\$ 6,885,672</b> |

The value of land, buildings, and equipment is recorded at cost or, if received as gifts, at fair value at date of gift commitment. The University does not capitalize the cost of library books. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. Useful lives range from 4 to 50 years for buildings, 10 to 20 years for improvements other than buildings, and 1 to 20 years for equipment. Depreciation expense was \$549.6 million and \$484.5 million for the fiscal years ended June 30, 2023 and 2022, respectively. The University has certain building and equipment lease agreements in effect which are considered finance leases that are included as long-term debt in the statements of financial position. Buildings and equipment held under finance leases are amortized on a straight-line basis over the shorter of the lease terms or the estimated useful lives of the assets. Total investment in plant associated with these leases was \$42.3 million and \$50.4 million at June 30, 2023 and 2022, respectively.

### **LEASES**

The University determines if an arrangement is or contains a lease at inception of the contract. The right-of-use (ROU) assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the obligation to make lease payments arising from the leases. ROU assets are recognized at commencement date based on the present value of lease payments over the lease term, adjusted for any initial direct costs incurred and lease incentives received, with the subsequent measurement based on lease classification. The lease liability is initially measured as the present value of unpaid lease payments and is subsequently measured using the effective interest method. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain the University will exercise that option. The University has used the incremental borrowing rate when measuring its leases as the rate implicit in the lease is not readily determinable. The University's incremental borrowing rate is determined based on the Tax-Exempt Bloomberg Valuation Services (BVAL) Municipal AAA Curves Index Rate. The Index is constructed using hourly trades from the Municipal Securities Rulemaking Board (MSRB) AAA-rated municipal bonds normalized for differences in credit, optionality, and coupon size. ASC 842 defines a short-term lease as a lease with a term of twelve months or less that does not include a purchase option that is reasonably certain of being exercised ("short-term leases"). The University has elected, for all asset classes, the short-term lease recognition exemption

provided in the standard that eliminates the requirement to recognize on the statements of financial position any short-term leases. The lease expense for these short-term leases is recognized on a straight-line basis over the lease term within operating expenses in the consolidated statements of activities and is not considered material to the consolidated financial statements. Finance lease ROU assets are included in total investment in plant, net, with the related liabilities included in current and noncurrent long-term debt in the consolidated statements of financial position. Operating lease ROU assets and related current and long-term liabilities are separately presented in the consolidated statements of financial position. Expenses for operating leases, amortization of assets held under finance leases, and finance lease interest expense are recognized within operating expenses in the consolidated statements of activities.

The University has elected, for all asset classes, the practical expedient to not separate lease and nonlease components. Certain of the University's lease agreements include payments based on actual maintenance, taxes, insurance, and utilities. Other agreements include rental payments adjusted periodically for inflation. These are deemed to be variable lease payments and are recognized in operating expenses as incurred but are not included in the ROU asset or liability balances. These variable lease payments are not considered material to the consolidated financial statements. The University's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

### **ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES**

Accounts payable and other accrued expenses at June 30 consist of the following:

| <i>(in thousands of dollars)</i>                          | <b>2023</b>       | <b>2022</b>       |
|---|-------------------|-------------------|
| Accounts payable (non-Health System)                      | \$ 253,577        | \$ 249,140        |
| Health System accounts payable and other accrued expenses | 539,664           | 535,351           |
| Health System Medicare APP                                | -                 | 37,631            |
| Accrued payroll and other related liabilities             | 103,583           | 127,464           |
| Accrued interest  | 31,664            | 30,835            |
| Student deposits  | 3,632             | 3,805             |
| <b>Total accounts payable and other accrued expenses</b>  | <b>\$ 932,120</b> | <b>\$ 984,226</b> |

### **IMPAIRMENT OF LONG-LIVED ASSETS**

Long-lived assets, which include investment in plant and definite-lived intangible assets, are assessed for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. An impairment loss is recognized in change in net assets in the period that the impairment occurs.

### **ASSET RETIREMENT OBLIGATIONS**

The University has recognized liabilities for asset retirement obligations. The University has identified asbestos abatement and the decommissioning of the Breazeale Nuclear Reactor as conditional asset retirement obligations. These obligations are reported as part of other noncurrent liabilities within the consolidated statements of financial position. The following table details the change in liabilities:

| <i>(in thousands of dollars)</i>   |                   |
|------------------------------------|-------------------|
| Balance as of June 30, 2021        | \$ 102,925        |
| Adjustment to liability            | 4,972             |
| Accretion expense                  | 5,697             |
| Liabilities settled                | (7,198)           |
| <b>Balance as of June 30, 2022</b> | <b>106,396</b>    |
| Adjustment to liability            | 5,273             |
| Accretion expense                  | 4,624             |
| Liabilities settled                | (6,784)           |
| <b>Balance as of June 30, 2023</b> | <b>\$ 109,509</b> |

## ANNUITIES PAYABLE

Annuities payable consist of annuity payments currently due and the actuarial amount of annuities payable. The actuarial amount of annuities payable is the present value of the aggregate liability for annuity payments over the expected lives of the beneficiaries.

## NET ASSETS

Net assets consist of the following at June 30:

| <i>(in thousands of dollars)</i>               |                                   |                                |                      |
|--|-----------------------------------|--------------------------------|----------------------|
| <b>2023</b>                                    | <b>Without donor restrictions</b> | <b>With donor restrictions</b> | <b>Total</b>         |
| Net assets by category:                        |                                   |                                |                      |
| Endowment funds                                | \$ 851,333                        | \$ 3,606,007                   | \$ 4,457,340         |
| University capital activities                  | 1,453,685                         | 19,435                         | 1,473,120            |
| Operating general funds carryforward           | 818,350                           | -                              | 818,350              |
| Other unit non-general fund reserves           | 368,955                           | 206,606                        | 575,561              |
| University other reserves                      | 197,768                           | -                              | 197,768              |
| Pledges  | -                                 | 207,022                        | 207,022              |
| Split-interest agreements                      | -                                 | 110,434                        | 110,434              |
| Student loan funds                             | 24,779                            | 20,154                         | 44,933               |
| Net investment in plant                        | 3,727,311                         | -                              | 3,727,311            |
| Postretirement benefits and pension prefunding | (546,563)                         | -                              | (546,563)            |
| Penn State Health operations                   | 1,420,375                         | -                              | 1,420,375            |
| Non-controlling interest in Penn State Health  | 268,568                           | -                              | 268,568              |
| <b>Total net assets</b>                        | <b>\$ 8,584,561</b>               | <b>\$ 4,169,658</b>            | <b>\$ 12,754,219</b> |

| <i>(in thousands of dollars)</i>               |                                   |                                |                      |
|--|-----------------------------------|--------------------------------|----------------------|
| <b>2022 (as restated)</b>                      | <b>Without donor restrictions</b> | <b>With donor restrictions</b> | <b>Total</b>         |
| Net assets by category:                        |                                   |                                |                      |
| Endowment funds                                | \$ 834,280                        | \$ 3,460,316                   | \$ 4,294,596         |
| University capital activities                  | 1,418,581                         | 16,007                         | 1,434,588            |
| Operating general funds carryforward           | 962,139                           | -                              | 962,139              |
| Other unit non-general fund reserves           | 353,498                           | 198,932                        | 552,430              |
| University other reserves                      | 183,404                           | -                              | 183,404              |
| Pledges  | -                                 | 214,669                        | 214,669              |
| Split-interest agreements                      | -                                 | 103,775                        | 103,775              |
| Student loan funds                             | 21,302                            | 19,602                         | 40,904               |
| Net investment in plant                        | 3,606,865                         | -                              | 3,606,865            |
| Postretirement benefits and pension prefunding | (880,161)                         | -                              | (880,161)            |
| Penn State Health operations                   | 1,542,270                         | -                              | 1,542,270            |
| Non-controlling interest in Penn State Health  | 337,141                           | -                              | 337,141              |
| <b>Total net assets</b>                        | <b>\$ 8,379,319</b>               | <b>\$ 4,013,301</b>            | <b>\$ 12,392,620</b> |

## **INCOME TAXES**

The University files U.S. federal and state tax returns. The statute of limitations on the University's federal returns generally remains open for three years following the year they are filed. In accordance with ASC Topic 740, Income Taxes, the University continues to evaluate tax positions and has determined there is no material impact on the University financial statements.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-13, "*Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*." This update includes changes to the accounting and measurement of financial assets, including the University's accounts receivable and loans to students, by requiring the University to recognize an allowance for all expected losses over the life of the financial asset at origination. This differs from the current practice where an allowance is not recognized until the losses are considered probable. Credit losses are recognized through the recording of an allowance rather than as a write-down of the carrying value. This update is effective for the University beginning July 1, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the year of adoption. The University is currently evaluating the impact this guidance may have on its consolidated financial statements.

