

NEW ISSUE-Book Entry Only

Ratings: See “RATINGS” herein

In the opinion of Bond Counsel, interest on the Series BA Bonds is excludable from gross income for federal income tax purposes, under existing laws as of the date of initial delivery of the Series BA Bonds and assuming current and continuing compliance with certain covenants of the System and the Authority and current and continuing compliance by the Authority and the System with the requirements of federal tax law and all applicable regulations thereunder. In addition, interest on the Series BA Bonds will not be treated as an item of tax preference under Section 57 of the Code, for purposes of the federal alternative minimum tax imposed on individuals; however, such interest may be taken into for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel is also of the opinion that under current Commonwealth of Pennsylvania law, interest on the Series BA Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series BA Bonds. For a more complete discussion, see “TAX MATTERS” herein.

\$64,345,000*

**PENNSYLVANIA HIGHER EDUCATIONAL
FACILITIES AUTHORITY
(Commonwealth of Pennsylvania)
STATE SYSTEM OF HIGHER EDUCATION
REVENUE BONDS,
SERIES BA**

Dated: Date of Delivery**Due: June 15, as shown on the inside front cover**

The State System of Higher Education Revenue Bonds, Series BA (the “Series BA Bonds”) will be issued by the Pennsylvania Higher Educational Facilities Authority (the “Authority”) pursuant to an Indenture of Trust dated as of June 1, 1985 (as previously supplemented and as further supplemented by a Forty-Ninth Supplemental Indenture of Trust to be dated as of November 1, 2025, collectively, the “PHEFA Indenture”) between the Authority and The Bank of New York Mellon, Philadelphia, Pennsylvania, as successor trustee (the “Trustee”). The Series BA Bonds will be payable from and secured by certain funds held by the Trustee under the PHEFA Indenture and payments to the Trustee, as assignee of the Authority, under the Loan and Security Agreement dated as of June 1, 1985, as previously amended and supplemented and as further amended and supplemented by a Forty-Ninth Supplemental Loan Agreement to be dated as of November 1, 2025 (collectively, and as amended and supplemented from time to time, the “Loan Agreement”), between the Authority and Pennsylvania’s State System of Higher Education (the “System”). The Series BA Bonds are Additional Bonds (as defined in the PHEFA Indenture) payable, equally and ratably with all other bonds of the Authority issued and outstanding under the PHEFA Indenture, solely from the funds held under the PHEFA Indenture and from payments to be received by the Authority pursuant to the Loan Agreement. The Loan Agreement is a general, unsecured obligation of the System. See “SOURCES OF AND SECURITY FOR PAYMENT OF THE SERIES BA BONDS” herein.

Principal of and interest on the Series BA Bonds will be paid by the Trustee. Interest on the Series BA Bonds is payable to each registered Bondowner (as defined herein) of record as of the pertinent record dates herein described on June 15 and December 15 of each year, commencing June 15, 2026, until maturity or redemption prior to maturity. So long as The Depository Trust Company, New York, New York (“DTC”) or its nominee, Cede & Co., is the registered Bondowner of the Series BA Bonds, such payments will be made directly to Cede & Co. Disbursement of such payments to the Beneficial Owners (as defined herein) is the responsibility of the Direct Participants and Indirect Participants (as such terms are defined herein) of DTC, as more fully described herein.

The Series BA Bonds are subject to redemption prior to maturity as described herein.

The Series BA Bonds are issuable only as fully registered bonds without coupons, and when issued, will be registered in the name of Cede & Co., as registered Bondowner and nominee for DTC. DTC will act as securities depository for the Series BA Bonds. Purchases of beneficial interests in the Series BA Bonds will be made in book-entry only form, in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Series BA Bonds purchased. So long as the Series BA Bonds are registered in the name of Cede & Co. as nominee of DTC, references herein to the registered Bondowners or registered owners shall mean Cede & Co., and shall not mean the Beneficial Owners of the Series BA Bonds. See “The Series BA Bonds - Book-Entry Only System” herein.

The Series BA Bonds are limited obligations of the Authority. Neither the general credit of the Authority nor the credit or taxing power of the Commonwealth of Pennsylvania or of any political subdivision thereof is pledged for the payment of the principal of or the interest on the Series BA Bonds described above, nor shall such Series BA Bonds be deemed to be general obligations of the Authority or obligations of the Commonwealth of Pennsylvania or any political subdivision thereof, nor shall the Commonwealth of Pennsylvania or any political subdivision thereof be liable for the payment of the principal of or interest on the Series BA Bonds described above. The Authority has no taxing power.

The Series BA Bonds are offered when, as and if issued by the Authority and received by the Underwriters (as defined herein) subject to receipt of the approving legal opinion of Ahmad Zaffarese LLC, Philadelphia, Pennsylvania, as bond counsel (“Bond Counsel”). Certain legal matters will be passed upon for the Authority by its counsel, Barley Snyder LLP, Lancaster, Pennsylvania, and for the System by its Chief Legal Counsel. It is expected that the Series BA Bonds in definitive form will be available for delivery through the facilities of DTC on or about November 12, 2025.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Prospective purchasers of the Series BA Bonds must read this entire Official Statement, including the appendices, to obtain information essential to the making of an informed investment decision.

The date of this Official Statement is October ___, 2025.

* Preliminary, subject to change.

\$64,345,000*
PENNSYLVANIA HIGHER EDUCATIONAL
FACILITIES AUTHORITY
(Commonwealth of Pennsylvania)
STATE SYSTEM OF HIGHER EDUCATION
REVENUE BONDS,
SERIES BA

MATURITY SCHEDULE

<u>Maturity</u> <u>(June 15)</u>	<u>Amount</u>	<u>Interest</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP[†]</u> <u>(70917)</u>
6/15/2026	\$ 590,000				
6/15/2027	895,000				
6/15/2028	940,000				
6/15/2029	990,000				
6/15/2030	1,040,000				
6/15/2031	2,050,000				
6/15/2032	2,155,000				
6/15/2033	2,260,000				
6/15/2034	2,375,000				
6/15/2035	2,495,000				
6/15/2036	2,615,000				
6/15/2037	2,750,000				
6/15/2038	2,890,000				
6/15/2039	3,030,000				
6/15/2040	3,180,000				
6/15/2041	1,565,000				
6/15/2042	1,645,000				
6/15/2043	1,725,000				
6/15/2044	1,815,000				
6/15/2045	1,905,000				
6/15/2046	2,000,000				
6/15/2047	2,105,000				
6/15/2048	2,215,000				
6/15/2049	2,330,000				
6/15/2050	2,455,000				
6/15/2051	2,580,000				
6/15/2052	2,715,000				
6/15/2053	2,860,000				
6/15/2054	3,010,000				
6/15/2055	3,165,000				

* Preliminary, subject to change.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau of CUSIP Global Services, which is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP data herein is provided for convenience of reference only. Neither the Authority, the System, nor their respective agents take any responsibility for the selection or correctness of the CUSIP numbers set forth herein, nor for the accuracy of such data now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series BA Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series BA Bonds.

PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY
(Commonwealth of Pennsylvania)
400 North Street, 6th Floor
Harrisburg, PA 17120

BOARD MEMBERS OF THE AUTHORITY

Honorable Josh Shapiro
Governor of the Commonwealth of Pennsylvania..... President

Honorable Jarrett Coleman
Designated by the President Pro Tempore of the Senate Vice President

Honorable Peter G. Schweyer
Designated by the Speaker of the House of Representatives Vice President

Honorable Lindsey M. Williams
Designated by the Minority Leader of the Senate..... Vice President

Honorable Stacy Garrity
State Treasurer Treasurer

Honorable Reggie McNeil
Secretary of General Services..... Secretary

Honorable Bryan Cutler
Designated by the Minority Leader of the House of Representatives Board Member

Honorable Timothy L. DeFoor
Auditor General Board Member

Honorable Dr. Carrie Rowe
Acting Secretary of Education..... Board Member

EXECUTIVE DIRECTOR
Jennifer Sheffield

AUTHORITY COUNSEL
(Appointed by the Office of General Counsel)
Barley Snyder LLP
Lancaster, Pennsylvania

TRUSTEE
The Bank of New York Mellon Trust Company, N.A.
Philadelphia, Pennsylvania

BOND COUNSEL
(Appointed by the Office of General Counsel)
Ahmad Zaffarese LLC
Philadelphia, Pennsylvania

FINANCIAL ADVISOR AND MUNICIPAL ADVISOR
to the State System of Higher Education
Janney Montgomery Scott LLC
Philadelphia, Pennsylvania

NOTICE TO INVESTORS

THE SERIES BA BONDS MAY BE OFFERED AND SOLD TO CERTAIN DEALERS (INCLUDING DEALERS DEPOSITING THE SERIES BA BONDS INTO INVESTMENT ACCOUNTS) AND TO OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS WITHOUT PRIOR NOTICE TO THE PUBLIC, BUT WITH PRIOR NOTICE TO THE AUTHORITY AND THE SYSTEM.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES BA BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY, OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE SERIES BA BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

The information set forth herein has been obtained from the Authority, the System and other sources which are believed to be reliable, but the information provided by sources other than the Authority is not guaranteed as to accuracy or completeness by the Authority. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

The Authority has not prepared or assisted in the preparation of this Official Statement except for the statements under the captions “THE AUTHORITY” and “LITIGATION AND LEGAL PROCEEDINGS.” The Authority has reviewed only the information contained herein under such captions and approved only such information for use within the Official Statement.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Underwriters or the System to give any information or to make any representations with respect to the Series BA Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy any of the Series BA Bonds in any jurisdiction in which it is unlawful to make such an offer, solicitation, or sale.

The Series BA Bonds are not, and will not be, registered under the Securities Act of 1933, as amended, or under any state securities laws, and the PHEFA Indenture has not been and will not be qualified under the Trust Indenture Act of 1939, as amended, because of available exemptions therefrom. Neither the Securities and Exchange Commission nor any federal, state, municipal, or other governmental agency will pass upon the accuracy, completeness, or adequacy of the Official Statement.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

This Official Statement speaks only as of the date printed on the cover page hereof. The information contained herein is subject to change. The Official Statement will be made available through the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board.

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OFFICIAL STATEMENT

\$64,345,000*
**PENNSYLVANIA HIGHER EDUCATIONAL
FACILITIES AUTHORITY
(COMMONWEALTH OF PENNSYLVANIA)
STATE SYSTEM OF HIGHER EDUCATION
REVENUE BONDS,
SERIES BA**

INTRODUCTION

This Introduction is qualified in all respects by the more detailed information appearing elsewhere in this Official Statement and in the Appendices hereto.

General

This Official Statement, including the cover page and the Appendices hereto, sets forth certain information concerning the issuance by the Pennsylvania Higher Educational Facilities Authority (the “Authority,” the offices of which are located at 400 North Street, 6th Floor Harrisburg, PA 17120), of the Authority’s State System of Higher Education, Revenue Bonds, Series BA in the aggregate principal amount of \$64,345,000* (the “Series BA Bonds”). The Authority is a body corporate and politic constituting a public corporation and a public instrumentality of the Commonwealth of Pennsylvania (the “Commonwealth”), created by The Pennsylvania Higher Educational Facilities Authority Act of December 6, 1967, P.L. 678, Act No. 318, as amended (the “Act”). See **“The Authority”** herein for additional information about the Authority.

The Series BA Bonds are being issued on behalf of the State System of Higher Education (the “System”), a body corporate and politic constituting a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania, created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (“Act 188”). See **APPENDIX I: “CERTAIN INFORMATION CONCERNING PENNSYLVANIA’S STATE SYSTEM OF HIGHER EDUCATION”** for certain information concerning the System. **APPENDIX II** contains the audited financial statements of the System for the fiscal year ended June 30, 2025.

Certain capitalized terms used and not otherwise defined herein shall have the meaning assigned to them in **APPENDIX III: “SUMMARY OF LEGAL DOCUMENTS – Definitions of Certain Terms.”**

The Series BA Bonds

The Series BA Bonds are being issued by the Authority in the aggregate principal amount of \$64,345,000*. They will be dated their date of delivery, and will bear interest from such date, payable June 15 and December 15 of each calendar commencing June 15, 2026, at the rates set forth on the inside of the front cover page hereof and shall be subject to redemption prior to maturity as described herein. See **“The Series BA Bonds – Redemption Provisions”** herein.

The Series BA Bonds will be issued pursuant to the Act and an Indenture of Trust dated as of June 1, 1985 (the “Original Indenture”), as previously supplemented and as further supplemented by a Forty-Ninth Supplemental Indenture of Trust dated as of November 1, 2025 (collectively, the “PHEFA Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, as successor trustee (the “Trustee”). The Series BA Bonds will be equally and ratably secured

* Preliminary, subject to change.

(as and to the extent described below) with (a) the Outstanding bonds of fifty-two prior series issued under the PHEFA Indenture (all of such prior bonds are sometimes referred to, collectively hereinafter, as the “PHEFA Prior Bonds”), and (b) the \$827,580,000 original principal amount of Federally Taxable Revenue Bonds (State System of Higher Education Act 105 Project), Series 2021 (the “PEDFA Prior Bonds”) issued by the Pennsylvania Economic Development Financing Authority (“PEDFA”) pursuant to a Trust Indenture dated as of April 1, 2021, between PEDFA and The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, as trustee for the PEDFA Prior Bonds, as amended (the “PEDFA Indenture”). The PHEFA Prior Bonds, together with the PEDFA Prior Bonds, are referred to hereinafter as the “Prior Bonds.” The PHEFA Prior Bonds, the Series BA Bonds, and any Additional PHEFA Bonds which may be Outstanding from time to time under the PHEFA Indenture are referred to collectively herein as “PHEFA Bonds.” The PEDFA Prior Bonds and any Additional PEDFA Bonds which may be outstanding from time to time under the PEDFA Indenture are referred to collectively herein as “PEDFA Bonds.”

As of June 30, 2025, there was a total of \$1,459,940,000 aggregate principal amount of Prior Bonds outstanding (\$777,300,000 outstanding under the PHEFA Indenture and \$682,640,000 outstanding under the PEDFA Indenture). See **“Sources of and Security for Payment of the Series BA Bonds”** herein.

The Series BA Bonds are issuable only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as registered Bondowner and nominee for The Depository Trust Company (“DTC”), New York, New York. See **“The Series BA Bonds – Book-Entry Only System”** herein.

Use of Proceeds

Pursuant to a Loan and Security Agreement dated as of June 1, 1985, between the Authority and the System, as supplemented from time to time, including by, in particular, a Forty-Ninth Supplemental Loan and Security Agreement to be dated as of November 1, 2025 (collectively, the “Loan Agreement”), the Authority will lend the proceeds of the Series BA Bonds to the System, which will use such proceeds as described herein under **“Sources and Uses of Funds”** and **“Plan of Finance.”**

Security for the Series BA Bonds

The Series BA Bonds are being issued on a parity (except as to certain specified funds held under the PHEFA Indenture) with the Prior PHEFA Bonds and any Additional PHEFA Bonds with respect to the amounts payable by the System and secured under the Loan Agreement and by, inter alia, an assignment to the Trustee of all the right, title, and interest of the Authority in and to the Loan Agreement (except for the Authority’s right to payment of certain fees and expenses and to indemnification), including such amounts payable thereunder. The Series BA Bonds are payable on a parity with the PEDFA Bonds and any Additional PEDFA Bonds (except as to certain specified funds held under the PHEFA Indenture). **The Loan Agreement is an unsecured general obligation of the System and the full faith and credit of the System is pledged to the payment of all sums due thereunder. See “Sources of and Security for Payment of the Series BA Bonds” and APPENDIX III: “SUMMARY OF LEGAL DOCUMENTS”** herein.

NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE CREDIT OR TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES BA BONDS, NOR SHALL THE SERIES BA BONDS BE DEEMED TO BE GENERAL OBLIGATIONS OF THE AUTHORITY OR OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF, NOR SHALL THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES BA BONDS. THE AUTHORITY HAS NO TAXING POWER.

Availability of Documents

The general descriptions of various legal documents set forth in this Official Statement do not purport to be comprehensive or definitive and reference should be made to each document for the complete terms and provisions thereof. Copies of all documents referred to herein about any document are available for inspection during normal business hours at the designated corporate trust office of the Trustee in Philadelphia, Pennsylvania, and will be provided to any prospective purchaser requesting the same upon payment by such prospective purchaser of the cost of complying with such request. All statements herein are qualified in all respects by reference to such document in its entirety.

THE SERIES BA PROJECT

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

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth estimated sources and uses of funds for the Series BA Project:

Sources:

Series BA Bond Proceeds	\$ _____ *
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Total Sources	\$ _____ *
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Uses:

West Chester Project	\$ _____
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Kutztown Project	\$ _____
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Capitalized Interest	\$ _____
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Issuance Costs ⁽¹⁾	\$ _____
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Underwriters' Discount	\$ _____
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Total Uses:	\$[_____]
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⁽¹⁾ Includes fees and expenses of Bond Counsel, the Municipal Advisor, the Authority, the System, the Trustee, rating agency fees, printing fees and miscellaneous fees and expenses.

THE AUTHORITY

The Authority is a body corporate and politic, constituting a public corporation and a public instrumentality of the Commonwealth of Pennsylvania (the “Commonwealth” or “State”), created by the Act.

Under the Act, the Board of the Authority (the “Board”) consists of the Governor of the Commonwealth, the State Treasurer, the Auditor General, the Secretary of the Department of Education, the Secretary of the Department of General Services, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Minority Leader of the House of Representatives and the Minority Leader of the Senate. Pursuant to the Act, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Minority Leader of the Senate and the Minority Leader of the House of Representatives may designate a member of their respective legislative bodies to act as a member of the Authority in their stead. The members of the Board serve without compensation but are entitled to reimbursement for all necessary expenses incurred in connection with the performance of their duties as members. The powers of the Authority are exercised by a governing body consisting of the members of the Authority acting as the Board.

The Authority is authorized under the Act, among other things, to acquire, construct, finance, improve, maintain, operate, hold and use any educational facility (as therein defined) and, with respect to colleges and universities: (1) to finance projects by making loans, (2) to lease as lessor or lessee, (3) to transfer or sell any educational facility or property, (4) to charge and collect amounts for the payment of expenses of the Authority and for payment of the principal of and interest on its obligations, (5) to issue bonds and other obligations for the purpose of paying the cost of projects, (6) to issue refunding bonds, (7) to pledge all or any of the revenues of the Authority for all or any of such obligations, and (8) to enter into trust indentures providing for the issuance of such obligations and for their payment and security.

The Authority has issued from time to time other series of revenue bonds and notes for the purpose of financing projects for higher educational institutions in the Commonwealth. None of the revenues of the Authority with respect to any of such revenue bonds and notes are pledged as security for the Series BA Bonds and, conversely, such revenue bonds and notes above are not payable from or secured by the revenues of the Authority or other moneys securing the Series BA Bonds.

Except for the Prior Bonds, any Additional Bonds and any Additional PHEFA Bonds, none of the revenues of the Authority with respect to any of the revenue bonds and notes referred to above are pledged as security for any of the Series BA Bonds and, conversely, the revenue bonds and notes referred to above are not payable from or secured by the revenues of the Authority or other moneys securing the Series BA Bonds. See **“Sources of and Security for Payment of the Series BA Bonds.”**

The Authority may in the future issue other series of bonds for the purpose of financing projects for educational institutions in the Commonwealth. Each such series of bonds will be secured by instruments separate and apart from the PHEFA Indenture securing the Series BA Bonds, except for any Additional PHEFA Bonds issued thereunder.