## **CORONAVIRUS PANDEMIC**

In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a pandemic. The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets, and the higher education landscape in general. The pandemic may continue to adversely affect operations and financial condition, including, among other things, (i) the ability of the University to conduct its operations and/or the cost of operations, (ii) governmental and non-governmental funding, and (iii) financial markets impacting investments valuation and interest rates.

The federal government has taken several actions to provide financial assistance during this pandemic. Congress set aside approximately \$76.6 billion between the Coronavirus Aid, Relief and Economic Security Act (CARES), Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and the American Rescue Plan (ARP) allotted to the Educational Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF).

Under CARES, CRRSAA, and ARP, the University received a total allocation of \$131.2 million for emergency aid to students and \$158.8 million for institutional needs. The University distributed student emergency grants of \$76.2 million during 2022, with the disbursement of funds presented within academic and student services expense and the associated revenue captured in United States Government grants and contracts in the consolidated statement of activities. Revenues of \$73.8 million were also recognized as United States Government grants and contracts in the consolidated statement of activities in 2022, related to the institutional portion of the allotted funds. The institutional funds were used to offset lost tuition revenues including student bad debt, refunds for housing and dining services, and COVID testing costs. CARES, CRRSAA, and ARP funding were fully utilized at June 30, 2022.

As allowed by the CARES Act, the University had deferred payment of \$34.0 million for the employer portion of Social Security payroll tax at June 30, 2022, which is included in accounts payable and other accrued expenses and other liabilities in the consolidated statement of financial position. In December 2022, this amount was paid.

During the years ended June 30, 2023 and 2022, the Health System received payments of \$8.1 million and \$8.5 million, respectively, as part of general and targeted distributions of the CARES Act Provider Relief Fund and ARP Rural payments. These payments are not subject to repayment, provided the Health System is able to attest to and comply with the terms and conditions of the funding including demonstrating that the distributions received have been used for health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and ARP programs and the impact of the pandemic on the Health System's operating results through June 30, 2023, the Health System believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of June 30, 2023 and 2022. The Health System has also received funding from various other grants and had funding sources obligated through the Federal Emergency Management Agency (FEMA). The Health System has recognized \$19.9 million and \$8.5 million for the years ended June 30, 2023 and 2022, respectively, from CARES Act and FEMA funding.

The U.S. Department of Health and Human Services' requirements for the uses of the Provider Relief Fund and the ARP payments are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as revenue during the years ended June 30, 2023 and 2022. If the Health System is unable

to attest to or comply with future terms and conditions, the ability to retain some or all of the distributions received may be impacted. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.

The CARES Act revised the Medicare accelerated payment program (“Medicare APP”). During the year ended June 30, 2020, the Health System requested accelerated Medicare payments, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute-care hospitals. Effective October 1, 2020, the repayment terms of the accelerated Medicare payments began one year after the first payment was issued and were recouped at 25 percent of the Medicare payments to the Health System for 11 months. After 11 months, the recoupment increased to 50 percent of the Medicare payments to the Health System for 6 additional months. Unapplied accelerated payment amounts that were unpaid after this 17-month period were due to the Centers for Medicare and Medicaid Services, plus interest at a rate of 4 percent on the outstanding balance. During the year ended June 30, 2020, the Health System received approximately \$160.3 million from these accelerated Medicare payment requests. As of June 30, 2022 and 2021, \$37.6 million and \$117.1 million, respectively, remained as a liability; the remaining outstanding balance was recouped during the year ended June 30, 2023.

The federal COVID-19 Public Health Emergency (PHE) declaration ended on May 11, 2023.



### 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Student loans receivable are not considered to be available to meet general expenditures because principal and interest on these loans are used solely to make new loans.

In addition to financial assets available to meet general expenditures over the next 12 months, the University anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statements of cash flows, which identifies the sources and uses of the University's cash and shows positive cash generated by operations for the years ended June 30, 2023 and 2022.

The University has various sources of liquidity at its disposal, including cash and cash equivalents and fixed income and equity securities.

The University has designated a portion of its resources without donor restrictions for endowment and other purposes. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of management.

The following reflects the University's financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general use within one year. Certain long-term investments could be liquidated if needed based on the terms of their agreements.

| <i>(in thousands of dollars)</i>  | <b>2023</b>         | <b>2022</b>         |
|---|---------------------|---------------------|
| Total assets  | \$ 19,704,296       | \$ 19,439,689       |
| Less:   |                     |                     |
| Inventories   | (90,572)            | (85,662)            |
| Prepaid expenses and other assets   | (110,579)           | (127,277)           |
| Total investment in plant, net  | (7,001,411)         | (6,885,672)         |
| Beneficial interest in perpetual trusts   | (28,117)            | (26,240)            |
| Operating lease right-of-use assets   | (164,769)           | (172,590)           |
| Other assets  | (223,789)           | (191,385)           |
| <b>Total financial assets</b>   | <b>12,085,059</b>   | <b>11,950,863</b>   |
| Less:   |                     |                     |
| Noncurrent investments  | (8,057,417)         | (8,045,673)         |
| Contractual or donor-imposed restrictions:  |                     |                     |
| Deposits held by bond trustees  | (268,489)           | (191,618)           |
| Deposits held for others  | (38,012)            | (34,460)            |
| Receivables subject to time restrictions  | (38,676)            | (42,793)            |
| Receivables subject to donor-imposed restrictions   | (120,426)           | (127,333)           |
| Loans to students, net  | (28,738)            | (32,004)            |
| <b>Financial assets available to meet cash needs for general expenditures within one year</b> | <b>\$ 3,533,301</b> | <b>\$ 3,476,982</b> |

## 4. INVESTMENTS

Investments by major category as of June 30 are summarized as follows:

| <i>(in thousands of dollars)</i> | <b>2023</b>         | <b>2022</b>         |
|----------------------------------|---------------------|---------------------|
| Fixed income                     | \$ 3,594,516        | \$ 3,912,368        |
| Equity investments               | 4,319,325           | 4,217,348           |
| Real assets                      | 827,249             | 642,506             |
| Opportunistic                    | 876,924             | 823,335             |
| <b>Total</b>                     | <b>\$ 9,618,014</b> | <b>\$ 9,595,557</b> |

Fixed income investments are comprised of public and private fixed income strategies, which include government and corporate debt, mortgage-backed, and other asset-backed related debt. Equity investments include public and private strategies across global, U.S., developed non-U.S., and emerging markets. Real asset investments include public and private strategies utilizing both equity and debt structures that are focused on producing a positive real return during an inflationary environment. Real asset strategies include real estate, natural resources, and commodities. Opportunistic investments include public and private strategies utilizing both equity and debt structures that are expected to achieve absolute returns over longer periods of time and do not classify well into the other three investment types.

Equity index futures contracts comprise the University's derivative instruments as of June 30, 2023 and 2022, and are included in the fair value of the University's investments. These contracts are fully cash collateralized and marked to market daily. Futures contracts have minimal credit risk because the counterparties are the exchanges themselves and are employed as a low-cost investment vehicle with daily liquidity which allows the University to maintain desired market exposure considering irregular cash flows. Derivative Securities were immaterial as of June 30, 2023 and 2022.

## 5. ENDOWMENT NET ASSETS

The University's endowment includes both donor-restricted endowment funds and funds designated to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The ASC Not-for-Profit Entities Presentation of Financial Statements Subtopic (ASC Subtopic 958-205) provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and improves disclosure about an organization's endowment funds regardless of whether the organization is subject to UPMIFA. The Commonwealth of Pennsylvania has not adopted UPMIFA but rather has enacted Pennsylvania Act 141 ("PA Act 141"). PA Act 141 permits an organization's trustees to define expendable income as a stipulated percentage of endowment assets (between 2% and 7% of the fair value of the assets averaged over a period of at least three preceding years) without regard to actual interest, dividend, or realized and unrealized gains.

The University has interpreted PA Act 141 to permit the University to spend the earnings of its endowment based on a total return approach, without regard to the fair value of the original gift. As a result of this interpretation, the University classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Also included in net assets with donor restrictions are gains and losses attributable to permanent endowments and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift. Funds functioning as endowments are established at the direction of University management, on behalf of the Board, and are classified as net assets without donor restrictions due to the lack of external donor restrictions. Also included in net assets without donor restrictions are gains and losses attributable to funds functioning as endowments.