The following disclosure is being made pursuant to Florida state law (Fla. Stat. Ann. § 517.051). On May 1, 1991, the Authority was unable to make payments to Bondowners with respect to a series of revenue bonds issued by the Authority on behalf of a college because of defaults on payment obligations related to such series of revenue bonds by such college. The Florida Department of Banking and Finance, Division of Securities and Investor Protection, generally requires disclosure by any issuer of securities sold in Florida of defaults on any other obligations of such issuer. These defaulted bonds were special obligations payable only from revenues received from the particular college or from other limited sources, but not from revenues pledged to pay any series of bonds, and the full faith and credit of the Authority was not pledged to secure the payment of such bonds. Such default is not material with respect to the offering and sale of

the Series BA Bonds, and additional details with respect thereto in this are not being provided in this Official Statement.

The Series BA Bonds are being issued under the Act pursuant to a resolution of the Authority adopted on July 31, 2025, and pursuant to the PHEFA Indenture and a resolution of the System adopted on July 24, 2025.

The Act provides that the Authority is to obtain from the Pennsylvania State Public School Building Authority (“SPSBA” and, together with the Authority, the “Authorities”), for a fee, those executive, fiscal and administrative services which are not available from the colleges and universities, as may be required to carry out the functions of the Authority under the Act. Accordingly, the Authorities share an executive, fiscal and administrative staff and operate under a joint administrative budget.

The following are key staff members of the Authority who are involved in the administration of the financing and projects:

Jennifer Sheffield, Executive Director. Ms. Sheffield is the Executive Director of the Authority and SPSBA. She has been with the Authorities since 2006 and previously served as Director of Operations. Prior to her present employment, Ms. Sheffield was an auditor with the Pennsylvania Department of the Auditor General. Ms. Sheffield is a graduate of the University of Pittsburgh with a bachelor’s degree in business and a concentration in accounting.

David Player, Comptroller & Director of Financial Management. Mr. Player is the Comptroller & Director of Financial Management of the Authorities. He has been with the Authorities since 1999. Prior to his present employment, Mr. Player was an audit senior with the Pennsylvania Department of the Auditor General. Mr. Player is a certified public accountant and a graduate of Penn State University with a bachelor’s degree in accounting.

THE AUTHORITY HAS NOT PREPARED OR ASSISTED IN THE PREPARATION OF THIS OFFICIAL STATEMENT, EXCEPT THE STATEMENTS UNDER THIS SECTION AND UNDER THE HEADING “LITIGATION AND LEGAL PROCEEDINGS,” AND, EXCEPT AS AFORESAID, THE AUTHORITY DISCLAIMS RESPONSIBILITY FOR THE DISCLOSURES SET FORTH HEREIN MADE IN CONNECTION WITH THE OFFER, SALE, AND DISTRIBUTION OF THE SERIES BA BONDS.

THE SERIES BA BONDS

Description of the Series BA Bonds

The Series BA Bonds shall be dated their date of delivery, will mature on the dates and in the amounts and shall be payable as to interest, on June 15 and December 15 of each year commencing June 15, 2026, at the rates set forth on the inside of the cover page hereof. The Series BA Bonds shall be subject to redemption prior to maturity as described below.

The Series BA Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered Bondowner and nominee of DTC. Purchases of the Series BA Bonds will be made in book-entry only form, in denominations of \$5,000 and any integral multiple thereof. Beneficial Owners will not receive certificates representing their interests in the Series BA Bonds purchased. So long as Cede & Co. is the registered Bondowner, as nominee of DTC, references herein to the registered Bondowners mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series BA Bonds. See “**Book-Entry Only System**” below.

Principal of and interest on the Series BA Bonds will be paid by the Trustee. So long as DTC or its nominee, Cede & Co., is the registered Bondowner of the Series BA Bonds, such payments will be made

directly to it as registered Bondowner. Disbursement of such payments to the brokers and financial institutions which are participants of DTC is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct Participants and Indirect Participants (as defined herein), as more fully described herein.

The PHEFA Indenture and the Loan Agreement and all provisions thereof are incorporated by reference in the text of the Series BA Bonds, and the Series BA Bonds provide that each registered owner, beneficial owner and Direct Participant or Indirect Participant (as such terms are defined herein) in DTC, by acceptance of a Series BA Bond (including receipt of a book-entry credit evidencing an interest therein), assents to all of the provisions of the PHEFA Indenture and the Loan Agreement as an explicit and material part of the consideration running to the Authority to induce it to issue the Series BA Bonds. Copies of the PHEFA Indenture and the Loan Agreement, including the full text of the form of the Series BA Bonds, are on file at the corporate trust office of the Trustee in Philadelphia, Pennsylvania.

Defeasance

If the Authority deposits with the Trustee funds, evidenced by moneys and/or Investment Securities (as defined in **APPENDIX III**), the principal of and interest on which, when due, will be sufficient to pay the principal or redemption price of any Series BA Bonds, by call for redemption or otherwise, together with interest accrued to the due date or the redemption date, as appropriate, in accordance with the terms of the PHEFA Indenture, such Series BA Bonds shall no longer be deemed to be Outstanding under the PHEFA Indenture. Interest on such Series BA Bonds, as appropriate, will cease to accrue on the due date or the redemption date, as appropriate, and from and after the date of such deposit of funds with the Trustee the holders of the Series BA Bonds will be restricted to the funds so deposited as provided in the PHEFA Indenture.

Book-Entry-Only System

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC, AND THE SYSTEM, THE AUTHORITY AND THE TRUSTEE TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

The Series BA Bonds will be available initially only in book entry form. Purchasers of Series BA Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Series BA Bonds. Purchases of beneficial interests in the Series BA Bonds will be made in book-entry only form in Authorized Denominations by Direct Participants of DTC. Payments of principal of and interest on the Series BA Bonds will be made by the Trustee directly to DTC as the registered Bondowner thereof. Any purchaser of beneficial interests in the Series BA Bonds must maintain an account with a broker or dealer who is, or acts through, a Direct Participant to receive payment of the principal of and interest on such Series BA Bonds.

DTC will act as securities depository for the Series BA Bonds (the "Bond Depository"). The Series BA Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series BA Bonds, each in the aggregate principal amount of the Series BA Bonds of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that direct participants of DTC ("Direct Participants") deposit with DTC. DTC also

facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series BA Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series BA Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series BA Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series BA Bonds, except in the event that use of the book-entry system for the Series BA Bonds is discontinued.

To facilitate subsequent transfers, all Series BA Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series BA Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series BA Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series BA Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series BA Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series BA Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond Documents. For example, Beneficial Owners of the Series BA Bonds may wish to ascertain that the nominee holding the Series BA Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series BA Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series BA Bonds unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to

those Direct Participants to whose accounts the Series BA Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments, and other distributions on the Series BA Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series BA Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

SO LONG AS CEDE & CO., AS THE NOMINEE FOR DTC, IS THE REGISTERED BONDOWNER OF THE SERIES BA BONDS, THE AUTHORITY AND THE TRUSTEE WILL TREAT CEDE & CO. AS THE ONLY REGISTERED BONDOWNER OF THE SERIES BA BONDS FOR ALL PURPOSES UNDER THE PHEFA INDENTURE, INCLUDING RECEIPT OF ALL PRINCIPAL OF AND INTEREST ON THE SERIES BA BONDS, RECEIPT OF NOTICES, AND VOTING.

The Trustee will pay principal of and interest on the Series BA Bonds to or upon the order of the respective Bondowners, as shown on the Bond Register, or upon their respective attorneys duly authorized in writing, as provided in the PHEFA Indenture, and all such payments will be valid and effective to fully satisfy the Authority's obligations with respect to the payment of principal and interest on the Series BA Bonds to the extent of the sum or sums so paid. Upon delivery by the nominee of DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of the existing nominee, and subject to the provisions of the PHEFA Indenture with respect to record dates, the word "Cede & Co." in the PHEFA Indenture will refer to such new nominee of DTC.

In the event the Authority or the Trustee receives written notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities, and the Authority is unable to find a substitute depository, in the opinion of the Authority, willing and able to undertake the functions of the Bond Depository upon reasonable and customary terms, then the Series BA Bonds will no longer be restricted to being registered in the Bond Register in the name of the nominee of DTC or DTC, but may be registered in whatever name or names the Beneficial Owners (as certified by DTC) transferring or exchanging the Series BA Bonds will designate, in accordance with the provisions of the PHEFA Indenture.

In the event the Authority determines that it is in the best interests of the Beneficial Owners of the Series BA Bonds that they be able to obtain bond certificates, the Authority may notify DTC and the Trustee, whereupon DTC will notify the Direct Participants and Indirect Participants of the availability through the nominee or DTC of bond certificates. In such event, the Trustee will issue, transfer, and exchange Series BA Bond certificates as requested by DTC and any other Bondowners in appropriate

amounts, and whenever the Bond Depository requests the Authority and the Trustee to do so, the Authority and the Trustee will cooperate with DTC by taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Series BA Bonds to any nominee or Direct Participant having Series BA Bonds credited to its account or (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Series BA Bonds.

Notwithstanding any other provision described herein or contained in the PHEFA Indenture to the contrary, so long as any Series BA Bond is registered in the name of the nominee of DTC, all payments with respect to the principal of and interest on such Series BA Bond will be made and given, respectively, to the nominee or DTC in the manner provided in the Blanket Letter of Representation entered into between DTC and the Authority.

In connection with any notice or communication to be provided to Series BA Bondowners pursuant to the PHEFA Indenture by the Authority or the Trustee with respect to any consent or other action to be taken by Bondowners, the Authority, or the Trustee, as the case may be, will establish a record date for such consent or other action and give the nominee or DTC notice of such record date not less than fifteen (15) calendar days in advance of such record date to the extent possible.

THE SYSTEM, THE AUTHORITY AND THE TRUSTEE HAVE NO RESPONSIBILITY OR OBLIGATIONS TO THE DIRECT OR INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF AND INTEREST ON THE SERIES BA BONDS; (C) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE PHEFA INDENTURE TO BE GIVEN TO BONDOWNERS; (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES BA BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC, OR ITS NOMINEE, CEDE & CO., AS REGISTERED BONDOWNER.

Redemption Provisions

The Series BA Bonds are subject to redemption as follows:

Optional Redemption: The Series BA Bonds maturing on and after June 15, 2036, are subject to optional redemption prior to maturity by the Authority at the written direction of the System in whole at any time or in part from time to time, on and after June 15, 2035, at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus accrued interest thereon to the date of redemption. Any partial redemption may be in any order of maturity and in any principal amount within a maturity as designated by the System by lot within a maturity. The Series BA Bonds to be redeemed within any maturity will be selected by the Trustee by lot.

Extraordinary Optional Redemption: The Series BA Bonds will be subject to redemption prior to maturity at the option of the Authority, at the direction of the System, in whole at any time, or in part from time to time, with respect to the Series BA Bonds in any order of maturity selected by the System, and within any maturity by lot, upon payment of a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus accrued interest to the date of redemption, but only in the event that all or a portion of the Series BA Projects financed or refinanced with the proceeds of the Series BA Bonds are damaged, destroyed or condemned, or sold under threat of condemnation, and it is determined that repair or reconstruction is not desirable, practical or financially feasible, from and to the extent of insurance proceeds, condemnation awards or proceeds of sale in lieu of condemnation received by the Trustee as a result of such damage, destruction, condemnation or sale under threat of condemnation.

Mandatory Sinking Fund Redemption: The successful bidder for the Series BA Bonds will be given the option to convert consecutively maturing serial Series BA Bonds bearing the same rate of interest to a Term Bond of such Series maturing in the final year of such particular consecutive series. Such Term Bond shall be subject to mandatory sinking fund redemption by lot, prior to maturity, at a redemption price of one hundred percent (100%) of the principal amount thereof, plus accrued interest to the date of redemption, from moneys deposited in a sinking fund established for the Series BA Bonds within the Revenue Fund established under the PHEFA Indenture, such redemptions to occur according to the principal maturity schedule contained herein, in the proposal and in the Official Statement.

[Hold for sinking fund schedule]

The principal amount of the Series BA Bonds otherwise required to be redeemed pursuant to mandatory sinking fund redemption may be reduced by the principal amount of Series BA Bonds previously called for extraordinary optional redemption or theretofore delivered to the Trustee by the System in lieu of cash payments under the Loan Agreement or purchased by the Trustee out of moneys in the Revenue Fund established under the PHEFA Indenture and which have not theretofore been applied as a credit against any sinking fund installment.

Notice of Redemption: Notice of any redemption, identifying the Series BA Bonds or portions thereof to be redeemed, will be given not more than 45 nor less than 30 days prior to the redemption date, by first-class mail, postage prepaid, to the registered Bondowners the Series BA Bonds to be redeemed. Any defect in the notice or the mailing thereof with respect to any Series BA Bond will not affect the validity of the redemption as to any other Series BA Bonds. No further interest will accrue on the principal of any Series BA Bonds called for redemption after the date fixed for redemption if payment of the redemption price thereof has been duly provided for, and the registered Bondowners of such Series BA Bonds will have no rights under the PHEFA Indenture except to receive payment of the redemption price thereof and unpaid interest accrued to the date fixed for redemption. If the notice so specifies, a call for redemption may be conditioned on the deposit of funds for redemption by the redemption date, in the absence of which deposit the call for redemption would be of no effect. The Trustee will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee as long as DTC acts as securities depository for the Series BA Bonds.

Partial Redemption: If less than all of the Series BA Bonds of like maturity or interest rate within a maturity of any series shall be called for redemption, the particular Series BA Bonds, or portions of Series BA Bonds, to be redeemed shall be selected by lot by the Trustee or in such other manner as the Authority, and directed by the System, may, in its discretion, deem proper. The method of selecting Series BA Bonds for redemption by lot shall be determined by the Trustee; provided, however, that, if the Series BA Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole Holder of such Series BA Bonds, if less than all of the Series BA Bonds of a particular maturity are called for redemption, the selection for redemption of such Series BA Bonds shall be made in accordance with the operational arrangements of DTC then in effect. Except as may be provided otherwise in a resolution of the Authority of the System, the portion of any Series BA Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof, and, in selecting portions of such Series BA Bonds for redemption, each such Series BA Bond shall be treated as representing that number of Series BA Bonds which is obtained by dividing the principal amount of such Series BA Bond to be redeemed in part by \$5,000.

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**DEBT SERVICE REQUIREMENTS ON THE SERIES BA BONDS
AND THE PRIOR BONDS**

The following tables set forth, for each of the periods indicated, the amounts required in such periods to be made available for the captioned purposes:

Fiscal Year	Series BA Bonds			Prior Bonds	Total
Ended				Total Debt	Debt
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Service</u>	<u>Service</u>
2026					\$133,131,119
2027					137,435,864
2028					135,485,133
2029					133,114,946
2030					128,414,158
2031					125,891,984
2032					111,217,735
2033					110,803,246
2034					106,750,684
2035					106,619,847
2036					106,558,525
2037					102,696,499
2038					82,156,144
2039					80,841,145
2040					80,539,581
2041					74,693,448
2042					39,527,684
2043					26,745,550
2044					21,700,500
2045					13,827,370
2046					5,234,500
2047					2,724,350
2048					-
2049					-
2050					-
2051					-
2052					-
2053					-
2054					-
2055					-
2056					-
TOTALS					\$1,866,110,012

SOURCES OF AND SECURITY FOR PAYMENT OF THE SERIES BA BONDS

Limited Obligations

The Series BA Bonds are limited obligations of the Authority, payable solely from (i) payments received from the System under the Loan Agreement, and (ii) moneys held by the Trustee in funds established under the PHEFA Indenture excepting, however, sinking or PHEFA Indenture funds pledged to a specific series of Bonds other than the Series BA Bonds. Neither the general credit of the Authority nor the credit or the taxing power of the Commonwealth or any political subdivision thereof is pledged for the payment of the principal of, or premium, if any, or interest on the Series BA Bonds, nor shall the Series BA Bonds be or be deemed to be general obligations of the Authority or obligations of the Commonwealth or any political subdivision thereof, nor shall the Commonwealth or any political subdivision thereof be liable for the payment of the principal of, or premium, if any, or interest on the Series BA Bonds. The Authority has no taxing power.

Loan Agreement

Under the Loan Agreement, the System pledges its full faith and credit to the timely payment of the amounts payable and to the performance of the acts required of it thereunder. The Loan Agreement constitutes an unsecured general obligation of the System and does not limit the ability of the System to incur additional indebtedness.

Additional PHEFA Bonds and Indebtedness

The Authority may issue Additional PHEFA Bonds under the PHEFA Indenture on parity with the Series BA Bonds and the System may incur certain additional indebtedness, on a parity with or subordinate to, the Series BA Bonds (other than with respect to certain funds under and as prescribed in the PHEFA Indenture). In order for such bonds to be issued or such other indebtedness to be incurred, the System must satisfy certain conditions set forth in the PHEFA Indenture, the Loan Agreement, the PEDFA Indenture, and the loan agreement, as amended, executed in connection therewith.

In accordance with the Loan Agreement, if the System pledges more than twenty percent (20%) of its Revenues (as defined in the PHEFA Indenture) to secure any indebtedness it may incur or any guaranties it may undertake, it must simultaneously grant an equal or superior lien on the Revenues to the Authority to be assigned to the Trustee to additionally secure the Series BA Bonds, which equal or superior lien would simultaneously be granted to PHEFA in connection with the PHEFA Bonds. As of the date hereof, no such pledge has been made by the System.

In connection with the issuance of Additional PHEFA Bonds, additional funds may be established under the PHEFA Indenture for the benefit of the Bondowners of such additional series. Further, in connection with the issuance of other additional indebtedness of the system (including additional PEDFA Bonds), additional funds may be established under the PEDFA Indenture or under other instruments for the benefit of the owners of such additional indebtedness. In either such event, the owners of the Series BA Bonds will have no claims or right to any such funds.

For a further description of the conditions under which such Additional PHEFA Bonds may be issued, see **APPENDIX III: SUMMARY OF LEGAL DOCUMENTS – “The PHEFA Indenture -- Additional PHEFA Bonds,”** and **“The PEDFA Indenture -- Additional Permitted Indebtedness.”**

CERTAIN BONDOWNERS' RISKS

Introduction

The Series BA Bonds constitute limited obligations of the Authority, payable solely from the payments to be made by the System pursuant to the Loan Agreement. Future revenues and expenses of the System are subject to change. **NO REPRESENTATION OR ASSURANCE CAN BE GIVEN THAT THE SYSTEM WILL BE ABLE TO GENERATE SUFFICIENT REVENUES TO MEET ITS OBLIGATIONS, INCLUDING, ITS OBLIGATIONS UNDER THE LOAN AGREEMENT.**

The purchase of the Series BA Bonds involves numerous investment risks, some of which are referred to in this Official Statement. No representation is made that the risks described or referred to in this Official Statement constitute all of the risks associated with investing in the Series BA Bonds. Accordingly, prior to making a decision to invest in the Series BA Bonds, each prospective purchaser thereof should make an independent evaluation of all of the information presented in this Official Statement, including the Appendices, and should review other pertinent information. **The Authority has made no independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the System.**

General

There are a number of factors affecting institutions of higher education, including the System, that could have an adverse effect on the System's financial position and its ability to make the payments required under the Loan Agreement, including the debt service payments on the Series BA Bonds. These factors include, but are not limited to, competition with other educational institutions; an economic downturn in the regions served by the System; changing demographics in the regions served by the System; declining enrollment; increasing costs of technology; the failure to increase (or a decrease in) the funds obtained by the System from other sources, including appropriations from governmental bodies; the impact at various times of modifications to federal student financial aid programs; the impact of withdrawn or reduced federal funding of higher education institutions; threatened or actual litigation between the federal government and higher education institutions based on alleged violations of federal law by such institutions; and increasing costs of compliance with changes in federal or state regulatory laws or regulations. See **APPENDIX I: "CERTAIN INFORMATION CONCERNING PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION."** Appendix I should be read in its entirety.