As a result of the restatement mentioned in Note 2, some of the fiscal year 2022 data below has been restated.

From time to time, due to unfavorable market fluctuations, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund, while other assets are unaffected to the same extent and maintain or exceed the level required. Such deficiencies are reported as net assets with donor restrictions. As of June 30, 2023 and 2022, funds with an original gift value of \$171.9 million and \$142.1 million were "underwater" by \$12.2 million and \$12.8 million, respectively. Subsequent investment gains will be used to restore the balance up to the fair market value of the original gift.

Endowment net asset composition by type of fund as of June 30:

| <i>(in thousands of dollars)</i> |                                   |                                |                     |
|----------------------------------|-----------------------------------|--------------------------------|---------------------|
| <b>2023</b>                      | <b>Without donor restrictions</b> | <b>With donor restrictions</b> | <b>Total</b>        |
| Donor-restricted endowment funds | \$ -                              | \$ 3,606,007                   | \$ 3,606,007        |
| Funds functioning as endowments  | 851,333                           | -                              | 851,333             |
| <b>Total net assets</b>          | <b>\$ 851,333</b>                 | <b>\$ 3,606,007</b>            | <b>\$ 4,457,340</b> |

| <i>(in thousands of dollars)</i> |                                   |                                |                     |
|----------------------------------|-----------------------------------|--------------------------------|---------------------|
| <b>2022 (restated)</b>           | <b>Without donor restrictions</b> | <b>With donor restrictions</b> | <b>Total</b>        |
| Donor-restricted endowment funds | \$ -                              | \$ 3,460,316                   | \$ 3,460,316        |
| Funds functioning as endowments  | 834,280                           | -                              | 834,280             |
| <b>Total net assets</b>          | <b>\$ 834,280</b>                 | <b>\$ 3,460,316</b>            | <b>\$ 4,294,596</b> |

Changes in endowment net assets for the years ended June 30:

| <i>(in thousands of dollars)</i>                    |                                   |                                |                     |
|---|-----------------------------------|--------------------------------|---------------------|
| <b>2023</b>   | <b>Without donor restrictions</b> | <b>With donor restrictions</b> | <b>Total</b>        |
| Endowment net assets, beginning of the year         | \$ 834,280                        | \$ 3,460,316                   | \$ 4,294,596        |
| Endowment return, net                               | 38,994                            | 175,086                        | 214,080             |
| Contributions                                       | -                                 | 86,928                         | 86,928              |
| Endowment spending                                  | (29,644)                          | (134,066)                      | (163,710)           |
| Transfers to create funds functioning as endowments | 7,703                             | -                              | 7,703               |
| Net asset transfer due to donor intent              | -                                 | 17,743                         | 17,743              |
| <b>Endowment net assets, end of the year</b>        | <b>\$ 851,333</b>                 | <b>\$ 3,606,007</b>            | <b>\$ 4,457,340</b> |

| <i>(in thousands of dollars)</i>                    |                                   |                                |                     |
|---|-----------------------------------|--------------------------------|---------------------|
| <b>2022 (restated)</b>                              | <b>Without donor restrictions</b> | <b>With donor restrictions</b> | <b>Total</b>        |
| Endowment net assets, beginning of the year         | \$ 902,974                        | \$ 3,621,975                   | \$ 4,524,949        |
| Endowment return, net                               | (68,638)                          | (204,962)                      | (273,600)           |
| Contributions                                       | -                                 | 144,044                        | 144,044             |
| Endowment spending                                  | (25,210)                          | (110,170)                      | (135,380)           |
| Transfers to create funds functioning as endowments | 25,154                            | -                              | 25,154              |
| Net asset transfer due to donor intent              | -                                 | 9,429                          | 9,429               |
| <b>Endowment net assets, end of the year</b>        | <b>\$ 834,280</b>                 | <b>\$ 3,460,316</b>            | <b>\$ 4,294,596</b> |

The University has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable stream of funding to programs supported by its endowment while seeking to maintain, over time, the purchasing power of the endowment assets.

The overall investment objective for the University's pooled endowment funds is to grow the real (inflation adjusted) purchasing power of the assets through a prudent long-term investment strategy. To satisfy its long-term objective, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation and income. The University targets a diversified asset allocation, with prudent risk constraints, which places a greater emphasis on equity-based investments to achieve its long-term return objectives.

The University expects the spending policy to allow its endowment to provide generous current spending while preserving "intergenerational equity". The spending amount for fiscal year 2023 and 2022 was based on 5.0% and 4.5%, respectively, of the endowment plan's average fair market value over the prior twenty quarters preceding the fiscal year in which the distribution was planned and was net of administrative expenses.

## **6. FAIR VALUE MEASUREMENTS**

The University utilizes the following fair value hierarchy, which prioritizes into three broad levels the inputs to valuation techniques used to measure fair value:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date. Such instruments valued at Level 1 primarily consist of securities that are directly held and actively traded in public markets.
- Level 2 – Inputs other than unadjusted quoted prices that are observable for the asset or liability, directly or indirectly, including quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.
- Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The University's assessment of significance of a particular item to the fair value measurement in its entirety requires judgment, including consideration of inputs specific to the asset.





The following table presents information about the University's financial assets and liabilities, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement or net asset value (NAV) per share as of June 30, 2023 and 2022:

| <i>(in thousands of dollars)</i>               |                     |                     |                  |                     |                     |
|--|---------------------|---------------------|------------------|---------------------|---------------------|
| <b>2023</b>                                    | <b>Level 1</b>      | <b>Level 2</b>      | <b>Level 3</b>   | <b>NAV</b>          | <b>Total</b>        |
| <b>Assets:</b>                                 |                     |                     |                  |                     |                     |
| Long-term Investment Pool:                     |                     |                     |                  |                     |                     |
| Fixed income                                   |                     |                     |                  |                     |                     |
| Public separate accounts                       | \$ -                | \$ 366,126          | \$ -             | \$ -                | \$ 366,126          |
| Public funds                                   | 110,730             | -                   | -                | -                   | 110,730             |
| Private funds                                  | -                   | -                   | -                | 424,446             | 424,446             |
| Equity investments                             |                     |                     |                  |                     |                     |
| Public separate accounts                       | 1,145,174           | -                   | -                | -                   | 1,145,174           |
| Private funds                                  | -                   | -                   | -                | 2,763,331           | 2,763,331           |
| Real assets                                    |                     |                     |                  |                     |                     |
| Public separate accounts                       | 71,129              | -                   | -                | -                   | 71,129              |
| Public funds                                   | 153,350             | -                   | -                | -                   | 153,350             |
| Private funds                                  | -                   | -                   | -                | 601,042             | 601,042             |
| Opportunistic                                  |                     |                     |                  |                     |                     |
| Private funds                                  | -                   | -                   | -                | 606,237             | 606,237             |
| <b>Total</b>                                   | <b>\$ 1,480,383</b> | <b>\$ 366,126</b>   | <b>\$ -</b>      | <b>\$ 4,395,056</b> | <b>\$ 6,241,565</b> |
| Operating Investments:                         |                     |                     |                  |                     |                     |
| Fixed income                                   |                     |                     |                  |                     |                     |
| Public separate accounts                       | \$ 173              | \$ 2,423,970        | \$ -             | \$ -                | \$ 2,424,143        |
| Public funds                                   | 174,186             | -                   | -                | -                   | 174,186             |
| Private funds                                  | -                   | -                   | -                | 94,885              | 94,885              |
| Equity investments                             |                     |                     |                  |                     |                     |
| Public separate accounts                       | 35,633              | -                   | -                | -                   | 35,633              |
| Private separate accounts                      | -                   | -                   | 3,125            | -                   | 3,125               |
| Public funds                                   | 281,855             | -                   | -                | -                   | 281,855             |
| Private funds                                  | -                   | -                   | 4,284            | 85,923              | 90,207              |
| Real assets                                    |                     |                     |                  |                     |                     |
| Public funds                                   | 1,039               | -                   | -                | -                   | 1,039               |
| Private funds                                  | -                   | -                   | 7                | 682                 | 689                 |
| Opportunistic                                  |                     |                     |                  |                     |                     |
| Public funds                                   | 68                  | -                   | -                | -                   | 68                  |
| Private funds                                  | -                   | -                   | -                | 270,619             | 270,619             |
| <b>Total</b>                                   | <b>\$ 492,954</b>   | <b>\$ 2,423,970</b> | <b>\$ 7,416</b>  | <b>\$ 452,109</b>   | <b>\$ 3,376,449</b> |
| Deposits held by bond trustees:                |                     |                     |                  |                     |                     |
| Fixed income                                   |                     |                     |                  |                     |                     |
| <b>Public funds</b>                            | <b>\$ 264,710</b>   | <b>\$ -</b>         | <b>\$ -</b>      | <b>\$ -</b>         | <b>\$ 264,710</b>   |
| <b>Deposits held for others</b>                | <b>\$ -</b>         | <b>\$ 9,968</b>     | <b>\$ -</b>      | <b>\$ -</b>         | <b>\$ 9,968</b>     |
| <b>Beneficial interest in perpetual trusts</b> | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ 28,117</b> | <b>\$ -</b>         | <b>\$ 28,117</b>    |
| <b>Liabilities:</b>                            |                     |                     |                  |                     |                     |
| <b>Present value of annuities payable</b>      | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ 67,573</b> | <b>\$ -</b>         | <b>\$ 67,573</b>    |