Certain State Appropriations

A significant portion of the System's operating revenues consists of appropriations made to the System by the Commonwealth of Pennsylvania. There is a risk that such Commonwealth appropriations may not continue at current levels as a percentage of the System's current unrestricted revenues which, in turn, may require greater than historic rates of tuition increases. See **APPENDIX I: "CERTAIN INFORMATION CONCERNING PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION – Commonwealth Appropriations"** for a discussion of such appropriations.

Tuition Revenues

Tuition revenue, including fees and room and board charges are the principal revenue source for the System. While the System has been able to demonstrate a satisfactory level of student demand for its academic programs at current tuition levels, there is no assurance that it will be able to continue to do so throughout the term of the Series BA Bonds. Demand for the attendance at the System's universities may be subject to factors beyond its control, such as general economic and demographic conditions, public health crises, funding levels at state-supported and competitive private institutions, public and private

funding of financial aid programs and changes in the demand for higher education in general. The System currently subsidizes a number of students with scholarship and loan programs, which are subject to reduction and limitations.

Tax-Exemption

Changes in tax laws, or the judicial interpretation of such, regarding tax exempt organizations such as the System could affect adversely the System's revenues. In recent years, the Congress and Internal Revenue Service have focused more closely on issues of tax-exemption, such as the scope of income constituting unrelated business taxable income.

Governmental Regulations

The receipt of future revenues by the System is subject to, among other factors, federal and state policies affecting higher education, industry, future economic conditions and other conditions which are impossible to predict.

Redesign of the State System

The System is confronted with the challenges of demographic decline and significant reliance on state support, which has been stable. See **"CERTAIN BONDHOLDERS' RISKS – Certain State Appropriations"** above. To address the issues, the System has implemented a sustainability policy with targeted goals and monitoring of financial performance, and integrated six universities as a means to drive down costs while maintaining affordable higher education services for the students of the Commonwealth.

See **APPENDIX I: "CERTAIN INFORMATION CONCERNING PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION – System Redesign -- University Integrations"** for a further discussion regarding the impact of Act 50 on the redesign of the System.

Cybersecurity Risks

The System and its universities are focused on the importance of protecting the confidentiality of individuals' personal information, including certain student and employee information. The unauthorized release of such information, inappropriate access thereof, and failure to comply with certain required security safeguards with respect thereto, could result in material adverse reputations and business operations consequences, including possible legal actions and economic liability. Electronic record and other information technology systems utilized for purposes of student and employee recordkeeping may be targets for cyberattacks that could result in system breaches, system damage, unauthorized access and dissemination of personal information and disruption of online instruction. Cyberattacks and other cyber incidents are occurring frequently, are constantly evolving in nature, are becoming sophisticated and are being made by individuals and groups (including criminal hackers, so-called "hacktivists," state-sponsored institutions, terrorist organizations and individuals or groups participating in organized crime) with a wide range of expertise and motives.

Enforceability of Remedies

The remedies available to Bondowners upon an Event of Default under the PHEFA Indenture or the Loan Agreement are, in many respects, dependent upon judicial action that is subject to discretion or delay. Under existing law and judicial decisions, the remedies specified in the PHEFA Indenture and the Loan Agreement may not be readily available or may be limited. A court may decide not to order specific performance.

The various legal opinions to be delivered concurrently with the original delivery of the Series BA Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws or legal or equitable principles affecting creditor's rights.

No Recourse Against Members of the Authority

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the PHEFA Indenture are deemed to be covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his or her individual capacity, and no recourse shall be had for the payment of the principal or redemption price of or interest on the Series BA Bonds or for any claim based thereon or on the PHEFA Indenture against any member, officer or employee of the Authority or any person executing the Series BA Bonds.

Business Disruption Risk

Certain external events beyond the control of the System, such as pandemics, natural disasters, severe weather, technological emergencies, riots, acts of war or terrorism or other circumstances, could potentially disrupt the System's ability to conduct its operations. A prolonged disruption in the System's operations could have an adverse effect on the System.

Since March 2020, COVID-19 has had a notable impact on the System and the world in general. With the conclusion of the public health emergency declarations by the United States government and the World Health Organization in early May 2023, it is expected that the pandemic's most notable impacts are in the past. However, a resurgence of COVID-19 or the emergence of a new pandemic could have adverse impacts on the System's operations, including revenues and expenses; and, more broadly, on the global financial markets. The System is unable to know or estimate the magnitude or severity of such impacts at this time.

LEGALITY FOR INVESTMENT

Under the Act, the Series BA Bonds are designated securities in which all officers of the Commonwealth and its political subdivisions and municipal officers and administrative departments, boards and commissions of the Commonwealth, all banks, bankers, savings banks, trust companies, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all administrators, executors, guardians, trustees and other fiduciaries, and all other persons whatsoever who are authorized to invest in bonds or other obligations of the Commonwealth, may properly and legally invest any funds, including capital belonging to them or within their control, and the Series BA Bonds are securities which properly and legally may be deposited with, and received by, any Commonwealth or municipal officers or agency of the Commonwealth for any purpose for which the deposit of bonds or other obligations of the Commonwealth is authorized by law.

NEGOTIABILITY

Under the Act, the Series BA Bonds have all the qualities of negotiable instruments under the law merchant and the laws of the Commonwealth relating to negotiable instruments.

TAX MATTERS

The following is a summary of the material federal and Commonwealth income tax consequences of holding and disposing of the Series BA Bonds. Such summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). It does not discuss all aspects of federal income taxation that may be relevant to investors in light of their own particular investment circumstances or describe the tax consequences to certain types of owners subject to special treatment under the federal income tax laws (including, but not limited to, dealers in securities or other persons who do not hold the Series BA Bonds as a capital asset, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the Commonwealth, it does not discuss the consequences to an owner under any state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Series BA Bonds in the secondary market. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of purchasing, holding, and disposing of the Series BA Bonds.

Federal Income Taxation

As of the date of the closing of the Series BA Bonds, Bond Counsel will issue an opinion to the effect that interest on the Series BA Bonds (including any original issue discount properly allocable to the owner of a Series BA Bond) is excludable from gross income for purposes of federal income tax purposes, under existing laws as enacted and construed on the date of initial delivery of the Series BA Bonds, assuming the accuracy of the certifications of the Authority and the System and continuing compliance by the Authority and the System with the requirements of the Code. Interest on the Series BA Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest is taken into account in determining the “adjusted financial statement income” (as defined in Section 56A of the Code) of “applicable corporations” (as defined in Section 59 of the Code) for purposes of computing the alternative minimum tax imposed on such corporations. Prospective purchasers of the Series BA Bonds who are not United States persons, as defined for federal income tax purposes, may be subject to special rules and should consult their tax advisors.

Original Issue Discount. Certain of the Series BA Bonds [may be/are] offered at a discount (“original issue discount”) equal generally to the difference between the public offering price and the principal amount. For federal income tax purposes, original issue discount on a Series BA Bond accrues periodically over the term of such Series BA Bond as interest with the same tax exemption and alternative minimum tax status as stated interest. The accrual of original issue discount increases the bondholder’s tax basis in the Series BA Bond for determining taxable gain or loss upon sale or redemption prior to maturity. Bondholders should consult their tax advisers for an explanation of the accrual rules.

Original Issue Premium. Certain of the Series BA Bonds [may be/are] offered at a premium (“original issue premium”) over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Series BA Bond through reductions in the bondholder’s tax basis for the Series BA Bond for determining taxable gain or loss upon sale or redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Bondholders should consult their tax advisers for an explanation of the amortization rules.

No Other Opinions. Bond Counsel express no opinion regarding other federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Series BA Bonds.

State Income Tax Exemption

Bond Counsel is of the opinion that under current Pennsylvania law, interest on the Series BA Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. Bond Counsel will express no opinion regarding other state or local tax consequences arising with respect to the Series BA Bonds, including whether interest on the Series BA Bonds is exempt from taxation under the laws of any jurisdiction other than the Commonwealth of Pennsylvania.

General

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series BA Bonds, and Bond Counsel will not express any opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation. The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete. PROSPECTIVE PURCHASERS OF THE SERIES BA BONDS SHOULD CONSULT THEIR TAX ADVISERS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL INCOME TAX CONSEQUENCES OF OWNERSHIP OF THE SERIES BA BONDS AND ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED TAX LEGISLATION.

See **APPENDIX IV** hereto for the proposed Form of the opinion of Bond Counsel.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series BA Bonds will be passed upon by Ahmad Zaffarese LLC of Philadelphia, Pennsylvania, Bond Counsel. In connection with the issuance of the Series BA Bonds, Bond Counsel will render an opinion in substantially the form included as **Appendix IV** hereto. Certain legal matters will be passed upon for the Authority by its counsel, Barley Snyder LLP, Lancaster, Pennsylvania and for the System by its Chief Legal Counsel.

Ahmad Zaffarese LLC, which is acting as Bond Counsel in connection with the Series BA, periodically provided general legal services to the System unrelated to the issuance of the Series BA Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result and are not binding on the IRS or the courts; rather, such opinions represent Bond Counsel's professional judgment based on its review of existing law and in reliance on the representations and covenants that it deems relevant to such opinions.

Any statements herein involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. The foregoing references to and summaries or descriptions of provisions of the Series BA Bonds, the Loan Agreement and the PHEFA Indenture, and all references to other materials not stated to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof.

The information set forth in this Official Statement and in the Appendices hereto should not be construed as representing all of the conditions affecting the Authority, the System or the Underwriters of the Series BA Bonds.

INDEPENDENT ACCOUNTANTS

The financial statements of the System as of June 30, 2025, and for the fiscal year then ended, included in **APPENDIX II** to this Official Statement, have been audited by CliftonLarsonAllen LLP, independent accountants, as stated in their report appearing in **APPENDIX II** hereto.

CliftonLarsonAllen LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. CliftonLarsonAllen LLP also has not performed any procedures relating to this offering document.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch") have assigned their municipal bond ratings of "Aa3" (stable outlook) and "A+" (positive outlook), respectively, to the Series BA Bonds.

Any explanation of these ratings may be obtained only from the rating agencies issuing such ratings. Generally, rating agencies base their ratings on information and materials supplied to them and on their own investigations, studies and assumptions. There is no assurance that such ratings, once assigned, will remain for any given period of time or that they will not be lowered or withdrawn entirely by either rating agency concerned if in its judgment circumstances so warrant. Any such downward change or withdrawal of such ratings may have an adverse effect on the market price and/or marketability of the Series BA Bonds.

LITIGATION AND LEGAL PROCEEDINGS

No Litigation Affecting the Series BA Bonds

There is no litigation of any nature pending or, to the Authority's knowledge, threatened against the Authority at the date of this Official Statement to restrain or enjoin the issuance, sale, execution or delivery of the Series BA Bonds, or in any way contesting or affecting the validity of the Series BA Bonds or any proceedings of the Board of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or the security provided for the payment of the Series BA Bonds or the existence or powers of the Authority or the performance of the Series BA Project.

CONTINUING DISCLOSURE

To assist the Underwriters in satisfying the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the System will enter into a Continuing Disclosure Agreement (substantially in the form included as **Appendix V** hereto) with The Bank of New York Mellon Trust

Company, N.A., as dissemination agent (in such capacity, the “Dissemination Agent”) for the benefit of Bondowners of the Series BA Bonds. Pursuant to such agreement, the System will covenant to provide, through the Dissemination Agent, to the Electronic Municipal Market Access (“EMMA”) system of the Municipal Securities Rulemaking Board (the “MSRB”), certain annual financial information and operating data of the nature included in the following sections of Appendix I to this Official Statement: Accreditation; Degrees Awarded; Enrollment; Application and Admissions; Tuition, Student Fees and Competition; Freshman Enrollment Composition; Student Financial Aid; Commonwealth Appropriations; Unrestricted Net Position; Faculty and Staff; and Outstanding Indebtedness. Audited financial statements of the System also will be provided to EMMA when available. The System will covenant to provide such information for a fiscal year within 150 days following the end of such fiscal year, commencing with the fiscal year ending June 30, 2026. The System will covenant to provide notice in a timely manner to EMMA of a failure of the System to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement.

In the Continuing Disclosure Agreement, the System also will covenant to provide, within 10 business days, to EMMA notice of the occurrence of any of the following events with respect to the Series BA Bonds: (1) principal and interest payment delinquencies, (2) non-payment related defaults, if material, (3) unscheduled draws on debt service reserves reflecting financial difficulties, (4) unscheduled draws on credit enhancements reflecting financial difficulties, (5) substitution of credit or liquidity providers, or their failure to perform, (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series BA Bonds, or other material events affecting the tax status of the Series BA Bonds, (7) modifications to rights of Bondowners of the Series BA Bonds, if material, (8) Series BA Bond calls, if material, and tender offers, (9) defeasances, (10) release, substitution or sale of property securing repayment of the Series BA Bonds, if material, (11) rating changes, (12) bankruptcy, insolvency, receivership or similar event of the System, (13) the consummation of a merger, consolidation, or acquisition involving the System or the sale of all or substantially all of the assets of the System other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, (14) appointment of a successor or additional trustee or the change of name of a trustee, if material, (15) the incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation (as defined in the Rule) of the obligated person, any of which affect securities holders, if material; (16) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties, and (17) failure to provide annual information as required. Financial Obligation means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

The System and the Dissemination Agent may amend the Continuing Disclosure Agreement, including amendments deemed necessary or appropriate in the judgment of the System (whether to reflect changes in the availability of information or in accounting standards or otherwise), and any provision of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied: (a) if the amendment or waiver relates to the undertakings of the System to provide annual financial information and notices, such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the System or the type of business or operations conducted by the System; (b) the undertakings contained in the Continuing Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the

original issuance of the Series BA Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment either (i) is approved by the Bondowners of the Series BA Bonds in the same manner as provided in the PHEFA Indenture for amendments to the PHEFA Indenture with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondowners or Beneficial Owners of the Series BA Bonds, the Authority or the Dissemination Agent. The System's obligation to provide the foregoing annual financial information and notices of the specified events when material will terminate when the Series BA Bonds have been fully paid or legally defeased or at such other times as such information and notices (or any portion thereof) are no longer required to be provided by the Rule as it applies to the Series BA Bonds. Notice of such amendment will be provided to EMMA.

Under the Continuing Disclosure Agreement, the sole remedy for a breach or default by the System of its covenants to provide annual financial information and notices will be an action to compel specific performance. No action may be brought for monetary damages or otherwise under any circumstances. A breach or default under the Continuing Disclosure Agreement will not constitute an Event of Default under the PHEFA Indenture or the Loan Agreement.

The Authority has no responsibility for the Continuing Disclosure Agreement or for the System's compliance with the Continuing Disclosure Agreement or for the contents of the financial information, operating data or notices provided thereunder or any omissions therefrom.

During the last five years, the System failed to file with EMMA, in a timely manner, certain Annual Financial Information, Operating Information and Reportable Events in accordance with the Rule and as required under its previous continuing disclosure undertakings as follows:

- With respect to the System's Continuing Disclosure Agreements relating to the Clarion County Industrial Development Board's Student Housing Revenue Bonds (Clarion University Foundation, Inc. Student Housing Project at Clarion University of Pennsylvania), Series 2014A, Series 2014B, Series 2014C-2 and Series 2014D Bonds (the "Clarion IDB Bonds"), all filings may not have been correctly linked to all applicable CUSIP numbers and a reportable event was posted in excess of ten business days from the occurrence of the event. As of February 11, 2025, the filings dated as of June 30, 2024, were correctly linked to all applicable CUSIP numbers relating to the Clarion IDB Bonds.
- With respect to the System's Continuing Disclosure Agreements relating to the Clarion County Industrial Development Board's Student Housing Revenue Bonds (Clarion University Foundation, Inc. Student Housing Project at Clarion University of Pennsylvania), Series 2014A, Series 2014B, 2014D, 2014E, Series 2019A, and Series 2019B Bonds (the "Clarion IDB Bonds"), all filings may not have been correctly linked to all applicable CUSIP numbers. As of October 15, 2025, the filings dated as of June 30, 2020, 2021, 2022, and 2023 were correctly linked to all applicable CUSIP numbers relating to the Clarion IDB Bonds.
- With respect to the System's Continuing Disclosure Agreements relating to outstanding Pennsylvania Higher Educational Facilities Authority (Commonwealth of Pennsylvania), State System of Higher Education Revenue Bonds, the bondholders were not timely notified of the Reportable Event (as such term is defined in the Rule) of a merger of Assured Guaranty Municipal Corp. merging with and into its affiliate, Assured Guaranty Inc. effective August 1, 2024; such event posted on EMMA to the relevant series of bonds on October 16, 2025.

UNDERWRITING

The Series BA Bonds are being purchased for reoffering by [a group of banks and investment banking firms (the “Underwriters”) represented by] _____[, as representative (the “Representative”). The Representative has agreed to purchase the Series BA Bonds at an aggregate purchase price of \$_____].

FINANCIAL ADVISOR/ MUNICIPAL ADVISOR

The System has retained Janney Montgomery Scott LLC (“Janney”) to provide general financial advice as its financial advisor (the “Financial Advisor”). In connection with the issuance of the Series BA Bonds, the System has retained Janney to act as its municipal advisor (“Municipal Advisor”), as such term is defined by, and as such role is regulated by, the Securities Exchange Commission and the MSRB. In preparing this Official Statement, Janney has relied upon System officials and other sources who have access to relevant data to provide accurate information for this Official Statement and Janney has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. Janney is not a public accounting firm and has not been engaged by the System to compile, review, examine, or audit any information in this Official Statement in accordance with accounting standards. In addition to providing municipal advisory services, Janney is also engaged in the business of underwriting, trading, and distribution of municipal and other public securities and will not participate in the underwriting of the Series BA Bonds.

Janney’s receipt of a fee for its services as Municipal Advisor is not contingent upon the issuance of the Series BA Bonds. Janney may also receive a fee for other services, including serving as Financial Advisor, outside of its role as Municipal Advisor in connection with the issuance of the Series BA Bonds.

CERTAIN RELATIONSHIPS

Ahmad Zaffarese LLC, Bond Counsel, currently provides, and from time to time may provide, legal services to the System unrelated to the issuance of the Series BA Bonds.

MISCELLANEOUS

All of the summaries of the provisions of the Act, Act 188, the PHEFA Indenture, the PEDFA Indenture, the Loan Agreement and of the Series BA Bonds set forth herein are only brief descriptions of certain provisions thereof, and do not purport to be complete statements of the provisions of any such document and are qualified in all respects by reference to such documents in their entireties to which attention is hereby directed for further information.

Information concerning the System has been provided by the Office of the Chancellor. All estimates, projections and assumptions herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates, projections or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

This Official Statement is not to be construed as a contract or agreement between the Authority or the System and the purchasers or Bondowners of any of the Series BA Bonds. The information hereinabove set forth and that which follows should not be construed as constituting all of the conditions affecting the Authority, the System or the Series BA Bonds.

The distribution of this Official Statement has been duly authorized by the Authority and the System. The Authority has not assisted in the preparation of this Official Statement, except for the statements concerning the Authority under the sections captioned “**The Authority**” and “**Litigation and Legal Proceedings**” herein and, except for those sections, the Authority is not responsible for any statements made in this Official Statement. Except for the execution and delivery of documents required to effect the issuance of the Series BA Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the Series BA Bonds. Accordingly, except as aforesaid, the Authority assumes no responsibility for the disclosures set forth in this Official Statement.

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The execution and distribution of this Official Statement has been duly authorized by the Authority and approved by the System.

**PENNSYLVANIA HIGHER EDUCATIONAL
FACILITIES AUTHORITY**

By: _____
Jennifer Sheffield
Executive Director

Approved:

STATE SYSTEM OF HIGHER EDUCATION

By: _____
Sharon P. Minnich
Executive Vice Chancellor

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Appendix I: Certain Information Concerning Pennsylvania's State System of Higher Education

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PENNSYLVANIA’S STATE SYSTEM OF HIGHER EDUCATION

History and Philosophy of the System

Pennsylvania’s State System of Higher Education (the “System” or the “State System”) is a body corporate and politic constituting a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania, created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (“Act 188”).