| <i>(in thousands of dollars)</i>               |                   |                     |                  |                     |                     |
|--|-------------------|---------------------|------------------|---------------------|---------------------|
| <b>2022</b>                                    | <b>Level 1</b>    | <b>Level 2</b>      | <b>Level 3</b>   | <b>NAV</b>          | <b>Total</b>        |
| <b>Assets:</b>                                 |                   |                     |                  |                     |                     |
| Long-term Investment Pool:                     |                   |                     |                  |                     |                     |
| Fixed income                                   |                   |                     |                  |                     |                     |
| Public separate accounts                       | \$ 173            | \$ 493,275          | \$ -             | \$ -                | \$ 493,448          |
| Public funds                                   | 210,562           | -                   | -                | -                   | 210,562             |
| Private funds                                  | -                 | -                   | -                | 328,267             | 328,267             |
| Equity investments                             |                   |                     |                  |                     |                     |
| Public separate accounts                       | 572,676           | -                   | -                | -                   | 572,676             |
| Private separate accounts                      | -                 | -                   | 1,525            | -                   | 1,525               |
| Public funds                                   | 79,326            | -                   | -                | -                   | 79,326              |
| Private funds                                  | -                 | -                   | -                | 3,200,355           | 3,200,355           |
| Real assets                                    |                   |                     |                  |                     |                     |
| Public funds                                   | 88,306            | -                   | -                | -                   | 88,306              |
| Private funds                                  | -                 | -                   | -                | 552,442             | 552,442             |
| Opportunistic                                  |                   |                     |                  |                     |                     |
| Private funds                                  | -                 | -                   | -                | 561,089             | 561,089             |
| <b>Total</b>                                   | <b>\$ 951,043</b> | <b>\$ 493,275</b>   | <b>\$ 1,525</b>  | <b>\$ 4,642,153</b> | <b>\$ 6,087,996</b> |
| Operating Investments:                         |                   |                     |                  |                     |                     |
| Fixed income                                   |                   |                     |                  |                     |                     |
| Public separate accounts                       | \$ 4,792          | \$ 2,519,101        | \$ -             | \$ -                | \$ 2,523,893        |
| Public funds                                   | 259,562           | -                   | -                | -                   | 259,562             |
| Private funds                                  | -                 | -                   | -                | 96,636              | 96,636              |
| Equity investments                             |                   |                     |                  |                     |                     |
| Public separate accounts                       | 31,065            | 1                   | -                | -                   | 31,066              |
| Private separate accounts                      | 388               | -                   | 136              | -                   | 524                 |
| Public funds                                   | 250,165           | -                   | -                | -                   | 250,165             |
| Private funds                                  | -                 | -                   | 4,452            | 77,079              | 81,531              |
| Real assets                                    |                   |                     |                  |                     |                     |
| Public funds                                   | 1,586             | -                   | -                | -                   | 1,586               |
| Private funds                                  | -                 | -                   | 7                | 165                 | 172                 |
| Opportunistic                                  |                   |                     |                  |                     |                     |
| Public funds                                   | 74                | -                   | -                | -                   | 74                  |
| Private funds                                  | -                 | -                   | -                | 262,172             | 262,172             |
| <b>Total</b>                                   | <b>\$ 547,632</b> | <b>\$ 2,519,102</b> | <b>\$ 4,595</b>  | <b>\$ 436,052</b>   | <b>\$ 3,507,381</b> |
| Deposits held by bond trustees:                |                   |                     |                  |                     |                     |
| Fixed income                                   |                   |                     |                  |                     |                     |
| <b>Public funds</b>                            | <b>\$ 124,256</b> | <b>\$ -</b>         | <b>\$ -</b>      | <b>\$ -</b>         | <b>\$ 124,256</b>   |
| <b>Deposits held for others</b>                | <b>\$ -</b>       | <b>\$ 10,524</b>    | <b>\$ -</b>      | <b>\$ -</b>         | <b>\$ 10,524</b>    |
| <b>Beneficial interest in perpetual trusts</b> | <b>\$ -</b>       | <b>\$ -</b>         | <b>\$ 26,240</b> | <b>\$ -</b>         | <b>\$ 26,240</b>    |
| <b>Liabilities:</b>                            |                   |                     |                  |                     |                     |
| <b>Present value of annuities payable</b>      | <b>\$ -</b>       | <b>\$ -</b>         | <b>\$ 63,995</b> | <b>\$ -</b>         | <b>\$ 63,995</b>    |

Public separate accounts hold public fixed income and equity investments owned directly by the University. Private separate accounts hold private fixed income and equity investments owned directly by the University. Public funds are commingled investment structures that are publicly listed and whose valuations are readily available. Private funds comprise commingled investment structures that are not publicly listed and are managed collectively following a prescribed investment strategy.

The Long-Term Investment Pool (LTIP) is a mutual fund-like vehicle used for investing the University's endowment funds, funds functioning as endowments, and other operating funds that are expected to be held long-term. A unit method of accounting for the LTIP is utilized by the University. Each participating fund enters and withdraws from the LTIP based on monthly unit values.

The following tables present information related to changes in Level 3 for each category of financial assets and liabilities for years ended June 30, 2023 and 2022:

| <i>(in thousands of dollars)</i>             | <b>Long-Term<br/>Investment<br/>Pool</b> | <b>Operating<br/>Investments</b> | <b>Beneficial<br/>Interest in<br/>Perpetual<br/>Trusts</b> |
|--|--|----------------------------------|--|
| <b>Assets:</b>                               |  |                                  |  |
| Balance as of June 30, 2021                  | \$ 1,308                                 | \$ 4,791                         | \$ 29,931  |
| Purchases                                    | -  | 136                              | -  |
| Total realized and unrealized (losses) gains | 217                                      | (332)                            | (3,691)  |
| <b>Balance as of June 30, 2022</b>           | <b>1,525</b>                             | <b>4,595</b>                     | <b>26,240</b>  |
| Gifts  | -  | -                                | 1,029  |
| Total realized and unrealized (losses) gains | -  | 1,296                            | 848  |
| Net transfers in (out)                       | (1,525)                                  | 1,525                            | -  |
| <b>Balance as of June 30, 2023</b>           | <b>\$ -</b>                              | <b>\$ 7,416</b>                  | <b>\$ 28,117</b>   |

|                                    | <b>Present Value<br/>of Annuities<br/>Payable</b> |  |  |
|------------------------------------|---|--|--|
| <b>Liabilities:</b>                |   |  |  |
| Balance as of June 30, 2021        | \$ 64,917   |  |  |
| Actuarial adjustment of liability  | 1,726   |  |  |
| Gifts                              | 772   |  |  |
| Sales                              | (3,420)   |  |  |
| <b>Balance as of June 30, 2022</b> | <b>63,995</b>                                     |  |  |
| Actuarial adjustment of liability  | 1,551   |  |  |
| Gifts                              | 2,904   |  |  |
| Sales                              | (877)   |  |  |
| <b>Balance as of June 30, 2023</b> | <b>\$ 67,573</b>                                  |  |  |