Act 188 established a Board of Governors and the Office of the Chancellor and awarded university status to the 13 state-owned colleges on July 1, 1983. (Indiana University of Pennsylvania was awarded university status prior to the enactment of Act 188.) On that date, the System, composed of the 14 state-owned universities in the Commonwealth and the Office of the Chancellor, embarked upon its primary mission to provide “instruction for undergraduate and graduate students to and beyond the master’s degree in the liberal arts and sciences, and in the applied fields, including the teaching profession.” Effective July 1, 2022, the System comprises ten universities following the consolidation of six universities into two universities as part of broader System redesign (See the *System Redesign* section herein for additional information). The System Universities are herein referred to individually as a “University” or a “System University” and collectively as the “Universities” or “System Universities.” The Universities also have specific missions in business, human services, public administration, and technology. The 10 System Universities are:

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

Bound together by the mission and by the mandate set forth in Act 188, the Universities strive to provide the highest quality education feasible for their students at the lowest possible cost.

The history of each University evolved from a need to train teachers for the Commonwealth’s secondary educational institutions and to elevate the accepted standards of education. The Commonwealth adopted the Normal School Act on May 20, 1857, which provided the standards by which teachers for the Commonwealth’s Normal Schools were to be trained. During the 25 years following passage of the Normal School Act, all of the universities that now comprise the System were privately established and were recognized as State Normal Schools.

On September 22, 1921, the Commonwealth enacted legislation for the acquisition of 13 State Normal Schools, adding the 14th State Normal School in 1922. These schools subsequently were redesignated as State Teachers’ Colleges in 1929 (the “State Colleges”). The responsibility for certifying teachers was then transferred from the county superintendents to the Commonwealth. Within ten years following this transfer of responsibility, teacher certification requirements changed from a two-year certificate program to a four-year college degree program.

In 1959, the State Teachers’ Colleges were redesignated State Colleges; and in 1961, legislation was enacted to allow the State Colleges to offer a wider range of educational opportunities. (See the section titled

Degrees Awarded herein for more information on current educational opportunities.) Graduate programs were soon approved and instituted at many of the State Colleges. Indiana State College achieved university status in 1965, and the remaining 13 State Colleges were recognized as Universities in 1983 with the enactment of Act 188. Each University, with its unique geography and array of academic offerings, serves as a cultural center for its surrounding community.

In July 2021, pursuant to authority granted by Commonwealth Act 50 of 2020, the Board of Governors approved the integration of six universities into two universities which was effective July 1, 2022. Act 50 made amendments to the System's enabling legislation that included a requirement that the System's Board of Governors develop policies and procedures by which the Board may create, expand, consolidate, transfer or affiliate an institution or college and prescribes the process by which that may occur. This portion of Act 50 sunset in 2023. However, Act 50 added additional policy mandates that are still in existence which established criteria and reporting process for determining University financial status and serving as a tool for each individual University to align operations and achieve sustainability. (See the *System Redesign* section herein for additional information.)

Additionally, eight of the Universities are involved with the operation of the Chincoteague Bay Field Station of the Marine Science Consortium, a nonprofit educational 501(c)(3) corporation located in Wallops Island, Virginia (the "Consortium"), committed to excellence in education and research in the marine and environmental sciences. The Consortium was founded by eight of the Universities in 1970 and maintains marine stations where both field and laboratory investigations of coastal ecosystems are conducted under the supervision of University faculty and qualified marine education instructors. The Consortium supports precollege; college; and Road Scholar programs, an adult education initiative.

The Board of Governors

The System is governed and guided by a Board of Governors (the "Board") composed of 20 members: the Governor of Pennsylvania (or designee), the Secretary of Education (or designee), one senator appointed by the President Pro Tempore of the Senate, one senator appointed by the minority leader of the Senate, one representative appointed by the Speaker of the House of Representatives, one representative appointed by the minority leader of the House of Representatives, and 11 members who are appointed by the Governor of Pennsylvania and confirmed by the Senate, and 3 student members appointed by the Board. The Board has the authority to exercise all sanctioned corporate powers in the administration of its overall responsibility to plan and to coordinate the development and operation of the System. Members of the Board appointed from the General Assembly serve a term of office concurrent with their respective elective terms as members of the General Assembly with the Governor and Secretary of Education (or their respective designees), serving so long as they continue in office. The eleven members of the Board, appointed by the Governor, customarily will serve four-year appointments, at which time a reappointment for an additional four-year term may be commissioned. Three of the members of the Board, appointed by the Board, must be undergraduate students presently attending a System University. The student members are selected from the presidents of the local campus student government associations or their local equivalents, and their terms automatically expire upon graduation or, separation from the University or failure to maintain good academic standing at the University in which the student is enrolled. Five members of the Board also must hold membership in one of the local councils of trustees serving the Universities with no more than one trustee representing a University. The Board annually elects a chair, and at present there are two vice chairs. Members of the Board receive no compensation for their service; however, all expenses incurred in the performance of their duties may be reimbursed by the System.

As members of the Board, the Governor of Pennsylvania and the Secretary of Education (or their respective designees), are entitled to attend all scheduled meetings, to address matters of concern before the Board, and to vote. However, they cannot be elected as officers of the Board.

In accordance with Act 188, the Board has "overall responsibility for planning and coordinating the development and operation of the System." To this end, the Board employs the chancellor as the chief executive

officer of the System. The chancellor has the authority to address any matters of discussion before the Board but does not have voting privileges. The Board must approve the chancellor's salary and delineate any duties and responsibilities beyond those prescribed in Act 188.

Act 188 requires the Board conduct a public meeting quarterly; however, additional meetings may be convened by the chair or upon the request of six members of the Board. The Office of the Chancellor has the responsibility of presenting an agenda to the Board for action at each scheduled meeting. Eleven members of the Board attending any meeting of the Board constitute a quorum.

The president of each University is appointed by the Board originally for an initial fixed term from a list of qualified candidates submitted by the chancellor to the Board. Performance evaluations are used to evaluate the services of each president before the term of such president's appointment can be extended.

Through the chancellor and the 10 presidents of the Universities, the Board administers broad fiscal, personnel, and educational policies and establishes general policies that will be beneficial to the System in attaining its goal to offer an education of high quality to all its students.

The Board approves the annual operating and capital budgets for the System. The Board's request for operating and capital appropriations is submitted to the State Board of Education for comment. As required by statute, the Board then submits its request for operating and capital appropriations to the Governor not later than November 1 of the fiscal year preceding the fiscal year for which the appropriations are requested. The Board independently submits its request for operating and capital appropriations to the General Assembly. When required, the Board or its chancellor must represent the System before the General Assembly, the Governor of Pennsylvania, and the State Board of Education.

Under Act 188, the Board fixes the levels of tuition fees across the System, including the allowance for a differential between students who are residents of the Commonwealth and those who are nonresidents. All other fees are set locally by each University.

There are five standing committees which make policy recommendations to the full Board: Audit, Compliance, and Risk; Executive; Governance and Leadership, Student Success; and University Success. The present bylaws provide that members of the Board may attend and participate in the meetings of any of the committees; however, only committee members may vote on an issue under consideration.

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BOARD OF GOVERNORS

Robert W. Bogle President and Chief Executive Officer The Philadelphia Tribune Philadelphia, PA	Mark-Handy Phanor Student Kutztown, PA
Representative Timothy P. Briggs Member Pennsylvania House of Representatives Harrisburg, PA	Representative Brad Roae Member Pennsylvania House of Representatives Harrisburg, PA
Dr. Quintin Bullock President Community College of Allegheny County Pittsburgh, PA	Carrie Rowe Acting Secretary of Education Pennsylvania Department of Education Harrisburg, PA
Richard Caruso Alumni, Indiana University of Pennsylvania Meadow Lands, PA	Senator Lynda Schlegel Culver Member Pennsylvania Senate Harrisburg, PA
Brandon Danz Vice President, Population Health WellSpan Health Lancaster, PA	Cynthia D. Shapira, <i>Chair</i> President David S. and Karen A. Shapira Foundation Pittsburgh, PA
William A. Gindlesperger Chairman eLynxx Solutions Chambersburg, PA	Josh Shapiro Governor Harrisburg, PA
Abigail Hancox Student Indiana, PA	Ali Sina Sharifi Student Shippensburg, PA
Senator Art Haywood Member Pennsylvania Senate Harrisburg, PA	Samuel H. Smith, <i>Vice Chair</i> Chair, Council of Trustees at Indiana University of Pennsylvania Punxsutawney, PA
Akbar Hossain Secretary of Policy and Planning Commonwealth of Pennsylvania Harrisburg, PA	Robert Traynham Executive Vice President, Public Affairs & Strategic Initiatives AHIP Washington, DC
David M. Maser, <i>Vice Chair</i> Of Counsel Cohen Milstein Sellers & Toll Philadelphia, PA	Neil R. Weaver Secretary of Administration Commonwealth of Pennsylvania Harrisburg, PA
Marian D. Moskowitz Urban Developer and Chester County Commissioner Malvern, PA	

Office of the Chancellor

Act 188 stipulates the chancellor “shall be responsible for the administration of the System under policies prescribed by the Board.” As the chief executive officer of the System, the chancellor advises the Board on budgetary matters, academic program matters, and the formulation of personnel and administrative policies

and procedures. In order to oversee and control all of the important daily endeavors of the System, the chancellor is empowered to employ a central office staff to fulfill the mandates of both Act 188 and the Board. Under the chancellor's direction, the presidents, line officers, and support staff provide Systemwide management in such areas as academic and student policy, planning, business affairs, faculty and staff affairs, legislative policy, institutional research, legal affairs, capital planning, System relations, advancement, and equal educational opportunities. The chancellor assists the Board in its appointment of the presidents by submitting to the Board, with his or her recommendation, the names of individuals recommended for consideration by the councils of trustees (see The Councils of Trustees herein). Upon the appointment of each president, an annual evaluation process must be conducted, the results of which are reviewed thoroughly by the Board.

Dr. Christopher M. Fiorentino, Ph.D.
Chancellor

The Office of the Chancellor operates with a core leadership team comprising an executive vice chancellor; deputy chancellor; a vice chancellor and chief academic officer; a chief diversity, equity, and inclusion officer and assistant vice chancellor for social equity and compliance; vice chancellor for strategic initiatives; and a chief information officer. Leadership team members serve the System in an important capacity, individually and collectively, and work together to ensure that the academic programs offered on all of the campuses best suit the needs of the Commonwealth.

At the System's October 2024 Board meeting, Dr. Christopher M. Fiorentino was appointed as Interim Chancellor, to ensure continuity of leadership and system operations while the national search for the permanent chancellor was conducted. After conducting a national search in accordance with Board policy, the Board permanently appointed Dr. Fiorentino as Chancellor at its April 2025 meeting.

Prior to serving as the Chancellor and Interim Chancellor of the System, Dr. Fiorentino served seven years as president of West Chester University ("WCU"), one year as its interim president, and three years as its vice president for external operations. He previously spent nearly 20 years as dean of WCU's College of Business and Public Affairs (now the College of Business and Public Management); his tenure within the Department of Economics included four years as chair. In total, Dr. Fiorentino spent more than 40 years at WCU. As president of WCU, the largest university in the State System, Dr. Fiorentino led the university through a global pandemic and provided valuable thought partnership to his fellow presidents and system leaders amid the nationwide demographic shift as the number of high-school graduates declined. Dr. Fiorentino earned his baccalaureate, master's, and Ph.D. degrees in economics from Temple University.

Sharon P. Minnich
Executive Vice Chancellor

The Executive Vice Chancellor provides executive-level oversight and leadership for the effective execution of budget, finance, facilities management, human resources, labor relations, general administration, and shared services functions Systemwide while advising the chancellor regarding high-impact practices to advance the System Redesign (as defined below) efforts. She renders guidance in the development of policy and business procedures to be implemented by the chancellor and the Board. Such policy issues include accounting and financial policy and reporting; treasury operations including cash management, commercial banking, and investment programs; capital financing and planning; emergency management; physical plant planning; security management; insurance management; annual System budget development and management; and procurement management.

Ms. Minnich was appointed Vice Chancellor for Administration and Finance in January 2019 and named Executive Vice Chancellor in 2020. Prior to joining the System, she served as Secretary of the Governor's Office of Administration, a position she held since 2015. As a member of Governor Tom Wolf's senior staff and cabinet, she led the agency responsible for oversight and administration of the enterprise functions of human resources, information technology, and continuity of government and records management for nearly 80,000

employees under the Governor’s jurisdiction, implementing shared services for both human resources and information technology. Ms. Minnich previously served as the Assistant Chief Information Officer for the Commonwealth, Chief Information Officer for the Department of Revenue, deputy secretary for financial administration in the Office of the Budget, and Deputy Secretary for Procurement at the Department of General Services. In these roles, she improved operations and managed significant process and system changes, including the implementation of a new financial shared services model for Pennsylvania, the implementation of Pennsylvania’s tax amnesty project, and the state’s enterprise resource planning system implementation. In addition to her work in state government, Ms. Minnich has worked as a consultant in the private sector, specializing in strategy and transformation. Her experience includes positions at Highmark Blue Cross/Blue Shield; Meridian Bank; SAP Business Consulting; and Deloitte Consulting, LLP. She served for 12 years on the Board of Trustees for her alma mater, Albright College, where she earned a Bachelor of Arts in economics and political science, and holds a master’s degree in government administration from the University of Pennsylvania.

Dr. Randy A. Goin, Jr.
Deputy Chancellor

The Deputy Chancellor provides executive-level oversight for effective and efficient operation of the Board of Governors and the Office of the Chancellor and works closely with leaders from the System, Universities, government, and business to ensure timely advancement of System strategic priorities.

Dr. Goin joined the System as Chief of Staff in December 2013 and was named Deputy Chancellor in April 2019. Prior to joining the System’s leadership team, Dr. Goin was chief of staff for the Florida Board of Governors, which oversees the second largest university system in America. He also led the public affairs, governmental relations, and communications group, which worked to articulate a clear message and vision with all constituents. He launched his career in the private sector more than two decades ago and later moved into communications management roles in higher education. He ultimately served as Associate Vice President for marketing at Florida Atlantic University, where he helped build the communications organization and reposition the institution’s brand. Dr. Goin was then named university Chief of Staff and worked closely with the president to reshape the institution’s organizational structure by increasing focus on top priorities. He served as a conduit between the administration and the university trustees—enhancing board relations and operations. He earned a bachelor of architecture degree and a master of arts degree with a focus in corporate and political communication from Florida Atlantic University and a Ph.D. in communication from Indiana University of Pennsylvania.

Dr. Diana Rogers-Adkinson
Vice Chancellor and Chief Academic Officer

The Vice Chancellor and Chief Academic Officer (“CAO”) provides executive leadership and support for academic program planning and for the academic success of the Universities and the System as a whole. The CAO works closely with the 10 university chief academic officers to develop and execute a strategy that strengthens and incentivizes the use of collaborative, shared, or system-level enterprise infrastructure and provides leadership to support the collaborative development of policies, procedures, and practices that strengthen an inclusive model of shared governance at the system level and to foster dialogue among all System internal stakeholders to improve systemwide shared governance and collaboration.

Dr. Rogers-Adkinson oversees the division of Academic and Student Affairs in the Office of the Chancellor. She works with university leaders and educational and industry partners in the Commonwealth to provide support and leadership for student, academic, and university success to fulfill the mission of the State System. Before assuming her role in the Office of the Chancellor, Dr. Rogers-Adkinson was the Provost and Senior Vice President of Commonwealth and previously Bloomsburg Universities. Before joining the State System, she served as Dean of the College of Education, Health, and Human Services at Southeast Missouri State University. She has held teaching appointments at the University of Wisconsin-Whitewater and Wichita State University. Her doctoral degrees are in Counseling and Special Education from Kent State University. She has practiced as an educator and counselor to children with emotional disorders and has provided expert witness

work specific to children with disabilities during her career. Dr. Rogers-Adkinson is the author of numerous articles and book chapters and has presented extensively on topics of disability and women and leadership in higher education.

Christa Cobb

Chief Diversity, Equity, and Inclusion Officer and Assistant Vice Chancellor for Social Equity and Compliance

The Assistant Vice Chancellor and Chief Diversity, Equity, and Inclusion position is responsible for developing and operationalizing an outcomes-oriented strategy that addresses persisting inequalities in areas including but not limited to student access and outcomes, employee recruitment, retrenchment, and progression. The strategy will seek to optimize the cultural competencies, policy/procedural landscape, and overall level of engagement required for the effective and respectful operation of more diverse, equitable, and inclusive campuses. The position works closely with the chancellor and Board of Governors, the System's Universities' presidents and trustees, and other system-level and university-level leaders to achieve this vision.

Ms. Cobb oversees and coordinates System activities. In addition to being an integral part of the team for the past three years, she previously served in many roles at Cheyney University. Ms. Cobb and her team work closely with Vice Chancellor and CAO Rogers-Adkinson and Chancellor Fiorentino.

Dr. Bashar Hanna

Vice Chancellor for Strategic Initiatives

The Vice Chancellor for Strategic Initiatives was established in 2025. This position is responsible for advising on policy, procedures and managing strategic projects within the System office aligned with overall System objectives. The system leverages his experience as a former university president to advise the Chancellor on strategic initiatives intended to increase student access and operational effectiveness.

Before joining the Chancellor's Executive Team in August 2025, Dr. Hanna served as Founding President of Commonwealth University of Pennsylvania, which was created in July 2022 through the integration of Bloomsburg, Lock Haven and Mansfield Universities. Prior to this role, he was president of Bloomsburg University and Interim President of Lock Haven and Mansfield Universities. Prior to joining Bloomsburg, Dr. Hanna held several higher education leadership positions including: Vice President for Academic Affairs and Professor of Biology at Delaware Valley University; Associate Provost at Ithaca College; Dean of Liberal Arts and Sciences and Interim Provost at Kutztown University of Pennsylvania; Associate Dean of the College of Science and Technology and Assistant Vice Provost for Research and Sponsored programs at Temple University, his alma mater, where he started his career as a National Science Foundation Teaching Fellow. Dr. Hanna earned his bachelor, master and Doctoral degrees in Neurobiology from Temple University.

Rosa Lara

Chief Information Officer

The Chief Information Officer position is responsible for overseeing information technology ("IT") strategy, governance, policy and compliance, and works closely with various stakeholders in the System. Ms. Lara joined the System in April 2019 as the Project Manager for System Redesign and was named chief information officer in January 2020.

Prior to joining the System, Ms. Lara was the Director of the Office of Strategy and Management in the Office of Information Technology ("OIT") Governor's Office of Administration, a position she held since July 2017. Ms. Lara has more than 19 years' experience in the information technology field, including oversight of very visible and highly complex initiatives. She has experience in the areas of business process reengineering, large scale implementation efforts, financial management, procurement, and managing for results. Ms. Lara held numerous positions within OIT, serving as the Deputy Chief Information officer for the Commonwealth,

overseeing OIT's planning and budgeting process and human resource functions, including special projects such as the Enterprise Grants Management initiative and the implementation of an enterprise system to oversee the American Recovery and Reinvestment Act funds. She also led the Commonwealth's IT shared services transformation initiative, which implemented a new shared services operating model for IT services focused on improving service delivery while reducing cost. Ms. Lara earned a bachelor's in public administration from The College of New Jersey, a master's of public administration from the Maxwell School of Citizenship Affairs at Syracuse University, and a master's of information resource management from Syracuse University.

The Presidents of the Universities

The presidents of the 10 Universities are appointed by the Board for a specified term. In an effort to ensure that the presidents are guiding their respective Universities toward the achievement of the System's unified goals, the chancellor reviews the goals and objectives of each president annually. As the chief executive officers of the Universities, the presidents are responsible for development and implementation of policies and procedures regarding personnel administration, fiscal management, admissions, discipline and expulsion guidelines, instructional programs, research programs, and public service programs within the framework prescribed by the Board.

The presidents must ensure that prudent fiscal policies are followed in the expenditure of all Commonwealth appropriations, tuition, fees, and all other available funds. They have the authority to obligate their respective Universities for ongoing contractual liabilities within the limitations of the operating budget of the University. Overall, their primary responsibility is to implement the policies of the Board and to perform all of those operations necessary for the orderly and judicious management of the University. Each president may attend any scheduled meeting of the University's council of trustees and address matters before such council, but may not vote.

The 10 University presidents are listed below.

Mr. Aaron A. Walton
Cheyney University of Pennsylvania

Dr. Daniel A. Wubah
Millersville University of Pennsylvania

Dr. Jeffery Osgood (interim)
Commonwealth University of Pennsylvania

Dr. Jon Anderson
Pennsylvania Western University of Pennsylvania

Mr. Kenneth Long
East Stroudsburg University of Pennsylvania

Dr. Charles E. Patterson
Shippensburg University of Pennsylvania

Dr. Michael A. Driscoll
Indiana University of Pennsylvania

Dr. Karen Riley
Slippery Rock University of Pennsylvania

Dr. Philip A. Cavalier
Kutztown University of Pennsylvania

Dr. Lorraine Bernotsky
West Chester University of Pennsylvania

The Councils of Trustees

Each of the Universities within the System, with the exception of Commonwealth University of Pennsylvania and Pennsylvania Western University of Pennsylvania maintains a council of trustees consisting of 11 members. Members (other than student members) are nominated and appointed by the Governor with the advice and consent of the Commonwealth's Senate. Student members are selected with the advice and consent of University presidents and are appointed by the Board of Governors for a term which expires upon graduation, separation from the University or failure to maintain good academic standing at the University in which the student is enrolled. At least two of these members must be alumni of the institution. Ten of the members serve

terms of six years while one member must be a full-time student, enrolled full time at the institution of which he/she is a trustee. The student member serves a term of four years or for so long as he/she is a full-time student in good academic standing. Six members of a council constitute a quorum, and each council meets at least quarterly and additionally at the call of the president, or its chair, or upon the request of three of its members.

Commonwealth University of Pennsylvania and Pennsylvania Western University of Pennsylvania each have integrated councils of trustees pursuant to Act 55 of 2022, consisting of twelve transitional members, four from each of the universities comprising the integrated university. The Governor was required to submit to the Senate the names of the individuals nominated and appointed to serve as initial members of an integrated council of trustees for each of Commonwealth University of Pennsylvania and Pennsylvania Western University of Pennsylvania no later than August 31, 2022, with the term of each initial member to begin upon confirmation by the Senate and under staggered terms as specified in Act 55 of 2022. At least three members of each integrated council must be alumni, one from each institution consolidated, and at least three members of each integrated council must be a student, one from each institution consolidated.

Each council's specific responsibilities include making recommendations to the chancellor for the appointment and retention of the president of its University following input by students, faculty, staff and alumni; making recommendations to the chancellor for the dismissal of the president; reviewing and providing input to the president pertaining to policies and procedures governing the use of institutional facilities and property; and reviewing and approving the recommendations of the president pertaining to annual operating and capital budget requirements for submission to the Board. The council has the authority to approve schools and academic programs; to review and approve recommendations for charges for tuition and to approve room and board, and miscellaneous fees with the exception of student activity fees and any fees related to the provision of contracted health services; to review all contracts and purchases negotiated or awarded by the president, including any contract or purchase reports, with or without competitive bidding, and all contracts for consulting services entered into by the president; and to take such action as may be necessary to effectuate the powers and duties delegated by Act 188. As stated above, the Board of Governors has the statutory authority to fix the levels of tuition fees across the System.

Capital Facilities

The campuses of the System Universities encompass more than 4,700 acres. To date, there are almost 900 physical plant structures, with over 32 million gross square feet. Capital facilities in place prior to the System's inception in 1983, state-appropriated capital renovations of those facilities, and new state-appropriated capital facilities are made available to the System at no cost. In 2002, the Commonwealth transferred custody and control of these facilities to the System. Under this arrangement, the Commonwealth retains fee title for the facilities and continues to provide state appropriations for capital facilities construction and renovations. Capital facilities acquired and constructed after 1983 by the System from sources other than state appropriations, as well as capitalized renovations and capital assets, such as equipment, furnishings, and library books, are assets on the System's balance sheet and have a book value, as of June 30, 2025, of \$2.1 billion net of accumulated depreciation. The current replacement cost of the total System capital facilities and infrastructure is estimated to be in excess of \$14 billion.

Educational and General Facilities—The Commonwealth appropriates funds for capital repairs and renovations while the System contributes regular maintenance funds from its operating budget. Currently, the Commonwealth is providing approximately \$70 million annually toward capital improvement for the System's academic facilities. The System contributes any additional funding for capital repairs and renovations needed through bond financing, operating funds, or fundraising. The System has expended approximately \$2.4 billion for renovation and replacement of existing academic facilities since 1996, and the Commonwealth has also appropriated approximately \$2.4 billion over the same period.

Each University's capital budget request for the forthcoming fiscal year is submitted to the Office of the Chancellor. In order for a capital project to be included in the appropriations request to the Governor and to the

General Assembly, the Office of the Chancellor assesses the project's priority using criteria that include: University priorities; academic benefit; space requirements; ADA, safety, and code compliance deficiencies; new revenue or matching funds potential; cost savings potential; and impact on deferred maintenance. The equitable distribution of capital funds to each of the Universities is also considered in developing the plan. The Office of the Chancellor conducts a thorough review of each capital project request to determine the overall contribution of the project to the well-being of the System as a whole.

Auxiliary Facilities—The Board of Governors has adopted 2000-02-A: *Capital Facilities Planning, Programming, and Funding Policy* to govern the investment in auxiliary facilities at the Universities, which permits the System to seek bond funding to finance renovation and construction of new auxiliary facilities such as residence and/or dining halls, recreation centers, student unions, and such other facilities, equipment, real property, or other needs as the Board decides. Auxiliary facilities are primarily sustained with student fees, not Commonwealth appropriations or tuition. Act 188 requires the maintenance of an Auxiliary Facilities Reserve Fund, established from mandatory resident student fees, to accumulate funds with which to repair or construct new residence halls. To ensure longevity of existing residence halls, a capital renewal fee is charged per resident student for use in implementing capital maintenance projects. The monies collected are for the specific purpose of roof replacement, floor replacement, or any major repair/replacement project that will significantly prolong the usable life of the building for use as a residence hall. The System has expended approximately \$1.7 billion for auxiliary facilities since 1996.

Accreditation

All of the System Universities are fully accredited by the Middle States Association of Colleges and Secondary Schools. Certain academic programs are accredited individually by various national professional organizations.

Degrees Awarded

A range of undergraduate and graduate degree programs is offered across the System; 533 undergraduate and 251 graduate programs are offered in 246 major academic areas. In addition, certificate programs are offered in 238 areas. The System awarded 13,648 baccalaureate degrees and 4,726 master's degrees in the 2024/25 academic year. The System also awarded 346 doctoral degrees and 255 associate degrees through all System Universities.

Enrollment

The following data shows the System's fall semester enrollment by headcount and full-time equivalent enrollment for the last five academic years.

	2021/22	2022/23	2023/34	2024/25	2025/26
Headcount					
Undergraduate	73,449	70,597	68,963	68,171	68,582
Graduate	15,202	13,970	13,725	14,338	14,423
Total	88,651	84,567	82,688	82,509	83,005
Headcount					
Full-Time	69,341	66,432	66,149	65,865	66,065
Part-Time	19,310	18,135	16,539	16,644	16,940
Total	88,651	84,567	82,688	82,509	83,005
	2021/22	2022/23	2023/34	2024/25	2025/26
Full-Time Equivalent					
Undergraduate	66,469	64,128	63,694	63,209	63,732

Graduate	8,669	7,956	7,858	8,111	8,180
Total	75,138	72,084	71,552	71,320	71,912

Notes: Clock hour students are included in the historical and current headcounts. Fiscal Year (FY) 2025/26 are preliminary Fall numbers. The above data reflects finalized data for all years, and most recently reported data for FTE.

Applications and Admissions

The following data shows the fall semester application/enrollment figures for the System for five academic years, including the current fiscal year.

	2021/22	2022/23	2023/34	2024/25	2025/26
Applied	69,706	73,633	75,872	77,881	80,831
Accepted	64,309	66,575	66,565	67,101	70,015
Enrolled	14,515	15,574	16,102	15,281	15,341
	2021/22	2022/23	2023/34	2024/25	2025/26
% Accepted	92.3%	90.4%	87.7%	86.2%	86.6%
% Enrolled/Accepted	22.6%	23.4%	24.2%	22.8%	21.9%

Note: FY 2025/26 are preliminary Fall data. The above data reflects finalized data for prior fiscal years.

Tuition, Student Fees, and Competition

The following includes the current and previous four years of Systemwide in-state full-time undergraduate tuition and fees.

Full-Time Undergraduate Tuition and Student Fees¹

2021/22	2022/23	2023/24	2024/25	2025/26
\$11,308	\$11,251	\$11,342	\$11,325	\$11,593

At its July 17, 2025 meeting, the Board of Governors voted to increase tuition \$139/student for FY 2025/26, which is the first increase in tuition rates since 2018.

System Universities compete with many other colleges and universities for qualified applicants. The undergraduate tuition and required fees collected by various higher education sectors in Pennsylvania during the current year are illustrated in the following table. The private colleges and universities listed were chosen because of geographic location, similar academic offerings, and similar selectivity ratios.

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¹ Prior to 2025/26, the Systemwide tuition and fees rate was calculated as an average of in-state undergraduate tuition rates amongst the ten universities, with nine charging a flat full-time tuition rate and one charging tuition on a per-credit basis, combined with the average mandatory student fees across the System. Beginning in 2025/26, the Systemwide tuition and fees rate includes the Board of Governors-approved, full-time tuition rate (typical tuition) combined with the average of mandatory fees across the System.

**2025/26 Required
Fees and Tuition**

Selected Private Colleges and Universities

Juniata College	\$60,600
Delaware Valley University	\$46,190
Gannon University	\$42,641
Elizabethtown College	\$39,370
Washington and Jefferson College	\$30,475

State-Related Universities (in-state)

University of Pittsburgh	\$24,424
Temple University	\$23,120
The Pennsylvania State University	\$21,084

Community Colleges (in-state)

Community Colleges Average (full-time equivalent course load)	\$6,514
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Pennsylvania's State System of Higher Education (in-state)²	\$11,593
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Source: *Colleges' and universities' websites.*

Freshmen Enrollment Composition

The following tables highlight the high school rank and average SAT scores of the System's incoming freshmen for the years indicated.

Percentage of Freshmen by High School Rank

Quintile	2021	2022	2023	2024	2025
1	24.9%	24.5%	25.9%	27.5%	27.6%
2	28.6%	28.8%	28.9%	29.4%	28.2%
3	24.3%	24.5%	24.2%	24.7%	23.6%
4	16.7%	16.2%	15.9%	13.8%	15.3%
5	5.5%	6.0%	5.1%	4.6%	5.3%

Average SAT Scores

	2021	2022	2023	2024	2025
Verbal	547	552	541	554	567
Math	535	539	555	534	535
Total	1082	1091	1097	1088	1102

Student Financial Aid

Ninety-six percent of all first-time, full-time, degree-seeking undergraduate students attending System Universities during academic year 2023-24 received financial aid. Thirty-eight percent of these students received

² See footnote 1.

awards from federal grant aid, while thirty-four percent received awards from the Commonwealth or local agencies. Seventy-seven percent of these students received awards from the institution. Sixty-seven percent of all first-time, full-time undergraduates received a student loan.

The major sources of financial aid available to System students are the Federal Pell Grant Program, Pennsylvania State Grant Program, Federal Supplemental Educational Opportunity Grant Program, Federal Work Study Program, and Federal Direct Loan Program. Of the financial aid programs available, the three main sources of financial aid received by System students are the Federal Pell Grant, Pennsylvania State Grant, and Federal Direct Loans. Each university maintains a fully functioning student financial aid office.

The ability of post-secondary students to afford college and the financial sustainability of the System's member Universities may be impacted by (i) the enactment by the U.S. Congress Pub. L. 119-121 on July 4, 2025; (ii) upcoming changes to eligibility for the Federal Pell grant program; (iii) limits on loan amounts for graduate and professional students, as well as Parent PLUS loans; and (iv) changes to loan repayment plans. The System is closely monitoring all guidelines and implementation rules issued by the federal government to determine the scope of any impacts and the System's mitigation plans and options.

Commonwealth Appropriations

In Act 188, the General Assembly defined the System as an instrumentality of state government and declared its operating costs ordinary expenses of state government, entitling it to preferred appropriations status under Article III, Section 11, of the Pennsylvania Constitution. Preferred appropriations are authorized only for state government, public schools, and payment of the public debt. Preferred appropriations bills require only a simple majority vote of the General Assembly, while "nonpreferred appropriations" bills, authorized by Article III, Section 30, of the Pennsylvania Constitution to fund state-related universities and private state-aided institutions, require a two-thirds majority vote.

One advantage of preferred appropriations status is that a smaller constitutional majority is required for passage of bills, thereby reducing the possibility of defeat. It also is settled law that, in exigent times, the Governor may reduce or entirely abate nonpreferred appropriations. See *Schnader v. Liveright*, 308 Pa. 35 (1932).

For FY 2025/26, the State System requested a 6.5 percent (\$40.3 million) increase in state appropriations from the Commonwealth, for a total of \$661.1 million. The actual appropriation will not be known until the Commonwealth's spending plan is enacted. Receipt of an appropriation in a given year does not ensure an appropriation or the amount of such appropriation in the following year. The chart below shows the current fiscal year and a five-year history of total annual appropriations received by the System.

Fiscal Year	Appropriations	% of Total Revenues
2025/26	\$ <u>TBD</u>	<u> </u> %
2024/25	\$620,755,000	25%
2023/24	\$585,618,000	25%
2022/23	\$552,470,000	25%
2021/22	\$477,470,000	21%
2020/21	\$477,470,000	22%

Funding received in FY 2025/26 will follow historic increases of \$35.1 million or 6.0%, in FY 2024/25; \$33 million, or 6.0%, in FY 2023/24; and \$75 million, or 15.7%, in FY 2022/23. These consecutive years of increases follow three consecutive years of level funding. The System is now fully restored from the \$90.6

million cut made in FY 2011/12. In addition to the investment in the Educational and General appropriation, the 2024/25 Commonwealth Fiscal Code included \$85 million in Facilities Transition Funds. These funds were used for debt relief activities at three universities, including the defeasement of certain bonds at Commonwealth and Indiana universities. The defeasance closing date was September 12, 2024. This amount was in addition to the \$62.5 million Facilities Transition Funds received in FY 2023/24 to defease certain bonds at Pennsylvania Western University. The defeasance closing date for those bonds was October 31, 2023.

In addition to these investments, the State System continues to receive state funding for deferred maintenance through a portion of the realty transfer tax. See the section titled *Realty Transfer Tax* herein.

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Realty Transfer Tax

In 1993, the General Assembly and the Governor of Pennsylvania passed into law a dedicated allocation of 2.7 percent of the Pennsylvania Realty Transfer Tax to the System. These revenues are restricted to use for deferred maintenance on academic facilities. The chart below shows the estimate for the current fiscal year and a four-year history of revenues the System received from this tax.

Fiscal Year	Revenue
2025/26	\$22,148,000
2024/25	\$22,814,000 ¹
2023/24	\$21,203,000 ²
2022/23	\$23,673,000 ³
2021/22	\$28,480,000 ⁴

¹ In July 2025, the State System received a supplemental appropriation of \$3,384,000 from higher-than-expected realty transfer activities.

² In July 2024, the State System received a supplemental appropriation of \$5,513,000 from higher-than-expected realty transfer activities.

³ In July 2023, the State System received a supplemental appropriation of \$1,720,000 from higher-than-expected realty transfer activities.

⁴ In July 2022, the State System received a supplemental appropriation of \$10,877,000 from higher-than-expected realty transfer activities.

Statement of Revenues, Expenses, and Changes in Net Position

This statement reports the revenues earned and the expenses incurred in the fiscal year. The resulting net income or loss is reported as an increase or decrease in net position on the *Balance Sheet*.

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Pennsylvania's State System of Higher Education

**Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2025**

(dollars in thousands)

	<u>2025</u>
Operating Revenues	
Tuition and fees, net	\$ 529,669
Grants and contracts	218,313
Sales and services	44,853
Auxiliary enterprises, net	317,144
Other revenues, net	<u>8,953</u>
Total Operating Revenues	1,118,932
Operating Expenses	
Instruction	615,708
Research and Public Service	89,979
Academic support	162,028
Student services	183,121
Institutional support	254,382
Operations and maintenance of plant	113,287
Depreciation and amortization	184,226
Student aid	32,880
Auxiliary enterprises	<u>235,585</u>
Total Operating Expenses	1,871,196
Operating Loss	(752,264)
Nonoperating Revenues (Expenses)	
State appropriations, general and restricted	705,755
Federal and State appropriations and grants-COVID	22,954
Pell grants	153,406
Investment income, net	50,680
Unrealized gain on investments	18,439
Gifts for other than capital purposes	39,090
Interest expense on capital asset-related debt	(51,769)
Loss on disposal/acquisition of assets	(2,116)
Loss on termination of Perkins Loan Program	(30)
Gain on bond defeasance	3,928
Other nonoperating revenue	<u>18,300</u>
Net Nonoperating Revenues	958,637
Income before other revenues	206,373
State appropriations, capital	22,814
Capital gifts and grants	<u>12,896</u>
Income	242,083
Increase in Net Position	242,083
Net position—beginning of year	(802,128)
Net position—end of year	\$ (560,045)

See accompanying notes to financial statements.

Investment of Working Capital

The System invests its working capital in accordance with the Board of Governors' Investment Policy. The investment priorities of the System as stated in this policy are, in order of priority: (1) safety of principal, (2) liquidity, and (3) yield. This policy expressly prohibits leverage and speculative investment strategies.

Unrestricted Net Position

Unrestricted net position, which totals -\$1,806 million, includes the effects of three unfunded liabilities including the related deferred outflows of resources and deferred inflows of resources: the liability for net pension totaled \$774 million for the year ended June 30, 2025 (financial statements footnote 9); the liability for postretirement benefits for employees who participate in the System plan totaled \$1,572 million for the year ended June 30, 2025 (financial statements footnote 10); and the liability for compensated absences totaled \$134 million for the year ended June 30, 2025 (financial statements footnote 8). Without the effect of these liabilities, total unrestricted net position would equal \$674 million.

Faculty and Staff

As of October 15, 2025, the State System's faculty numbered 3,532 full-time members and 1,156 part-time members. Of the full-time faculty members, 2,682 have been awarded tenure and 481 are tenure-track.

As of October 15, 2025, the State System employed 5,190 full-time staff members and 166 part-time staff members. The System believes that it provides a competitive compensation program for its faculty and staff, and that it is able to attract individuals with outstanding qualifications.

As of fiscal year 2024/25, the unrestricted university workforce has declined by approximately 19% since fiscal year 2018/19 and approximately 24% when compared to fiscal year 2010/11 in response to the financial sustainability steps taken by universities to realign their expenses with their revenues.

Approximately eighty-five percent of System employees are represented by various labor unions. The American Federation of State, County and Municipal Employees (AFSCME), (contract expiration date of June 30, 2027), and the Association of Pennsylvania State College and University Faculties (APSCUF) (contract expiration date of June 30, 2027, for faculty and June 30, 2027, for nonfaculty coaches, which are two separate bargaining units) represent the largest number of employees.