The following table presents the fair value and redemption frequency for private funds' investments whose fair value is not readily determinable and is estimated using NAV or its equivalent as of June 30:

| <i>(in thousands of dollars)</i>          | Fair Value          |                     | Unfunded Commitments At June 30, 2023 | Redemption Frequency | Redemption Notice Period |
|---|---------------------|---------------------|---------------------------------------|----------------------|--------------------------|
|   | 2023                | 2022                |                                       |                      |                          |
| Private Funds With Redemption Ability:    |                     |                     |                                       |                      |                          |
| Fixed income investments                  | \$ 393,545          | \$ 247,426          | \$ 59,812                             | Various              | 2-90 days                |
| Equity investments                        | 1,273,408           | 1,661,652           | -                                     | Various              | 2-90 days                |
| Real asset investments                    | 256,643             | 237,814             | 81,803                                | Various              | 2-90 days                |
| Opportunistic investments                 | 750,127             | 730,960             | -                                     | Various              | 2-90 days                |
| <b>Subtotal</b>                           | <b>\$ 2,673,723</b> | <b>\$ 2,877,852</b> | <b>\$ 141,615</b>                     |                      |                          |
| Private Funds Without Redemption Ability: |                     |                     |                                       |                      |                          |
| Fixed income investments                  | \$ 125,786          | \$ 177,477          | \$ 80,973                             |                      |                          |
| Equity investments                        | 1,575,846           | 1,615,782           | 461,384                               |                      |                          |
| Real asset investments                    | 345,081             | 314,793             | 237,842                               |                      |                          |
| Opportunistic investments                 | 126,729             | 92,301              | 108,667                               |                      |                          |
| <b>Subtotal</b>                           | <b>\$ 2,173,442</b> | <b>\$ 2,200,353</b> | <b>\$ 888,866</b>                     |                      |                          |
| <b>Total</b>                              | <b>\$ 4,847,165</b> | <b>\$ 5,078,205</b> | <b>\$ 1,030,481</b>                   |                      |                          |

Private funds with redemption ability include private funds that the University has some discretion as to the timing of withdrawing money from the commingled fund. Redemptions vary from daily to quarterly with required notification of 90 days or less.

Private funds without redemption ability include private funds that the University has no or very little discretion as to the timing of withdrawing money from the commingled fund. Realizations from these funds are received as the underlying investments are liquidated or distributed, typically within 10-15 years after initial commitment.

Unfunded commitments represent remaining commitments of the LTIP's Private Funds as of June 30, 2023 that are due to be invested in the future.

## 7. CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows as of June 30:

| <i>(in thousands of dollars)</i>       | 2023              | 2022              |
|--|-------------------|-------------------|
| In one year or less                    | \$ 50,316         | \$ 42,361         |
| Between one year and five years        | 54,756            | 68,283            |
| More than five years                   | 131,382           | 133,463           |
| <b>Contributions receivable, gross</b> | <b>236,454</b>    | <b>244,107</b>    |
| Less allowance                         | (1,757)           | (1,656)           |
| Less discount                          | (50,611)          | (49,702)          |
| <b>Contributions receivable, net</b>   | <b>\$ 184,086</b> | <b>\$ 192,749</b> |

Contributions received during the years ended June 30, 2023 and 2022 are discounted at rates ranging from 3.96% to 5.40% and 2.80% to 3.18%, respectively. The discount rates for prior periods ranged from 0.11% to 6.28%.

At June 30, 2023 and 2022 the University has received bequest intentions of \$865.1 million and \$797.5 million, respectively, and certain other conditional promises to give of \$59.7 million and \$65.5 million, respectively. These intentions and conditional promises to give are not included in the consolidated financial statements.

## 8. LONG-TERM DEBT

The various bond issues, notes payable and capital lease obligations that are included in long-term debt in the statement of financial position consist of the following at June 30:

| <i>(in thousands of dollars)</i>  | <b>2023</b>      | <b>2022</b>      |
|---|------------------|------------------|
| <b>The Pennsylvania State University Bonds</b>  |                  |                  |
| Series 2023   | \$ 203,990       | \$ -             |
| Series 2022A  | 125,450          | 125,450          |
| Series 2022B  | 26,500           | 26,500           |
| Series 2020A  | 78,045           | 79,300           |
| Series 2020B  | 303,795          | 314,675          |
| Series 2020D  | 1,013,920        | 1,039,685        |
| Series 2020E  | 47,585           | 52,330           |
| Series 2019A  | 102,030          | 103,770          |
| Series 2019B  | 111,165          | 113,835          |
| Series 2018   | 60,025           | 61,140           |
| Series 2017A  | 143,920          | 146,780          |
| Series 2017B  | 111,260          | 114,115          |
| Series 2016A  | 104,730          | 107,995          |
| Series 2016B  | 169,050          | 180,645          |
| Series 2015A  | 53,990           | 55,820           |
| Series 2015B  | 83,345           | 87,965           |
| Series 2007B  | 26,875           | 31,455           |
| <b>Pennsylvania Higher Educational Facilities Authority University Revenue Bonds<br/>(issued for The Pennsylvania State University)</b> |                  |                  |
| Series 2006   | 1,015            | 1,320            |
| Series 2004   | 820              | 1,200            |
| <b>Penn State Health Taxable Bonds</b>  |                  |                  |
| Series 2019   | 200,000          | 200,000          |
| <b>Cumberland County Municipal Authority Revenue Bonds<br/>(issued for Penn State Health)</b>   |                  |                  |
| Series 2019   | 222,000          | 222,000          |
| <b>Lancaster County Hospital Authority Revenue Bonds<br/>(issued for Penn State Health)</b>   |                  |                  |
| Series 2021   | 288,840          | 288,840          |
| <b>Lycoming County Authority College Revenue Bonds (issued for Penn College)</b>  |                  |                  |
| Series 2021A  | 26,305           | 28,025           |
| Series 2021B  | 21,180           | 21,980           |
| Series 2016   | 42,735           | 44,865           |
| Series 2015   | 1,090            | 1,700            |
| <b>Total bonds payable</b>  | <b>3,569,660</b> | <b>3,451,390</b> |
| Unamortized bond premiums   | 256,979          | 247,135          |
| Unamortized deferred bond costs   | (16,847)         | (16,526)         |

| <i>(in thousands of dollars)</i>              | <b>2023</b>         | <b>2022</b>         |
|---|---------------------|---------------------|
| <b>Notes payable and finance leases</b>       |                     |                     |
| Notes payable                                 | 36,958              | 41,968              |
| Finance lease obligations                     | 39,173              | 45,083              |
| <b>Total notes payable and finance leases</b> | <b>76,131</b>       | <b>87,051</b>       |
| <b>Total long-term debt</b>                   | <b>\$ 3,885,923</b> | <b>\$ 3,769,050</b> |

| <b>Debt issuance</b>                           | <b>Interest rate mode</b> | <b>Interest rates</b> | <b>Payment ranges and maturity</b><br><i>(in thousands of dollars)</i>   |
|--|---------------------------|-----------------------|--|
| <b>The Pennsylvania State University Bonds</b> |                           |                       |  |
| Series 2023                                    | Fixed                     | 5.00% - 5.25%         | \$2,985 to \$7,715 through September 2043 with \$45,220 and \$58,795 due September 2048 and 2053, respectively           |
| Series 2022A                                   | Fixed                     | 5.00% - 5.25%         | \$1,845 to \$4,770 through September 2042 with \$27,765 and \$35,890 due September 2047 and 2052, respectively           |
| Series 2022B                                   | Fixed                     | 2.773% - 4.673%       | \$890 to \$1,550 through September 2037 with \$8,940 due September 2042  |
| Series 2020A                                   | Fixed                     | 4.00% - 5.00%         | \$1,320 to \$3,090 through September 2040 with \$17,980 and \$22,490 due September 2045 and 2050, respectively           |
| Series 2020B                                   | Fixed                     | 1.587% - 2.888%       | \$5,895 to \$13,910 through September 2035 with \$67,170 and \$89,310 due September 2040 and 2050, respectively          |
| Series 2020D                                   | Fixed                     | 1.353% - 2.84%        | \$26,085 to \$33,545 through September 2035 with \$304,225 and \$328,000 due September 2043 and 2050, respectively       |
| Series 2020E                                   | Fixed                     | 5.00%                 | \$4,985 to \$7,010 through March 2031  |
| Series 2019A                                   | Fixed                     | 5.00%                 | \$1,830 to \$6,720 through September 2049  |
| Series 2019B                                   | Fixed                     | 2.20% - 3.50%         | \$2,735 to \$3,720 through September 2034 with \$20,455 and \$52,515 due September 2039 and September 2049, respectively |
| Series 2018                                    | Fixed                     | 5.00%                 | \$1,155 to \$2,320 through September 2037 with \$16,650 and \$18,255 due September 2043 and September 2048, respectively |
| Series 2017A                                   | Fixed                     | 5.00%                 | \$2,965 to \$5,965 through September 2037 with \$34,750 and \$44,620 due September 2042 and September 2047, respectively |
| Series 2017B                                   | Fixed                     | 2.416% - 3.793%       | \$2,920 to \$3,830 through September 2032 with \$21,305 and \$56,595 due September 2037 and September 2047, respectively |
| Series 2016A                                   | Fixed                     | 5.00%                 | \$3,430 to \$6,465 through September 2036 with \$37,520 due September 2041   |
| Series 2016B                                   | Fixed                     | 4.00% - 5.00%         | \$7,165 to \$22,195 through September 2036   |
| Series 2015A                                   | Fixed                     | 5.00%                 | \$1,920 to \$3,445 through September 2035 with \$20,000 due September 2040   |
| Series 2015B                                   | Fixed                     | 5.00%                 | \$4,860 to \$8,435 through September 2035  |
| Series 2007B                                   | Fixed                     | 5.25%                 | \$4,825 to \$5,955 through August 2027   |

**Pennsylvania Higher Educational Facilities Authority University Revenue Bonds**

|             |       |         |                            |
|-------------|-------|---------|----------------------------|
| Series 2006 | Fixed | 5.125%* | \$1,610 due September 2025 |
| Series 2004 | Fixed | 5.00%*  | \$1,905 due September 2024 |

\*Annual interest costs to the University for interest rates greater than 3.00% are subsidized by PHEFA.



| <b>Debt issuance</b>                                     | <b>Interest rate mode</b> | <b>Interest rates</b> | <b>Payment ranges and maturity</b><br><i>(in thousands of dollars)</i>  |
|--|---------------------------|-----------------------|---|
| <b>Penn State Health Bonds</b>                           |                           |                       |   |
| Series 2019  | Fixed                     | 3.806%                | \$200,000 due November 2049   |
| <b>Cumberland County Municipal Authority</b>             |                           |                       |   |
| <b>Revenue Bonds</b>                                     |                           |                       |   |
| Series 2019  | Fixed                     | 3.00% - 5.00%         | \$4,915 to \$9,315 through November 2039 with \$52,355 and \$63,940 due November 2044 and November 2049, respectively   |
| <b>Lancaster County Hospital Authority Revenue Bonds</b> |                           |                       |   |
| Series 2021  | Fixed                     | 5.00%                 | \$5,780 to \$13,690 through November 2041 with \$79,750 and \$152,421 due November 2046 and November 2051, respectively |
| <b>Lycoming County Authority College Revenue Bonds</b>   |                           |                       |   |
| Series 2021A   | Fixed                     | 5.00%                 | \$2,015 to \$4,565 through July 2030  |
| Series 2021B   | Fixed                     | 0.782% - 3.014%       | \$835 to \$1,930 through January 2038   |
| Series 2016  | Fixed                     | 2.125% - 5.00%        | \$1,545 to \$4,075 through October 2037   |
| Series 2015  | Fixed                     | 2.75% - 5.00%         | \$465 to \$625 through January 2025   |

The Series 2023 Bonds are general obligation bonds issued in June 2023 for the purpose of financing various construction and renovation projects. The Series 2023 Bonds are subject to early redemption provisions, at the option of the University, beginning September 2033. The bonds maturing September 2048 and September 2053 are subject to mandatory sinking fund redemption.

The University believes it has complied with all financial debt covenants for the years ended June 30, 2023 and 2022.

Maturities and sinking fund requirements on bonds payable for each of the next five fiscal years and thereafter are summarized as follows:

| <b>Year</b>  | <b>Annual Installments</b><br><i>(in thousands of dollars)</i> |
|--------------|--|
| 2024         | \$ 91,085  |
| 2025         | 96,885   |
| 2026         | 105,690  |
| 2027         | 109,270  |
| 2028         | 113,105  |
| Thereafter   | 3,053,625  |
| <b>Total</b> | <b>\$ 3,569,660</b>  |

The fair value of the University's bonds payable is estimated based on current rates offered for similar issues with similar security, terms and maturities using available market information as supplied by the various financial institutions who act as trustees or custodians for the University. At June 30, 2023, the carrying value and estimated fair value of the University's bonds payable, including issuance premiums and deferred bond costs, are \$3.810 billion and \$3.297 billion, respectively. At June 30, 2022, the carrying value and estimated fair value of the University's bonds payable, including issuance premiums and deferred bond costs, are \$3.682 billion and \$3.289 billion, respectively. Certain bond issues have associated issuance premiums; these issuance premiums total \$257.0 million and \$247.1 million at June 30, 2023 and 2022, respectively, and are presented within the statements of financial position as long-term debt. These issuance premiums will be amortized over the term of the respective outstanding bonds. Certain bond issues

have associated deferred bond costs; these deferred bond costs total \$16.8 million and \$16.5 million at June 30, 2023 and 2022, respectively, and are presented within the statements of financial position as a reduction in long-term debt. These deferred bond costs will be amortized over the term of the respective outstanding bonds.

## **NOTES PAYABLE**

The University has five notes payable included within the consolidated statements of financial position at June 30, 2023 with balances of \$1.2 million, \$2.5 million, \$3.7 million, \$5.8 million, and \$23.8 million. These notes have payments due through June 2024, June 2025, March 2026, August 2039, and September 2040 and bear interest at 2.60%, 2.85%, 2.80%, 2.65%, and 2.65%, respectively.

Maturities on notes payable for each of the next five fiscal years and thereafter are summarized as follows:

| <b>Year</b>  | <b>Annual Installments</b><br><i>(in thousands of dollars)</i> |
|--------------|--|
| 2024         | \$ 5,148   |
| 2025         | 4,029  |
| 2026         | 2,515  |
| 2027         | 1,518  |
| 2028         | 1,559  |
| Thereafter   | 22,189   |
| <b>Total</b> | <b>\$ 36,958</b>   |

## **9. LEASES**

The University leases certain equipment and buildings under operating and finance leases expiring at various dates through 2043. Rentals generally include insurance, taxes and maintenance costs.

Future maturities of lease liabilities at June 30, 2023 are as follows:

| <i>(in thousands of dollars)</i>  |                       |                         |
|-----------------------------------|-----------------------|-------------------------|
| <b>Year</b>                       | <b>Finance Leases</b> | <b>Operating Leases</b> |
| 2024                              | \$ 8,720              | \$ 31,406               |
| 2025                              | 7,525                 | 28,333                  |
| 2026                              | 6,078                 | 24,447                  |
| 2027                              | 5,433                 | 22,587                  |
| 2028                              | 1,760                 | 17,647                  |
| Thereafter                        | 17,930                | 76,865                  |
| <b>Total lease payments</b>       | <b>47,446</b>         | <b>201,285</b>          |
| Less amount representing interest | (8,273)               | (30,778)                |
| <b>Total lease obligations</b>    | <b>39,173</b>         | <b>170,507</b>          |
| Current portion                   | 7,541                 | 26,393                  |
| <b>Long-term portion</b>          | <b>\$ 31,632</b>      | <b>\$ 144,114</b>       |

Supplemental lease activity for the years ended June 30 is as follows:

| <i>(in thousands of dollars)</i>   | <b>2023</b>      | <b>2022</b>      |
|------------------------------------|------------------|------------------|
| <b>Components of Lease Expense</b> |                  |                  |
| Finance lease expense:             |                  |                  |
| Amortization of ROU assets         | \$ 9,133         | \$ 7,573         |
| Interest on lease liabilities      | 1,465            | 1,762            |
| <b>Total finance lease expense</b> | <b>10,598</b>    | <b>9,335</b>     |
| <b>Operating lease expense</b>     | <b>35,969</b>    | <b>41,959</b>    |
| <b>Total lease expense</b>         | <b>\$ 46,567</b> | <b>\$ 51,294</b> |

The weighted-average remaining lease term and weighted-average discount rate at June 30 were as follows:

|                       | <b>Weighted-Average Remaining Lease Term (Years)</b> |             | <b>Weighted-Average Discount Rate</b> |             |
|-----------------------|--|-------------|---------------------------------------|-------------|
|                       | <b>2023</b>  | <b>2022</b> | <b>2023</b>                           | <b>2022</b> |
| <b>University:</b>    |  |             |                                       |             |
| Finance leases        | 10.97  | 12.17       | 3.81%                                 | 4.10%       |
| Operating leases      | 4.99   | 5.62        | 2.89%                                 | 3.62%       |
| <b>Health System:</b> |  |             |                                       |             |
| Finance leases        | 3.50   | 3.90        | 3.20%                                 | 3.30%       |
| Operating leases      | 10.90  | 11.70       | 4.00%                                 | 4.30%       |