Other labor unions include the State College and University Professional Association (SCUPA) (contract expiration date of June 30, 2027); Office and Professional Employees International Union Healthcare Pennsylvania (OPEIU) (contract expiration date of June 30, 2027); Security, Police and Fire Professionals of America (SPFPA) (contract expiration date of August 31, 2025); the Pennsylvania Doctor's Alliance (PDA) (contract expiration date of June 30, 2027 (tentative agreement)); the Service Employees International Union (SEIU, Local 668) (contract expiration date of June 30, 2027); and the Police Officers Association (POA) a relatively new union (contract expiration date of August 31, 2028). The System has complete autonomy in the negotiation processes for the APSCUF, SCUPA, SPFPA, OPEIU, and POA contracts. The System engages in coalition bargaining with the Commonwealth of Pennsylvania on all other labor union contracts.

Retirement

The System participates in three different retirement systems funded in part each year from each university's operating budget: the State Employees' Retirement System (SERS), the Public School Employees' Retirement System (PSERS), and the Alternative Retirement Plan (ARP, which includes Fidelity and TIAA).

Liabilities of the respective retirement systems are not the responsibility of the System. The basic benefits for each program are outlined below. (See also 2025 Audited Financial Statements Note 9 in Appendix II).

(1) State Employees' Retirement System (SERS). The employee's contribution rate is 5 percent of gross salary for Class A and 6.25 percent of gross salary for Class AA. An employee is vested upon completion of five years of service with the state government for these classes. The employee's contribution rate is 6.25 percent of gross salary for Class A-3 and 9.3 percent of gross salary for Class A-4. Class A-3 and Class A-4 are applicable to new members enrolling after January 1, 2011. An employee in Class A-3 or A-4 is vested upon completion of ten years of service with the state government. The employee's contribution rate is 8.34 percent of gross salary (5.09 percent defined benefit pension and 3.25 percent defined contribution investment) for Class A-5 and 7.59 percent of gross salary (4.09 percent defined benefit pension and 3.5 percent defined contribution investment) for Class A-6. Employee vesting for Classes A-5 and A-6 is ten years for the defined benefit pension and three years for the employer share of the defined contribution investment. For Class 40 (straight defined contribution plan), the employee's contribution rate is 7.5 percent of gross salary, and the employer contribution rate is 3.5 percent. Employee vesting for Class 40 is three years for employer contributions.

(2) Public School Employees' Retirement System (PSERS). The employee's contribution rate ranges from 5.25 percent to 10.30 percent of gross salary, depending upon class and hire date. Most employees elected the 7.5 percent Class T-D when offered the higher benefit effective January 1, 2002. An employee is vested upon completion of five years of service with the state government for these classes. The employee contribution rate decreased July 2024 for Class T-E, T-F, T-G and T-H, due to the risk-sharing program component of Act 120 of 2010 and Act 5 of 2017, which created a "shared risk/shared gain" provision, in which every three years, the employee contribution rates may increase or decrease by 0.50 percent or 0.75 percent, when PSERS investments are doing well, but also share the risk when PSERS investments underperform. The employee's contribution rate is 7.5 percent of gross salary for Class T-E and 10.3 percent of gross salary for Class T-F. Class T-E and Class T-F are applicable to new members enrolling after July 1, 2011. An employee in Class T-E or T-F is vested upon completion of ten years of service with the state government. The employee's contribution rate is 8.25 percent of gross salary (5.5 percent defined benefit pension and 2.75 percent defined contribution investment) for Class T-G and 7.5 percent of gross salary (4.5 percent defined benefit pension and 3 percent defined contribution investment) for Class T-H. Employee vesting for Classes T-G and T-H is ten years for the defined benefit pension and three years for the employer share of the defined contribution investment. For the DC only (straight defined contribution plan), the employee's contribution rate is 7.5 percent of gross salary, and the employer contribution rate is 2 percent. Employee vesting for the DC only is three years for employer contributions.

(3) Alternative Retirement Plan ("ARP"). The employee's contribution rate is 5 percent of gross salary. An employee is immediately vested in this retirement program upon employment. Early retirement can be requested at any age; however, the amount of annuity is based on the employee/employer contributions and investment income. The following table summarizes the System's contribution rate for employee retirement benefits for five years (including the current year) for each of the above-mentioned retirement plans. All the figures are a percentage of the employees' gross salary. (See 2025 Audited Financial Statement Note [9] for the dollar amount of such contributions.)

SERS*							
	Class A	Class AA	Class A-3 and A-4	Class A-5 and A-6	401a Only	PSERS	ARP
2025/26	31.53%	39.96%	26.86%	18.96%	18.92%	17.000%	9.29%
2024/25	31.74%	40.33%	27.09%	19.09%	19.04%	16.950%	9.29%
2023/24	32.24%	41.09%	27.60%	19.65%	19.60%	17.000%	9.29%
2022/21	30.44%	38.82%	26.05%	18.43%	18.37%	17.630%	9.29%
2021/22	29.98%	37.46%	25.90%	19.93%	19.88%	17.470%	9.29%

- *There are five different rates for SERS employees, depending on their class. The majority of System employees are in Class AA. Newly enrolled employees hired after January 1, 2011, are in Class A-3 or A-4. Newly enrolled employees hired after January 1, 2019, are in Class A-5, A-6, or 401a Only.*

As of June 30, 2025, the distribution of System participants in the three plans noted above were as follows: SERS, 37%, PSERS, 8%, and ARP, 55%.

The System's employer contribution rates for SERS and PSERS participants are not set by the System. The System's employer contribution rates are certified each year as a result of the actuarial valuation of the SERS pension system, assessing the current funds, and determining the future expected liabilities. The employer contribution rate is set so that it can fund all retirement benefits earned by employees working during the year and pay toward any unfunded liability that may exist. The System has no authority over benefits and no authority or responsibility for the operation and administration of the SERS or PSERS plans.

Funding Agreement. On November 27, 2019, the Governor approved HB 1982 (Act of Nov. 27, 2019, P.L. 723, No. 105) ("Act 105"), which authorizes a one-time advance payment to SERS by eligible employers, which includes the System. In return, the eligible employer would receive a schedule of credits or setoffs against its future annual accrued liability contributions to SERS for a period up to thirty (30) years. Under Act 105, the System could fund 75 percent to 100 percent of its estimated \$1.1 billion unfunded accrued pension liability. In 2021, the System entered into a funding agreement with SERS for the prepayment of \$825 million of the long-term pension liability, supported through the proceeds of bonds issued through the Pennsylvania Economic Development Financing Authority (PEDFA). The agreement provides credits, or setoffs, over the course of the 30-year agreement. The annual savings generated through this agreement deliver funding to support the System's financial sustainability and as strategic initiatives. The annual setoff amounts included in the Funding Agreement are as follows:

SERS		SERS	
Fiscal Year	Setoff Amount	Fiscal Year	Setoff Amount
2022	\$79,939,555	2037	\$69,427,421
2023	79,939,555	2038	52,258,540
2024	79,939,555	2039	52,258,540
2025	79,939,555	2040	52,258,540
2026	79,939,555	2041	52,258,540
2027	79,939,555	2042	22,001,027
2028	79,939,555	2043	12,093,718
2029	79,939,555	2044	12,093,718
2030	79,939,555	2045	11,043,542
2031	79,939,555	2046	9,574,074
2032	69,427,421	2047	4,938,453
2033	69,427,421	2048	2,686,967
2034	69,427,421	2049	2,686,967
2035	69,427,421	2050	2,686,967
2036	69,427,421	2051	2,686,967
		Total	\$1,507,486,640

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The planned savings generated for the System through Act 105 and the Funding Agreement provides cash flow to assist in supporting long-term financial health and funding important future strategic investments. With respect to the cash flow associated with this program, to-date the Board of Governors has authorized these savings funds for strategic initiatives, such as supporting university integrations. Future uses of these funds, in consultation with the Board of Governors, will be in support of financial sustainability and strategic needs of the State System.

Accounting Matters

The System's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and are attached to this Official Statement as Appendix II.

As of July 1, 1983, with the enactment of Act 188, the System became responsible for the use of all appropriations for all the Universities. Any funds unexpended at the end of any given fiscal year by any University or the Office of the Chancellor do not lapse to the Commonwealth but remain in the respective accounts for future use. The presidents have the authority to expend their respective University's allocated funds as they deem proper and necessary, with review by the Office of the Chancellor. The amount of appropriations granted by the General Assembly and the Governor of Pennsylvania for the next fiscal year is not affected adversely by any cumulative amounts remaining unexpended by the Universities and the Office of the Chancellor from the prior fiscal year appropriations.

In the opinion of the System's management, there has been no material adverse change in the financial condition of the System since June 30, 2025.

Cheyney University. In August 2015, Cheyney University self-reported to the U.S. Department of Education (the "ED") of federal student financial aid improperly administered and delivered in the fiscal years under review. In September 2015, the ED placed the University on Heightened Cash Monitoring 2 (HCM2) status, meaning that Cheyney University does not receive federal student financial aid funds in advance, but must use its own cash to grant federal financial aid to its students and then request reimbursement from the ED.

As a result of the self-reported compliance issues reported in August 2015, Cheyney University entered into a settlement agreement with the ED in February 2020 which resulted in (1) an assessment of \$14,308,377, (2) waiver of its rights to any administrative appeal, and (3) entry into an acceptable repayment agreement with the ED. Cheyney University made payments as required by the agreement between June 2020 and July 2024. In October 2024, Cheyney satisfied all remaining outstanding debt related to this settlement agreement. Effective June 2, 2025, Cheyney University was removed from HCM2 status and has been returned to the Advanced method of payment. Under this method of payment, Cheyney University may draw down Title IV funds without approval of the ED.

Budgetary Matters

Each spring, the president of each university is required to submit a preliminary operating budget for the upcoming fiscal year and financial projections for two additional years. Each fall, the president is required to submit an updated final budget for the current fiscal year and updated financial projections for two additional years. With the passage by the Board of Governors of the University Financial Sustainability Policy and procedures and standards in 2019 (*See* the section titled *System Redesign* herein for additional information), Universities are assessed against sustainability metrics and classified in a sustainability plan category. Universities assessed as stable, do not require additional monitoring. Universities in a plan category requiring monitoring will submit quarterly updates to the System Office to outline progress they are making to reach

financial sustainability and achieve the recommended financial sustainability metric goals. In fiscal year 2024/25, 4 of the 10 universities were being monitored and provided quarterly updates.

Financial Statements Audit

The financial statements of the System as of and for the year ended June 30, 2025 (the “2025 Audited Financial Statements”), included in Appendix II of the Preliminary Official Statement and the Official Statement (the “Official Statements”) related to the State System of Higher Education, Revenue Bonds, Series BA to be issued by the Pennsylvania Higher Educational Facilities Authority, have been audited by CliftonLarsonAllen LLP, the System’s independent auditors, as stated in their report appearing herein.

CliftonLarsonAllen LLP has not been engaged to perform and has not performed, since the date of its report included in the Official Statements related to the Series BA Bonds, any procedures on the financial statements addressed in that report. CliftonLarsonAllen LLP also has not performed any procedures relating to this offering document.

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Legal Matters

It is the opinion of the Chief Counsel to the System that, to the best of her knowledge after reasonable investigation, there is no action, suit, proceeding, or investigation at law or in equity before or by any court, public board, or body, pending or threatened, against or affecting the System, wherein an unfavorable decision, ruling, or finding would materially adversely affect the transactions contemplated by this Official Statement and the Continuing Disclosure Agreement.

Legislative Matters

Due to the budget impasse, as of October [19], 2025, the State System is currently waiting for final passage of the following key legislative items for Fiscal Year 2025-26: a general appropriations bill, the Capital Budget Project Itemization Act, the Capital Budget Act, and any accompanying policy language, e.g., the omnibus School Code bill, that is passed as part of the state budget process.

Insurance

The Commonwealth's exposure to liability (other than for Workers' Compensation Liability) is governed by the dictates of Act 152, as amended by Act 142 of 1980 and Act 87 of 2019, commonly known as the Sovereign Immunity Tort Claims Act. Under this act, sovereign immunity was reaffirmed but waived in ten (10) specific areas of liability. In accordance with Section 8528 of the statute, eligible claims or suits against the Commonwealth, its officials or employees within the waived areas may be settled up to a maximum of \$250,000 per person and \$1,000,000 for each occurrence.

The Commonwealth has established a Tort Claims Self-Insurance Program to handle these claims or suits, which is administered by the Bureau of Finance and Risk Management, formerly known as Bureau of Risk and Insurance Management, of the Department of General Services in close relationship with the Office of Attorney General. This coverage applies to all Commonwealth departments, officials and employees while performing Commonwealth activities. The System is a covered agency for this program.

Commonwealth owned properties, including Commonwealth owned building contents and Commonwealth owned building contents at leased locations are self-insured for fire or other casualty under the State Insurance Fund created by Act 227 (1915 P.L. 524, approved May 14, 1915, as amended). The Fund is administered by the Department of General Services. The State Insurance Fund provides coverage for fire, casualty, perils of flood and flood related hazards or any other natural disasters for approximately 14,000 Commonwealth owned properties with a value of \$29 Billion. The limit of coverage is \$1,000,000 for any one loss. Claims over \$1,000,000 are covered through the Commonwealth's Excess Property Policy which has a \$1,000,000,000 coverage limit. Additionally, the Commonwealth of Pennsylvania is certified as a qualified self-insurer under the Pennsylvania Motor Vehicle Financial Responsibility Act and the Workers' Compensation Act providing the appropriate benefits required as a self-insurer.

Contingencies and Commitments

See FY2025 Audited Financial Statements Note 15 in Appendix II to the Preliminary Official Statement for more information on such matters.

Future Financings

There are no additional capital projects approved to be bond financed in FY 2025/26 at this time. However, the System routinely engages in discussions with its universities on potential future financing needs and also reviews its financing portfolio on an ongoing basis to determine opportunities for refundings.

Outstanding Indebtedness

As of October 1, 2025, the bond outstanding indebtedness of the System is as follows:

	Issuance Date	Original Issuance Amount	Current Outstanding Principal	Maturity Date
Series AQ	05/07/15	94,975,000	22,265,000	06/15/36
Series AR	09/10/15	102,365,000	65,695,000	06/15/40
Series AS	06/07/16	47,280,000	22,090,000	06/15/37
Series AT	09/07/16	298,110,000	178,605,000	06/15/55
Series AU	09/14/17	128,260,000	66,005,000	06/15/42
Series AV	09/06/18	236,945,000	166,490,000	06/15/45
Series AW	09/10/19	84,980,000	30,000,000	06/15/44
Series AX	07/23/20	94,985,000	67,140,000	06/15/42
Series AY	10/01/20	78,925,000	33,425,000	06/15/36
Series 2021	04/28/21	827,580,000	682,640,000	06/15/42
Series AZ	06/24/21	142,710,000	125,585,000	06/15/47
Total		\$2,137,115,000	\$1,459,940,000	

The System has no other existing long-term indebtedness, except for leased facilities, office equipment, computer equipment, energy conservation equipment, and similar types of acquisitions, and four master lease agreements for student housing. See Note 11 of the 2025 Audited Financial Statements in Appendix II for further information pertaining to the leases.

Maturities of long-term debt for the current fiscal year, as well as the next five fiscal years, are as follows:

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Series AQ	5,120,000	1,485,000	1,525,000	1,570,000	1,620,000	1,675,000
Series AR	3,435,000	3,540,000	3,645,000	3,755,000	3,875,000	4,005,000
Series AS	2,985,000	3,135,000	1,325,000	1,395,000	1,465,000	1,540,000
Series AT	7,385,000	7,760,000	8,145,000	8,550,000	8,980,000	9,425,000
Series AU	6,835,000	7,160,000	7,515,000	5,450,000	5,685,000	5,930,000
Series AV	5,810,000	6,050,000	6,295,000	6,575,000	6,855,000	7,125,000
Series AW	4,420,000	4,635,000	4,865,000	5,110,000	650,000	685,000
Series AX	4,765,000	5,000,000	5,255,000	5,525,000	5,800,000	3,565,000
Series AY	4,950,000	4,630,000	4,695,000	4,775,000	4,860,000	4,950,000
Series 2021	37,575,000	46,670,000	47,490,000	48,425,000	49,475,000	50,615,000
Series AZ	4,560,000	4,685,000	4,830,000	4,975,000	5,115,000	5,260,000
Total	\$87,840,000	\$94,750,000	\$95,585,000	\$96,105,000	\$94,380,000	\$94,775,000

System Redesign

The System Redesign is guided by three strategic priorities approved by the Board of Governors in January 2019: (1) ensuring student success, (2) leveraging University strengths, and (3) transforming the governance/leadership structure. While the major projects associated with the initial implementation of System Redesign are near completion, the Board of Governors continues to operate within these parameters focused on improved efficiency to reduce costs and improve financial sustainability for the System.

As part of initial System Redesign efforts, a variety of options were analyzed to determine the best path forward for the System for meeting its statutory objective of offering high quality affordable education and also achieving financial sustainability. In October 2019, the Board of Governors demonstrated its commitment to System Redesign through the passage of the University Financial Sustainability Policy. This passage put in place processes and procedures to further improve the transparency and financial sustainability of universities. The Board continues to operate under these priorities and receives quarterly updates on status.

In addition to the Sustainability Policy and as part of System Redesign, the following are examples of initiatives implemented: procurement shared services for all but two universities and enabling technology, strategic sourcing, human resource shared services for six universities, early retirement programs, data center consolidation, and the launch of a consolidated student information system. These initiatives have positioned the System to address many challenges by increasing efficiency and reducing costs resulting in over \$600M in savings.

The System recently completed an additional faculty early retirement program (spring 2025) and has launched new initiatives to align the program array with student demand and financial projections, optimize space through third party engagements to reduce the physical footprint of many campuses, prioritized demolition and infrastructure renewals for capital planning, and engaged with third parties to assess the non-traditional market. A core objective is the review of the universities program arrays into the financial projections in the spring of 2026. This will also allow for course and program sharing in the fall of 2026. The new Student Information System which will be completed at the end of calendar 2025 is designed for this implementation.

In addition, in July 2021, the Board of Governors approved the integration of six universities into two universities as part of the broader System Redesign effort. Middle States approval was received in March of 2022. The new universities (Pennsylvania Western University of Pennsylvania and Commonwealth University of Pennsylvania) began operations as integrated entities as of July 1, 2022.

For additional information on System Redesign see <https://passhe.edu/system-redesign/index.html>. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Affiliate-Owned Student Housing

At some System Universities, the System has joined in master lease agreements with the affiliate student housing owners to alleviate certain covenant restrictions and/or to provide additional payment security to the holders of debt used to finance affiliate-owned student housing. The System makes no representations regarding the financial status of any affiliate-owned student housing or non-System debt or its plans to refrain from or enter into any additional master lease agreements with Universities in the future.

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Appendix II: 2025 Audited Financial Statements

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PENNSYLVANIA'S STATE SYSTEM *of* HIGHER EDUCATION



Pennsylvania's
STATE SYSTEM
of Higher Education

FINANCIAL STATEMENTS
JUNE 30, 2025

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Pennsylvania's State System of Higher Education
Financial Statements
June 30, 2025
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Pennsylvania's State System of Higher Education ("the State System"), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the State System's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the State System as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of certain discretely presented component units, which represent 97.39%, 95.33%, and 96.58%, respectively, of the assets, net assets, and revenues of the discretely presented component units as of June 30, 2025. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State System's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

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

CliftonLarsonAllen LLP

King of Prussia, Pennsylvania
September 25, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

As members of the Commonwealth of Pennsylvania's (Commonwealth) public four-year higher education system, the ten universities of Pennsylvania's State System of Higher Education (State System) are committed to delivering high-quality education at the lowest possible cost to students. With approximately 83,000 degree-seeking students enrolled, and thousands more participating in certificate and career-development programs, the State System is the largest producer of bachelor's degrees in the Commonwealth. While each university operates independently, membership in the State System allows them to share administrative resources, collaborate on academic offerings, and leverage economies of scale to enhance efficiency and impact.