Supplemental cash flow information related to leases for the years ended June 30 is as follows:

| <i>(in thousands of dollars)</i>  | <b>2023</b> | <b>2022</b> |
|---|-------------|-------------|
| ROU assets acquired in exchange for finance lease liabilities           | \$ 7,400    | \$ 8,553    |
| ROU assets acquired in exchange for operating lease liabilities         | 20,491      | 51,793      |
| Cash paid for amounts included in the measurement of lease liabilities: |             |             |
| Operating cash outflows from finance leases                             | 1,465       | 1,762       |
| Operating cash outflows from operating leases                           | 34,163      | 30,459      |
| Financing cash outflows from finance leases                             | 8,305       | 8,161       |

## 10. FUNCTIONAL AND NATURAL CLASSIFICATION OF EXPENSES

Functional expenses by natural classification as of June 30 are as follows:

| <i>(in thousands of dollars)</i>                             |                                |                              |                      |                     |
|--|--------------------------------|------------------------------|----------------------|---------------------|
| <b>2023</b>  | <b>Educational and General</b> | <b>Auxiliary Enterprises</b> | <b>Health System</b> | <b>Total</b>        |
| Salaries and wages   | \$ 1,910,640                   | \$ 150,200                   | \$ 1,779,513         | \$ 3,840,353        |
| Benefits   | 708,108                        | 70,482                       | 455,531              | 1,234,121           |
| Depreciation   | 322,697                        | 46,617                       | 180,260              | 549,574             |
| Plant operations and maintenance                             | 181,584                        | 24,745                       | 78,714               | 285,043             |
| Other components of net periodic postretirement benefit cost | (21,313)                       | -                            | -                    | (21,313)            |
| Interest   | 45,160                         | 33,456                       | 28,697               | 107,313             |
| Supplies, services, and other                                | 573,145                        | 204,424                      | 1,474,622            | 2,252,191           |
| <b>Total</b>   | <b>\$ 3,720,021</b>            | <b>\$ 529,924</b>            | <b>\$ 3,997,337</b>  | <b>\$ 8,247,282</b> |

| <i>(in thousands of dollars)</i>                             |                                |                              |                      |                     |
|--|--------------------------------|------------------------------|----------------------|---------------------|
| <b>2022</b>  | <b>Educational and General</b> | <b>Auxiliary Enterprises</b> | <b>Health System</b> | <b>Total</b>        |
| Salaries and wages   | \$ 1,828,618                   | \$ 139,481                   | \$ 1,612,756         | \$ 3,580,855        |
| Benefits   | 642,514                        | 66,767                       | 405,583              | 1,114,864           |
| Depreciation   | 304,081                        | 41,942                       | 138,456              | 484,479             |
| Plant operations and maintenance                             | 149,085                        | 18,997                       | 96,458               | 264,540             |
| Other components of net periodic postretirement benefit cost | 60,067                         | -                            | -                    | 60,067              |
| Interest   | 37,510                         | 30,654                       | 9,345                | 77,509              |
| Supplies, services, and other                                | 707,584                        | 187,453                      | 1,352,232            | 2,247,269           |
| <b>Total</b>   | <b>\$ 3,729,459</b>            | <b>\$ 485,294</b>            | <b>\$ 3,614,830</b>  | <b>\$ 7,829,583</b> |

Education and general is comprised of academic and student services (which consists of instruction, academic support and student services), research, public service and institutional support. The costs of plant operations and maintenance, depreciation, and interest have been allocated across all functional expense categories to reflect the full cost of those activities. Plant operations and maintenance and depreciation expense are allocated based on the total proportionate expenses of each functional classification. Interest expense is allocated based on the proportionate share of total debt-financed construction.

## 11. RETIREMENT BENEFITS

The University provides retirement benefits for substantially all regular employees, primarily through either contributory defined benefit plans administered by the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and The Public School Employees' Retirement System (PSERS) or defined contribution plans administered by the Teachers Insurance and Annuity Association (TIAA). The University is billed for its share of the estimated actuarial cost of the defined benefit plans (\$44.4 million and \$38.0 million, net of applied setoff credits of \$93.3 million for the years ended June 30, 2023 and 2022). The Health System provides retirement benefits for substantially all employees through one of three defined contribution plans administered by Empower Retirement. The University's total cost for retirement benefits, included in expenses, is \$240.7 million and \$224.1 million for the years ended June 30, 2023 and 2022, respectively.

The SERS is the administrator of a cost-sharing, multi-employer retirement system established by the Commonwealth of Pennsylvania to provide pension benefits for employees of state government and certain independent agencies. As provided by statute, the SERS Board of Trustees has exclusive control and management responsibility of the funds and full power to invest the funds. The SERS funding policy provides for periodic member contributions at statutory rates and employer contributions at actuarially determined rates (expressed as a percentage of annual gross pay) that are

sufficient to accumulate assets to pay benefits when due. In April 2020, the University entered into an agreement with SERS to prefund \$1.061 billion of the University's unfunded actuarial accrued liability in exchange for credits against future contributions. The University's contributions to this plan for the years ended June 30, 2023 and 2022 were \$39.5 million and \$34.1 million, respectively (net of applied setoff credits of \$93.3 million) and represent approximately 5.9% and 5.8% of total contributions to the plan based on projections for fiscal years 2023 and 2022, respectively. The funded ratio of the plan was 68.0% as of December 31, 2022.

## **12. POSTRETIREMENT BENEFITS**

The University sponsors a retiree medical plan covering eligible retirees and eligible dependents. This program includes a Preferred Provider Organization (PPO) plan (both a traditional and a qualified high deductible option) for retirees and their dependents who are not eligible for Medicare, and a Medicare Advantage PPO plan. In addition, the University provides certain retiree life insurance benefits to eligible retirees as described below.

Employees who were hired prior to January 1, 2010 are eligible for medical coverage after they retire if either of the following requirements are satisfied:

- they are at least age 60 and have at least 15 years of continuous regular full-time employment and participation in a University-sponsored medical plan immediately preceding the retirement date
- regardless of age, if they have at least 25 years of regular full-time service. The last 10 of those 25 years of University service must be continuous, and they must participate in a University-sponsored medical plan during the last 10 years immediately preceding the retirement date.

Non-union employees retiring on or before December 31, 2020 received a \$5,000 term life insurance policy benefit at no cost to the employee. For certain union employees, a \$5,000 term life insurance policy is provided at no cost to the employee regardless of their retirement date.

The retiree PPO medical plan is a self-funded program, and all medical claims and other expenses are paid from net assets without donor restrictions of the University. The Medicare Advantage PPO plan and life insurance program are fully insured. The retirees pay varying amounts for coverage under the medical plan.

For those employees who were hired after December 31, 2009, the University will contribute funds each month on their behalf to a Retirement Healthcare Savings Plan. This plan is designed to help pay for qualified medical and health-related expenses in retirement, including the purchase of a health insurance policy.

Retirees will be eligible to access their Retirement Healthcare Savings Plan account when they are no longer actively employed at Penn State and have satisfied either of the following requirements:

- completed 25 years of continuous full-time service and are age 60 or older
- completed a minimum of 15 years of continuous full-time service and are age 65 or older.

The following sets forth the plan's benefit obligation, plan assets and funded status reconciled with the amounts recognized in the University's consolidated statements of financial position at June 30:

| <i>(in thousands of dollars)</i>                |                       |                       |
|---|-----------------------|-----------------------|
| <b>Change in benefit obligation:</b>            | <b>2023</b>           | <b>2022</b>           |
| Benefit obligation at beginning of year         | \$ 1,471,456          | \$ 2,060,684          |
| Service cost                                    | 16,947                | 31,758                |
| Interest cost                                   | 60,115                | 59,566                |
| Actuarial gain                                  | (204,940)             | (185,469)             |
| Benefits paid                                   | (56,219)              | (53,834)              |
| Plan assumptions                                | (66,350)              | (441,249)             |
| <b>Benefit obligation at end of year</b>        | <b>\$ 1,221,009</b>   | <b>\$ 1,471,456</b>   |
| <b>Change in plan assets:</b>                   |                       |                       |
| Fair value of plan assets at beginning of year  | \$ -                  | \$ -                  |
| Employer contributions                          | 56,219                | 53,834                |
| Benefits paid                                   | (56,219)              | (53,834)              |
| <b>Fair value of plan assets at end of year</b> | <b>\$ -</b>           | <b>\$ -</b>           |
| Funded status                                   | \$ (1,221,009)        | \$ (1,471,456)        |
| Unrecognized prior service cost (benefit)       | -                     | -                     |
| Unrecognized net actuarial loss                 | -                     | -                     |
| <b>Accrued postretirement benefit expense</b>   | <b>\$ (1,221,009)</b> | <b>\$ (1,471,456)</b> |

Net periodic postretirement cost includes the following components for the years ended June 30:

| <i>(in thousands of dollars)</i>        |                   |                  |
|---|-------------------|------------------|
| <b>Operating expenses:</b>              | <b>2023</b>       | <b>2022</b>      |
| Service cost                            | \$ 16,947         | \$ 31,758        |
| Nonoperating activities:                |                   |                  |
| Interest cost                           | 60,115            | 59,566           |
| Amortization of prior service cost      | -                 | (4)              |
| Amortization of unrecognized net loss   | (81,428)          | 505              |
| <b>Net periodic postretirement cost</b> | <b>\$ (4,366)</b> | <b>\$ 91,825</b> |

The assumed healthcare cost trend rate used in measuring the accumulated postretirement benefit obligation was 7.40% and 7.60% for the years ended June 30, 2023 and 2022, respectively, reduced to an ultimate level of 4.50% and 4.50%, respectively. The postretirement benefit obligation discount rate was 5.20% and 4.87% for the years ended June 30, 2023 and 2022, respectively. During 2023, the plan had favorable claims experience compared to assumptions, and the liability decreased due to the increase in discount rates. During 2022, the plan had favorable claims experience compared to assumptions, and the liability decreased significantly due to the increase in discount rates.

Gains and losses in excess of 10% of the accumulated postretirement benefit obligation are amortized over the average future service to assumed retirement of active participants.



Postretirement benefits expected to be paid for the years ended June 30 are as follows:

|         | <i>(in thousands of dollars)</i> |
|---------|----------------------------------|
| 2024    | \$ 53,408                        |
| 2025    | 57,594                           |
| 2026    | 61,401                           |
| 2027    | 65,070                           |
| 2028    | 68,202                           |
| 2029-33 | 377,486                          |

### **13. PENN STATE HEALTH**

Penn State Health was organized exclusively to promote, support and further the charitable, educational, and scientific purposes of the University. These purposes are defined and limited by Section 501(c)(3) of the Internal Revenue Code of 1986. The Health System is controlled by the University with a 20% membership by Highmark Health (HH). The University recorded noncontrolling interest related to this membership. Total noncontrolling interest is recorded in net assets without donor restrictions within the consolidated statements of financial position with a value at June 30, 2023 and 2022 of \$268.6 million and \$337.1 million, respectively.

The wholly owned subsidiaries of the Health System include the Milton S. Hershey Medical Center (MSHMC), Saint Joseph’s Regional Health Network and Medical Group (SJRHN/SJMG), Penn State Community Medical Group (PSCMG), Holy Spirit Medical Center (HSMC), Nittany Health, Inc. (“Nittany”), Central PA Health Network (CIN), Penn State Health Hampden Medical Center (“Hampden”) which opened in October 2021, Penn State Health Lancaster Medical Center (LMC) which opened in October 2022, and Penn State Health Life Lion, LLC (PSHLL). The subsidiaries provide a variety of health care services in the Dauphin, Centre, Berks, Cumberland, and Lancaster county regions of Pennsylvania.

The Health System, through its medical groups, operates a non-acute and ambulatory network which consists of a number of patient care sites in nine counties. The Health System, through Nittany, jointly holds ownership interest in ambulatory surgical centers.

During 2023 and 2022, the Health System recorded \$854.2 million and \$659.8 million, respectively, of net patient service revenue received from HH. During 2022, the Health System received cash contributions of \$30.0 million from HH related to the Community Health Reinvestment Act. Additionally, in 2023, the Health System transferred \$10.7 million of net assets to HH. During 2023 and 2022, the Health System paid HH \$272.7 million and \$243.2 million, respectively, of employee benefits expense. As of June 30, 2023 and 2022, the Health System has a liability due to HH in the amount of \$13.8 million and \$3.1 million, respectively. This liability is included in accounts payable and other accrued expenses in the consolidated statements of financial position.

### **14. CONTINGENCIES AND COMMITMENTS**

#### **CONTRACTUAL OBLIGATIONS**

The University has contractual obligations for the construction of new buildings and for additions to existing buildings in the amount of \$1.719 billion, of which \$1.358 billion has been paid or accrued as of June 30, 2023. The contract costs are being financed from available resources and from borrowings.

#### **LETTERS OF CREDIT**

The University has available letters of credit in the amount of \$33.5 million and \$38.4 million as of June 30, 2023 and 2022, respectively. These letters of credit are used primarily to comply with minimum state and federal regulatory laws that govern various University activities. The fair value of these letters of credit approximates contract values based on the nature of the fee arrangements with the issuing banks.

#### **GUARANTEES**

The University has a contract with a third party whereby the third party acts as an agent of the University in connection with procurement of electricity. The University guarantees the payment of the obligations of the third party incurred on behalf of the University to counterparties.

## **SELF-INSURANCE**

The University has a coordinated program of commercial and self-insurance for medical malpractice claims for the Health System through the use of a qualified trust and a domestic captive insurance company in combination with a self-insured retention layer and is supplementing this program through participation in the Pennsylvania Medical Care Availability and Reduction of Error Fund (“MCARE Fund”), in accordance with Pennsylvania law. An estimate of the present value, discounted at 2% for the years ended June 30, 2023 and 2022, of the medical malpractice claims liability in the amount of \$212.7 million and \$186.4 million is recorded as of June 30, 2023 and 2022, respectively.

The subsidiaries of the Health System are self-insured for all medical malpractice claims asserted on or after July 1, 2001, for all amounts that are below the coverage of excess insurance policies and not included in the insurance coverage of the MCARE Fund. Under the self-insurance program, the Health System is required to maintain a malpractice trust fund in an amount at least equal to the expected loss of known claims. The balance of this trust fund was \$40.2 million and \$33.6 million at June 30, 2023 and 2022, respectively. The Health System intends to fund any claims due during the next year from cash flows from operations.

With approval from the Pennsylvania Department of Labor and Industry (PA-DLI), the University elected to self-insure potential obligations applicable to Pennsylvania workers’ compensation. Claims under the program are contractually administered by a third-party administrator. The University purchased insurance coverage from a commercial insurer for claims in excess of \$600,000 per incident. An estimate of the self-insured workers’ compensation claims liability in the amount of \$6.3 million and \$5.8 million, discounted at 4.13% and 3.01%, respectively, is recorded as of June 30, 2023 and 2022, respectively. The University has established a trust fund, in the amount of \$13.8 million and \$13.9 million at June 30, 2023 and 2022, respectively, as required by PA-DLI, to collateralize and to provide for the payment of claims under this self-insurance program. The Health System is self-insured for workers’ compensation claims and has purchased excess policies through commercial insurers which cover individual claims in excess of \$750,000 per incident for workers’ compensation claims.

The University and the Health System are self-insured for certain health care benefits provided to employees. The University and the Health System have purchased excess insurance policies which cover employee health benefit claims in excess of \$750,000 per employee per year. The University and the Health System provide for reported claims and claims incurred but not reported.

## **RELATED PARTY TRANSACTIONS**

During 2023 and 2022, the University paid HH, a related party as defined in Note 13, \$162.6 million and \$36.6 million, respectively, of employee benefits expense. As of June 30, 2023, the University has a liability due to HH in the amount of \$24.7 million.

## **LITIGATION AND CONTINGENCIES**

Various legal proceedings have arisen in the normal course of conducting University business. The outcome of such litigation is not expected to have a material effect on the financial position of the University.

Based on its operation of the Health System (see Note 13), the University, like the rest of the healthcare industry, is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Although the University believes it has done its best to comply with these numerous regulations, such government reviews could result in significant repayments of previously billed and collected revenues from patient services.

## **15. SUBSEQUENT EVENTS**

The University has evaluated subsequent events through November 9, 2023, the date on which the consolidated financial statements were issued. It did not identify any subsequent events to be disclosed other than those below or previously noted.



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as of June 30, 2023

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