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

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

Management's discussion and analysis consist of an overview of the State System's financial activities for the year ended June 30, 2025, as compared to the year ended June 30, 2024, and significant changes between these two years, as well as future economic factors.

THE FINANCIAL STATEMENTS

The State System's financial report includes: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; the Statement of Cash Flows; the Component Unit Statement of Financial Position; the Component Unit Statement of Activities; and Component Units Expense by Nature and Function. These basic financial statements are prepared in accordance with GASB principles, which establish standards for external financial reporting for public colleges and universities. The State System's business-type activities are reported in the consolidated financial statements and the discretely presented component unit financial statements.

Statement of Net Position

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

- *Assets* include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation, and right of use and subscription assets less accumulated amortization.
- *Deferred Outflows of Resources*, defined as a consumption of net position that applies to future periods, reports the deferred loss on bond defeasance and certain items associated with the pension and other

postemployment benefits, or OPEB liabilities (health and tuition benefits expected to be paid to eligible current and future retirees).

- *Liabilities* include payments due to vendors, employees, and students; revenues received but not yet earned; the balance of bonds payable; and amounts estimated to be due for items such as workers' compensation (the State System is self-insured), compensated absences (the value of sick and annual leave earned by employees), pension benefits, OPEB and lease and subscription liabilities.
- *Deferred Inflows of Resources*, defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance, the fair value of irrevocable split-interest agreements, certain items associated with the pension and OPEB and deferred income associated with lessor leases.
- *Net Position*, informally referred to as *Net Assets* or *Fund Balance* (as it was previously called), is the sum of Assets and Deferred Outflows of Resources less Liabilities and Deferred Inflows of Resources.

Following is a summary of the State System's statement of net position at June 30, 2025 and 2024.

Statement of Net Position			
(in millions)	June 30, 2025	June 30, 2024	Change from Prior Year
Assets			
Cash and investments	\$982	\$984	(0.2%)
Capital assets, net	2,124	2,185	(2.8%)
Other assets	993	936	6.1%
Deferred outflows	259	349	(25.8%)
Total assets and deferred outflows	4,358	4,454	(2.2%)
Liabilities			
Compensated absences	134	124	8.1%
Net pension liability	879	940	(6.5%)
Net OPEB liability	1,087	1,176	(7.6%)
Bonds payable	1,460	1,606	(9.1%)
Lease obligations and financed purchases	264	275	(4.0%)
Other Liabilities	349	351	(0.6%)
Deferred inflows	745	763	(2.4%)
Total liabilities and deferred outflows	4,918	5,235	(6.1%)
Net Position			
Net investment in capital assets	1,039	976	6.5%
Restricted	207	193	7.3%
Unrestricted	(1,806)	(1,971)	(8.4%)
Total net position	(560)	(802)	(30.2%)
Total liabilities, deferred inflows and net position	\$4,358	\$4,433	(1.7%)

Net Position

Overall, **net position increased by \$242 million** in fiscal year 2024-25. This compares to an increase of \$304 million in fiscal year 2023-24 from fiscal year 2022-23.

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

- *Net investment in capital assets*, informally referred to as *NIP* (from its former name, *Net Investment in Plant*), is the cost of land, buildings, improvements, equipment, furnishings, library books, right of use leases and subscription assets, net of accumulated depreciation and amortization, less any associated debt (primarily bonds payable). This balance is not available for the State System's use in ongoing operations since the underlying assets would have to be sold to use the balance to pay current or long-term obligations. The Commonwealth prohibits the State System from selling university land and buildings without prior approval.
- *Restricted* net position represents the portion of balances of funds received from the Commonwealth, donors, or grantors, who have placed restrictions on the purpose for which the funds must be spent. *Nonexpendable* restricted net position represents the corpus of endowments and similar arrangements in which only the associated investment income can be spent. *Expendable* restricted net position represents the portion of restricted funds that is available for expenditure as long as any external purpose and time restrictions are met.
- *Unrestricted* net position includes funds that the Board, chancellor, or university presidents have designated for specific purposes, auxiliary funds, and all other funds not appropriately classified as restricted or invested in capital assets.

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

The State System's liabilities related to unfunded future compensated absences, unfunded future pension and retiree healthcare costs amounts to \$2.5 billion, inclusive of associated deferred inflows of resources (DIR) and deferred outflows of resources (DOR). The State System has no control over \$1.2 billion of this amount, which represents its share of the retirement and post-employment benefit plans administered by the Commonwealth, since the Commonwealth determines the benefit structures, employer contribution rates, and retiree contribution rates for these plans.

As of June 30, 2025, the Commonwealth's combined net pension and OPEB liabilities totaled \$69.0 billion, down from \$73.4 billion in 2024. Pension reforms enacted in 2017 for new hires beginning in 2019 have slowed liability growth but do not reduce existing obligations. No legislative action has addressed the rising OPEB liabilities, which include coverage for AFSCME employees hired since 2019. To limit future exposure, the State System closed its OPEB plan to most new employees hired after January 2016, excluding APSCUF-represented staff. While this does not reduce current liabilities, it prevents new obligations from accruing.

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

Effect of Unfunded Liabilities, including the respective Deferred Outflows of Resources and Deferred Inflows of Resources, on Unrestricted Net Position		
(in millions)	June 30, 2025	June 30, 2024
Unrestricted Net Position when effect of unfunded liabilities is included	(\$1,806)	(\$1,971)
Pension Liabilities, including DOR and DIR		
SERS Pension	708	722
PSERS Pension	66	69
Total Pension Liabilities	774	791
OPEB Liabilities, including DOR and DIR		
SSHE OPEB Plan	1,181	1,262
REHP OPEB Plan	388	460
PSERS OPEB Plan	3	3
Total OPEB Liabilities	1,572	1,725
Compensated Absences Liability	134	124
Total Unfunded Liabilities, including DOR & DIR	2,480	2,640
Unrestricted Net Position when effect of unfunded liabilities is excluded	\$674	\$669

When the unfunded liabilities and related DOR and DIR are excluded, unrestricted net position increased slightly by \$5 million, or 0.7%, from fiscal year 2023–24 to 2024–25, rising from \$669 million at June 30, 2024 to \$674 million at June 30, 2025. This compares to a decrease of \$45 million, or 6.3%, from fiscal year 2022–23 to 2023–24.

- The State System's **net pension liability** and related deferred outflows/inflows reflect its share of the Commonwealth's unfunded defined benefit obligations, offset by assets in a qualified trust for future benefits. The liability grows annually based on actuarial estimates of employee-earned benefits and declines with increased trust funding or participant departures. As of June 30, 2025, its impact on net position was \$774 million, down from \$791 million in 2024. Universities fund this liability on a pay-as-you-go basis, contributing only the required annual amounts to SERS and PSERS.
- The **SERS prefunding** that was completed in the fiscal year ended June 30, 2021, via a bond issuance whose proceeds were transferred to the SERS plan, is reflected as an asset on the statement of net position in other assets. The balance at June 30, 2025 is \$716 million compared to \$746 million at June 30, 2024. This balance is amortized to reduce pension expense over time.
- The **OPEB liability** reflects estimated future healthcare costs for current and future retirees. It grows annually based on actuarial estimates of benefits earned by employees and rising healthcare costs, and declines with higher retiree contributions, fewer eligible employees, or retiree departures. As of June 30, 2025, its impact on net position was \$1.6 billion, down from \$1.7 billion in 2024. Like pension liabilities, universities fund OPEB on a pay-as-you-go basis, making biweekly payments for actual claims under the State System plan and required contributions to REHP and PSERS as set by the Commonwealth.
- The **compensated absences liability** reflects the dollar value of unused leave earned by employees, based on current salary, and recognized under GASB Statement No. 101. It includes annual, personal,

and sick leave eligible for cash payout upon retirement or termination. Full-time employees may receive payouts for up to 45 days of accumulated annual, personal, and holiday leave. Sick leave payouts are limited to retirees meeting specific age and service criteria, with caps based on accumulated days. The sick leave liability includes both vested amounts and estimated non-vested amounts, based on historical data, and projected eligibility. Adoption of the new standard had minimal impact on fiscal year 2024–25 opening balances. Used but unpaid leave is reported in accrued payroll under other liabilities.

The liability increased by \$10 million to \$134 million for the year ended June 30, 2025, compared to a \$4 million increase to \$124 million for the year ended June 30, 2024. Universities fund this liability only as cash payouts are made to employees upon termination.

Part of this overall increase in compensated absences liability is due to a new APSCUF sick leave program launched in spring 2025, offering payouts equal to 2.5 times vested sick leave balances. Further details are provided in the Expenses and Losses section of the Statement of Revenues, Expenses, and Changes in Net Position.

Capital Investment and Debt Activities

In fiscal year 2024–25, the State System added \$126 million in **capital assets**, including \$33 million for academic and auxiliary facilities, \$47 million in construction in progress, and \$20 million in subscription-based IT arrangements. This compares to \$127 million in total additions in fiscal year 2023–24, which included \$36 million for academic and auxiliary facilities, \$40 million in construction in progress, \$7 million in right-of-use lease assets, and \$22 million in subscription-based IT arrangements.

In fiscal year 2024–25, the State System was allocated \$70 million in **Commonwealth capital funding**, a level consistent with prior years—excluding fiscal year 2022–23, when funding was unusually high. These funds are primarily designated for the renovation, replacement, or demolition of existing educational and general (E&G) buildings, with all projects managed under the direction of the Commonwealth. Because the Commonwealth retains ownership of any capital project it directly funds, universities do not record the value of these projects as revenue or assets – except for any direct contributions they make to the projects.

There were no new bond issuances by the State System in fiscal years 2024–25 or 2023–24.

Bond principal, refundings or defeasance payments totaled \$146 million in fiscal year 2024–25, with \$48 million in interest paid, reducing total outstanding bond debt to \$1.460 billion as of June 30, 2025. This compares to \$189 million in principal-related payments and \$55 million in interest in fiscal year 2023–24, when outstanding bond debt stood at \$1.606 billion. Additional details regarding bond defeasances completed in fiscal year 2024–25 and 2023–24 can be found in the footnotes to the financial statements, under the Bonds Payable section.

In February 2025, Moody's Investors Service, Inc. maintained the State System's **bond rating** of Aa3, and stable outlook. The stable outlook reflects Moody's expectations that continued successful execution of the system redesign initiative will enhance prospects for sustainability, aligning expense structures to anticipated smaller enrollment levels, as noted earlier in the Enrollment section. The outlook also reflects expectations of continued strong liquidity, growing Commonwealth financial support and steady declines in bonded debt. At the same time, Moody's maintained the State System's Environmental, Social, and Governance (ESG) and Credit Impact Scores (CIS) of CIS-3. CIS-3 reflects the State System's elevated exposure to social risks, including weak demographics and highly competitive market conditions, while strong fiscal management and robust strategic planning frameworks partly mitigates its exposure to ESG risks. In February 2025, Fitch Ratings reviewed the State System's rating of A+ with stable outlook and no rating change was made.

Statement of Revenues, Expenses, and Changes in Net Position

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

Revenues and Gains

Following is a summary of revenues and gains for the years ending June 30, 2025 and 2024.

Revenues and Gains			
(in millions)	June 30, 2025	June 30, 2024	Change from Prior Year
Operating revenues			
Tuition and fees, net	\$530	\$595	(10.9%)
Grants and contracts	218	191	14.1%
Auxiliary enterprises, net	317	330	(3.9%)
Other	54	52	3.8%
Total Operating revenues	1,119	1,168	(4.2%)
Nonoperating revenues and gains			
State appropriations	729	683	6.7%
Federal & State approp. & grants - COVID	23	49	(53.1%)
Investment income, net	51	69	(26.1%)
Unrealized gain on investments, net	18	3	500.0%
Gain on bond defeasance	4	5	(20.0%)
Gifts, nonoperating grants and other	224	198	13.1%
Total Nonoperating revenues and gains	1,049	1,007	4.2%
Total revenues and gains	\$2,168	\$2,175	(0.3%)

Overall, fiscal year 2024-25 **operating revenues** decreased by 4.2% from the prior fiscal year due lower net tuition and fees revenue and auxiliary operations which were offset by increased grants and contracts revenue. Nonoperating revenues increased by 4.2%, mainly due to increased State appropriations revenues. The overall change in revenues and gains was a slight decrease of 0.3% over the prior year. These changes are further discussed below.

Tuition and Fees Revenue

In July 2024, the Board of Governors continued the pattern of freezing tuition; keeping in-state undergraduate tuition at the same rate of \$7,716 per year since 2018-19. Nonresident undergraduate tuition rates ranged from \$7,968 to \$19,290 for the 2024-25 academic year. The basic resident graduate tuition rate was \$516 per credit, while the typical nonresident graduate tuition rate is \$774 per credit.

The State System's average price of attendance (tuition, mandatory fees, room, and board) for in-state undergraduate students increased slightly for academic year 2024-25 at \$22,988, compared to \$22,421 in academic year 2023-24, with the difference caused by increases in a few university-set fees across the State System. The average price of attendance among all four-year public universities in the United States in academic year 2024-25 was \$24,920.

Fall 2024 student headcount, for credit-bearing and clock hour students, was 82,509, a decrease of 179 students, or (0.2%), from fall 2023.

Year	Fall Enrollment	% Change from Prior Year
2024	82,509	-0.2%
2023	82,688	-2.2%
2022	84,567	-4.6%

Tuition and fee revenue is shown net of discounts and allowances and bad debt expense. Discounts and allowances represent financial aid to students in the form of grants, scholarships, and waivers. Gross tuition and fees were \$902 million in fiscal year 2024-25 compared to \$900 million in fiscal year 2023-24. Although tuition was frozen again for fiscal year 2024-25 and overall fall student headcount declined, student fee revenue was higher. Tuition and fee discounts were \$372 million in fiscal year 2024-25 compared to \$305 million in fiscal year 2023-24, an increase of \$67 million. These items resulted in an overall **decrease in net tuition and fee revenue of \$65 million** in fiscal year 2024-25 or (10.9%) from fiscal year 2023-24.

In fiscal year 2024–25, the State System implemented a revised methodology for estimating tuition and auxiliary discounts, in accordance with the National Association of College and University Business Officers (NACUBO) Advisory Report 2023-01, Public Institutions: Accounting for and Reporting Financial Aid as a Discount. This refinement was made possible by advancements in student information systems that now capture detailed student-level data.

Under the previous approach, institutional aid was allocated using pooled student aid and refunds, which introduced non-discountable transactions and reduced the precision of discount estimates. The updated methodology uses student-level data to allocate aid between tuition, auxiliary discounts, and student aid expense by fiscal year, resulting in a more accurate reflection of how financial aid is distributed.

This change affects the classification of amounts reported in Tuition and fees, net; Auxiliary enterprises, net; and Operating Expenses – Student aid on the Statement of Revenues, Expenses, and Changes in Net Position. It does not affect the total net position and has been applied prospectively.

Compared to the previous method, the revised approach led to a 7% increase in tuition and fee discounts, an 8% increase in auxiliary discounts, and a 15% decrease in student aid expense. While the total institutional aid remains unchanged, these reclassifications reflect improved precision and alignment with the actual flow of financial support.

Auxiliary enterprises net revenue, which includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of student union and recreation centers, net of discounts. Gross auxiliary enterprises revenue totaled \$360 million in fiscal year 2024–25, up from \$337 million in fiscal year 2023–24. However, auxiliary discounts increased significantly, from \$8 million to \$43 million, a rise of \$36 million, primarily due to a change in the allocation methodology, as discussed above under Tuition and Fees Revenue. As a result, **net auxiliary enterprises revenue declined by \$13 million**, or 3.9%, in fiscal year 2024–25 compared to the prior year. This compares to an increase of \$20 million or 6.5% in fiscal year 2023-24 from fiscal year 2022-23.

State Appropriations

For fiscal year 2024-25, the State System received General Fund appropriations of \$621 million, which was an increase of \$35 million or 6.0% over the amount of \$586 million for fiscal year 2023-24. In fiscal year 2024-25, these appropriations represented approximately 30% of total revenues and gains.

State support is a key factor in shaping the State System's overall financial condition and directly affects its ability to offer affordable tuition. Recent increases in appropriations have been critical to freezing tuition, delivering essential student services, and strengthening the State System's overall financial stability.

In addition to the appropriation, in fiscal year 2024–25, the State System received a \$23 million allocation from the Commonwealth's **Key '93 Fund** (Keystone Recreation, Park and Conservation Fund) through the Realty Transfer Tax to assist in funding deferred maintenance, an increase of \$2 million as compared to \$21 million received in 2023–24. Apart from fiscal years 2009–10 and 2010–11, when no funding was provided, **Key '93** has served as a reliable source of revenue for university deferred maintenance projects since its inception in 1993.

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

Similarly, in fiscal year 2023–24, the State System received a special appropriation of \$65 million to make early repayment of debt service on PASSHE owned facilities. \$63 million was used to make this early redemption and defeasance with the unused portion returned to the Commonwealth. The use of these funds is discussed further in the footnotes to the financial statements, bonds payable section.

Federal & State appropriations and grants – COVID includes ARPA funds that have been provided to State System universities by the Commonwealth. In fiscal year 2024–25, the \$23 million revenue was related to the \$125 million appropriation from the Commonwealth's American Rescue Plan's Coronavirus State and Local Fiscal Recovery Funds received in July 2022. \$48 million was recognized as revenue in fiscal year 2024–25. An additional \$6 million is anticipated to be recognized as revenue over the next two fiscal years.

Expenses and Losses

Following is a summary of expenses and losses for the years ending June 30, 2025 and 2024.

Expenses and Losses			
(in millions)	June 30, 2025	June 30, 2024	Change from Prior Year
Operating expenses			
Instruction	\$616	\$588	4.8%
Research and public service	90	79	13.9%
Academic support	162	150	8.0%
Student services	183	170	7.6%
Institutional support	254	247	2.8%
Operations and maintenance of plant	113	102	10.8%
Depreciation and amortization	184	176	4.5%
Student aid	33	87	(62.1%)
Auxiliary enterprises	237	212	11.8%
Total Operating expenses	1,872	1,811	3.4%

Expenses and Losses (continued)			
<i>(in millions)</i>	June 30, 2025	June 30, 2024	Change from Prior Year
Other expenses and losses			
Interest expense capital asset-related debt	52	57	(8.8%)
Loss on disposal / acquisition of assets	2	4	(50.0%)
Loss on termination of Perkins Loan Program	-	-	0.0%
Unrealized loss on investment, net	-	-	0.0%
Total Other expenses and losses	54	61	(11.5%)
Total expenses and losses	\$1,926	\$1,872	2.9%

Operating expenses increased by \$60 million, or 3.3%, in fiscal year 2024–25 compared to fiscal year 2023–24. This increase was primarily driven by higher costs for salaries, wages, and benefits, partially offset by a reduction in student aid expense.

Student aid expense declined by \$54 million, from \$87 million in fiscal year 2023–24 to \$33 million in fiscal year 2024–25. The decrease was attributable to a change in the allocation methodology, as discussed in detail above under Tuition and Fees Revenue.

Following is a summary of salaries, wages, and benefits expenses for the years ending June 30, 2025 and 2024.

Salaries, Wages and Benefits			
<i>(in millions)</i>	June 30, 2025	June 30, 2024	Change from Prior Year
Salaries and wages	\$930	\$906	2.6%
Employer benefit contributions			
Employee healthcare	157	135	16.3%
Pension benefits	154	155	(0.6%)
Retiree healthcare	45	50	(10.0%)
Other benefits	97	96	1.0%
Total employer benefit contributions	453	436	3.9%
Noncash pension and OPEB expense			
Pension expense	(61)	(81)	(24.7%)
Retiree healthcare expense	(153)	(198)	(22.7%)
Total noncash pension and OPEB expense	(214)	(279)	(23.3%)
Total salaries, wages and benefits	\$1,169	\$1,063	10.0%

Salaries and wages totaled \$930 million in fiscal year 2024-25, an increase of \$24 million, or 2.6%, over fiscal year 2023-24. The increase is the result of salary and wage increases granted as part of the collective

bargaining agreements as well as costs associated with the implementation of an enhanced sick leave program for APSCUF faculty, which offered a payout equal to **2.5 times** their vested sick leave balances, if retiring by August 22, 2025.

Under this program, 119 employees retired during fiscal year 2024–25, resulting in total payments of \$8.7 million, of which \$5.2 million represented incremental costs attributable to the enhanced benefit. An additional 57 eligible employees received payouts in fiscal year 2025–26, with payments totaling \$4.6 million, including approximately \$2.8 million in incremental benefits. These amounts have been accrued as of **June 30, 2025**. Overall, the enhanced sick leave program increased salaries and wages expense in fiscal year 2024–25 by \$8.0 million.

Annualized full-time equivalent employees decreased to 9,335 in fiscal year 2024-25, compared to 9,413 in fiscal year 2023-24.

When the effects of the non-cash pension and OPEB expenses in excess of contributions are factored out, fiscal year 2024-25 **employee benefits** totaled \$453 million, an increase of \$17 million, or 3.9%, above fiscal year 2023-24.

The employer share of **employee healthcare contributions** increased by \$22 million in fiscal year 2024-25, or 16.3%, from fiscal year 2023-24. This follows an increase of \$4 million in fiscal year 2023-24, or 3.1%, from fiscal year 2022-23.

Following is a summary of the State System's contributions for retiree pension and healthcare benefits for the years ending June 30, 2025 and 2024.

State System Employer Contributions for Retiree Pension and Healthcare Benefits			
<i>(in millions)</i>	Change from		
	June 30, 2025	June 30, 2024	Prior Year
Pension			
SERS	\$96.2	\$99.9	(3.7%)
PSERS	9.8	9.6	2.1%
ARP	48.5	45.8	5.9%
Retiree Healthcare			
System Plan	26.6	30.6	(13.1%)
REHP	17.8	18.7	(4.8%)
PSERS Healthcare	0.2	0.2	0.0%
Totals	\$199.1	\$204.8	(2.8%)

- **Employer contributions to SERS**, a defined benefits pension plan, were 40.33% of a participating employee's salary for most participants in fiscal year 2024-25, versus 41.09% in fiscal year 2023-24. This rate for 2025-26 is anticipated to be 39.96%. This rate has been steadily and significantly increasing since fiscal year 2010-11, when the rate was 4.11% of an employee's salary. At December 31, 2024, 67.7% of the SERS liability was funded.
- **Employer contributions to PSERS**, a defined benefits pension plan, were 16.460% of a participating employee's salary in fiscal year 2024-25, versus 16.545% in fiscal year 2023-24. The rate for 2025-26 is anticipated to be 16.480% and is expected to continue to increase each year, but at a lesser rate than

recent historical experience. This rate has been significantly increasing, with some fluctuation, since fiscal year 2010-11, when the rate was 2.82% of an employee's salary. The Commonwealth makes annual pension contributions to PSERS on behalf of State System employees at the same annual rate. At June 30, 2025, 64.63% of the PSERS liability was funded.

- **Employer contributions to the ARP**, a defined contribution plan, were 9.29% of a participating employee's salary in fiscal year 2024-25, the same rate since the plan's inception, and are expected to remain at the same rate for the near future. Because it is a defined contribution plan, the ARP has no unfunded liability.
- **Employer contributions to the State System OPEB Plan**, a defined benefits retiree healthcare plan administered by the State System, are made to a third-party health insurance vendor based on claims estimates agreed to by the State System and the third-party vendor. The vendor charges an additional assessment or issues a cash refund in the following year to reconcile the actual claims paid. Despite the increasing population of retirees and rising healthcare costs, the State System has seen flat or declining healthcare spending in this plan from retirees for the last several years. This can be attributed in part to design changes that increased retirees' share of expenses through higher retiree premium contributions, copays, deductibles, and coinsurance. The employer rate for fiscal year 2024-25 was set at \$130 per pay period per active participating employee and will increase to \$152 in fiscal year 2025-26. Future year changes will depend upon actual claims experience. As of June 30, 2024, no funds have been placed in a trust to fund the future liability.
- **Employer contributions to the REHP**, a defined benefits retiree healthcare plan administered by the Pennsylvania Employee Benefit Trust Fund (PEBTF), were \$251 per pay period per active participating employee in fiscal years 2024-25, versus \$275 per pay in fiscal year 2023-24. The contribution rate is set at the discretion of the Commonwealth and periodically fluctuates, with the highest rate of \$418 in fiscal year 2015-16. For fiscal year 2025-26, the rate will increase to \$263 per pay period. At June 30, 2025, only 11.6% of the REHP liability was funded.
- **Employer contributions to the PSERS Health Insurance Premium Assistance Program**, a defined benefits retiree healthcare plan administered by PSERS, were 0.315% of a participating employee's salary in fiscal year 2024-25. The Commonwealth makes annual pension contributions to PSERS on behalf of State System employees at the same annual rate. The rate has been and is expected to remain at approximately the same amount. Any State System retiree who is a member of PSERS is eligible for this additional healthcare benefit, which offers up to \$100 per month of reimbursements for healthcare costs, including insurance premiums.

The cost for **all other employee benefits**, such as Social Security and workers' compensation, increased slightly in fiscal year 2024-25 by a total of \$1 million, or 1.0%, over fiscal year 2023-24, compared to a fiscal year 2023-24 increase of \$2 million, or 2.1%, over fiscal year 2022-23. The increase in fiscal year 2023-24 is correlated to the increase in salaries and wages over the same period.

Other Expenses and Losses

Interest expense on capital asset-related debt is primarily attributed to bond debt (\$31 million, a decrease of \$6 million from fiscal year 2023-24 and the SERS pre-funding bond issued in April 2021 (\$18 million, a decrease of less than \$1 million from fiscal year 2023-24). The decrease in interest expense is due to the passage of time and the bond defeasances for Pennsylvania Western University debt that were completed in October 2023 and for Commonwealth University and Indiana University in September 2024. In addition, there were no new debt instruments issued during the fiscal year.

Statement of Cash Flows

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

The universities record their share of the State System pooled deposits and investments account at cost; that is, without regard to the fair value of the underlying investments. The associated markup or markdown for the fair value, as well as the annual unrealized gains or losses on investments, are recorded only at the consolidated level. As of June 30, 2025, the market value of the State System's pooled deposits and investments was \$2 million below book value. Despite this year-end position, the portfolio generated a mark-to-market gain of \$10 million during fiscal year 2024–25. This compares to an unrealized loss of \$4.9 million in fiscal year 2023–24 and an accumulated fair value markdown of \$12.1 million as of June 30, 2024.

Total operating cash decreased by \$19 million, or (2.3%), in fiscal year 2024-25 to \$834 million, compared to a balance of \$853 million at June 30, 2024. Cash flow weaknesses have affected some universities, primarily those in rural locations with declining demographics. The System Office monitors universities whose cash, revenue, expenditure, and enrollment trends may be an indication of future cash flow weaknesses.

FUTURE ECONOMIC FACTORS

Enrollment

With an undergraduate population comprising 88% Pennsylvania residents - and the majority of those being traditional-age students enrolling right out of high school - the State System's enrollment historically has been closely tied to the state's high school demographic trends. Near-term demographic trends predict a growth in high school graduates through fiscal 2026, and then a decline for several years thereafter. This demographic cliff trend is predicted throughout the country, and is more acute in the northeastern United States, which has seen greater overall demographic declines.

Since peaking at 131,733 students in academic year 2011-12, the projected number of high school graduates has dropped by 2.1% to 128,976 in academic year 2024-25. Following is the projected number of Pennsylvania high school graduates based on estimates from the Pennsylvania Department of Education.

Projected Pennsylvania High School Graduates		
Fiscal Year	Number of Graduates	% Increase (Decrease)
2024-25	128,976	2.1%
2025-26	129,375	0.3%
2026-27	127,248	-1.6%
2027-28	124,389	-2.2%
2028-29	124,086	-0.2%
2029-30	123,243	-0.7%
2030-31	123,318	0.1%
2031-32	124,025	0.6%

The impact of the reductions in the number of high school graduates is compounded by a decline in the proportion of those who pursue higher education and an overcrowded higher education marketplace in the state.

Tuition and Fees

In July 2025, the Board of Governors approved a \$139 per semester increase in basic in-state undergraduate tuition for the 2025–26 academic year. This adjustment represents an **overall 3.6% increase in tuition, following seven consecutive years of frozen rates**. At the same time, the Board authorized a conditional rollback of the increase if the State System receives a 6.5% increase in state appropriations—estimated to generate approximately \$40 million—as part of ongoing budget negotiations. This flexible approach provides clarity and financial relief to current and prospective students while allowing time for legislative funding decisions. The Board also set a tentative tuition rate for the 2026–27 academic year, which will be reassessed in 2026 based on funding sufficiency and other fiscal considerations.

The base tuition rate for most full-time Pennsylvania residents is \$3,997 per term, or \$7,994 for the full 2025–26 academic year. **Nonresident undergraduate tuition** rates range from \$8,234 to \$19,986 for the 2025–26 academic year. The basic resident **graduate tuition** rate is \$534 per credit, while the typical nonresident graduate tuition rate is \$801 per credit.

Beginning in academic year 2025-26, rate-approving authority for the **technology tuition fee** was delegated to the universities' Councils of Trustees and varies by university. The technology tuition fee ranges from \$496 to \$804 for full-time in-state undergraduate students and \$754 to \$1,224 for full-time out-of-state graduate students. All funds raised by the technology tuition fee are used directly to benefit student learning. Universities have used the funds to install multimedia classrooms, design online instructional materials, increase university capacity for connectivity for students, and provide hardware, software, and support for students and faculty.

Appropriations Delay

As of the issuance date of these financial statements, the Commonwealth of Pennsylvania has not enacted its annual budget for the fiscal year beginning July 1, 2025, resulting in a delay in the distribution of general appropriations to the State System. These appropriations, which represented approximately 28% of total revenue for the fiscal year ended June 30, 2025, are typically received monthly. During fiscal year ended June 30, 2025, monthly transfers averaged approximately \$51.73 million.

The timing of the budget resolution is uncertain and may extend beyond September, which could further delay appropriations and impact System operations. In addition, the value of appropriations for July 1, 2025 – June 30, 2026, remain unknown.

To manage the financial impact of this delay, the System has implemented a range of mitigation strategies, including the use of available reserves, adjustments to cash flow operations, and short-term internal lending. Through its centrally managed investment fund, the System may issue promissory notes to support temporary liquidity needs, under Board policy. This internal mechanism enables the System to maintain operational continuity and financial flexibility without reliance on external borrowing.

System Initiatives

As part of Board Policy, the System operates under a University Financial Sustainability Policy requiring universities to focus on enrollment, operating margins, primary reserves, and cash. Activities to continue managing expenditures are in place at the System level. The System recently completed a retirement incentive program in May of 2025 with full impacts to be realized in fiscal 2026-2027.

In addition, the System has begun efforts to review and align each university's program array to address low-demand programs, optimize class size, and share courses. With the completion of OneSIS (student information system), the foundational technology will be in place for the incoming class in fall 2026 with pilots beginning in the fall of 2025. These efforts are designed to reduce costs while providing students with pathways for completion. The work efforts are linked to the university projections to be submitted in the Spring 2026. Additionally, the System is embarking on efforts to increase the number of adult learners with a focused approach on System student stop outs.

Debt

The State System will conduct a bond issuance for approximately \$71 million in fall 2025 for an auxiliary-related housing renovation project at Kutztown University and a housing expansion/renovation project at West Chester University. The renovation project at Kutztown will upgrade infrastructure systems within a traditional-style dorm

to make them more efficient and the building safer, while also adding air conditioning and a larger elevator to the building. The renovation and expansion at West Chester University will upgrade infrastructure systems, roofs, and windows within eleven apartment-style buildings, and add one additional floor to each building to help address the demand the university currently has for on-campus housing. Both universities have current occupancy levels at 90% or higher and are adjusting room and board fees to address the additional debt issuances.

Cheyney University of Pennsylvania

As a result of self-reported compliance issues reported in August 2015, Cheyney University entered into a settlement agreement with the U.S. Department of Education (ED) in February 2020 which resulted in (1) an assessment of \$14,308,377, (2) waiver of its rights to any administrative appeal, and (3) entry into an acceptable repayment agreement with ED. Cheyney made payments as required by the agreement between June 2020 and July 2024. In October 2024, Cheyney satisfied all remaining outstanding debt related to this settlement agreement.

Cheyney had been under the U.S. Department of Education's (ED) Heightened Cash Monitoring 2 (HCM2) status since September 2015. Effective June 2, 2025, Cheyney University was returned to the Advanced method of payment and was removed from the HCM2 method of payment. As the university is no longer on a reimbursable method of payment, it has discontinued submitting requests for payment to the regional Payment Analyst.

Indiana University of Pennsylvania's Proposed College of Osteopathic Medicine

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

Indiana University of Pennsylvania's initial class of students is planned to begin in fall 2027. COCA standards require that a new COM must ramp up enrollment over 3 years, with year 1 at 50 percent of a full class, year 2 at 75 percent, and year 3 with a full class.

As part of the process to seek accreditation for this new endeavor, a new side letter for the faculty CBA is being negotiated to address new pay scales and other working rules for the faculty hired to teach in this COM.

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

Pennsylvania's State System of Higher Education

Statement of Net Position

(dollars in thousands)

Assets and Deferred Outflows of Resources

	<u>June 30, 2025</u>
Current Assets	
Cash and cash equivalents	\$ 25,259
Short-term investments	278,514
Accounts receivable, students, net	48,264
Accounts receivable, other	18,076
Governmental grants and contracts receivable	31,918
Prepaid expenses	46,815
Current portion of loans receivable	261
Due from component units	23,892
Other current assets	<u>29,727</u>
Total Current Assets	502,726
Noncurrent Assets	
Restricted cash and cash equivalents	25
Long-term investments, including endowments	678,419
Beneficial interests	29,249
Loans receivable	616
Due from component units	2,409
Non-depreciable capital assets	97,889
Depreciable or amortizable capital assets, net of accumulated depreciation and amortization	2,026,067
Other noncurrent assets	<u>760,732</u>
Total Noncurrent Assets	3,595,406
Total Assets	<u>4,098,132</u>
Deferred Outflows of Resources	259,154
Total Assets and Deferred Outflows of Resources	<u><u>\$ 4,357,286</u></u>

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Net Position *(continued)*

(dollars in thousands)

Liabilities, Deferred Inflows of Resources, and Net Position

	June 30, 2025
Current Liabilities	
Accounts payable and accrued expenses	\$ 206,438
Unearned revenue	52,340
Deposits	6,090
Current portion of workers' compensation liability	6,046
Current portion of compensated absences liability	15,495
Current portion of OPEB liability	44,531
Current portion of lease, subscription and financed purchase obligations	32,381
Current portion of bonds payable	87,840
Due to component units	7,831
Other current liabilities	29,006
Total Current Liabilities	<u>487,998</u>
Noncurrent Liabilities	
Unearned revenue	295
Workers' compensation liability, net of current portion	14,736
Compensated absences liability, net of current portion	118,541
Net pension liability	878,739
OPEB liability, net of current portion	1,042,486
Lease, subscr. and financed purchase obligations, net of current portion	231,149
Bonds payable, net of current portion	1,372,100
Other noncurrent liabilities	26,654
Total Noncurrent Liabilities	<u>3,684,700</u>
Total Liabilities	<u>4,172,698</u>
Deferred Inflows of Resources	744,633
Net Position	
Net investment in capital assets	1,038,964
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	64,013
Student loans	117
Other	1,602
Expendable:	
Scholarships and fellowships	52,203
Capital projects	66,343
Other	23,113
Unrestricted	<u>(1,806,400)</u>
Total Net Position	<u>(560,045)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 4,357,286</u></u>

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

**Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2025**

(dollars in thousands)

	2025
Operating Revenues	
Tuition and fees, net	\$ 529,669
Grants and contracts	218,313
Sales and services	44,853
Auxiliary enterprises, net	317,144
Other revenues, net	8,953
Total Operating Revenues	<u>1,118,932</u>
Operating Expenses	
Instruction	615,708
Research and Public Service	89,979
Academic support	162,028
Student services	183,121
Institutional support	254,382
Operations and maintenance of plant	113,287
Depreciation and amortization	184,226
Student aid	32,880
Auxiliary enterprises	235,585
Total Operating Expenses	<u>1,871,196</u>
Operating Loss	<u>(752,264)</u>
Nonoperating Revenues (Expenses)	
State appropriations, general and restricted	705,755
Federal and State appropriations and grants-COVID	22,954
Pell grants	153,406
Investment income, net	50,680
Unrealized gain on investments	18,439
Gifts for other than capital purposes	39,090
Interest expense on capital asset-related debt	(51,769)
Loss on disposal/acquisition of assets	(2,116)
Loss on termination of Perkins Loan Program	(30)
Gain on bond defeasance	3,928
Other nonoperating revenue	18,300
Net Nonoperating Revenues	<u>958,637</u>
Income before other revenues	<u>206,373</u>
State appropriations, capital	22,814
Capital gifts and grants	12,896
Income	<u>242,083</u>
Increase in Net Position	<u>242,083</u>
Net position—beginning of year	(802,128)
Net position—end of year	<u><u>\$ (560,045)</u></u>

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows For the Year Ended June 30, 2025 *(dollars in thousands)*

	2025
Cash Flows from Operating Activities	
Tuition and fees	\$ 531,356
Grants and contracts	214,007
Payments to suppliers for goods and services	(486,298)
Payments to employees	(1,312,691)
Loans issued to students	(292)
Loans collected from students	595
PLUS, Stafford, and other loans receipts (non-Perkins)	605,573
PLUS, Stafford, and other loans disbursements (non-Perkins)	(605,573)
Student aid	(34,059)
Auxiliary enterprise charges	317,408
Sales and services	45,242
Other receipts	38,533
Net cash used in operating activities	(686,199)
Cash Flows from Noncapital Financing Activities	
State appropriations	705,755
Gifts and nonoperating grants for other than capital purposes	191,489
Principal paid on prefunding pension bond	(37,140)
Agency transactions, net	(5,213)
Other	11,655
Net cash provided by noncapital financing activities	866,546
Cash Flows from Capital Financing Activities	
Proceeds from capital debt and leases	40,040
Capital appropriations	22,814
Capital grants and gifts received	13,011
Proceeds from sales of capital assets	63
Purchases of capital assets	(81,976)
Principal paid on capital debt and leases	(183,577)
Interest paid on capital debt and leases	(60,614)
Net cash used in capital financing activities	(250,239)
Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	36,427,016
Interest on investments	50,903
Purchase of investments	(36,417,126)
Net cash provided by investing activities	60,793
Net Decrease in Cash and Cash Equivalents	(9,099)
Cash and cash equivalents—beginning of year	34,383
Cash and cash equivalents—end of year	\$ 25,284

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows *(continued)*

For the Year Ended June 30, 2025

(dollars in thousands)

	<u>2025</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (752,264)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization expense	184,226
Expenses paid by Commonwealth or donor	6,644
Effect of changes in operating assets, liabilities, deferred outflows of resources, and deferred inflows of resources:	
Receivables, net	(2,104)
Other assets	(52,953)
Accounts payable	8,654
Unearned revenue	(823)
Student deposits	754
Compensated absences	10,146
Loans to students and employees	303
Net pension activity	(17,485)
Net other postemployment benefits (OPEB) activity	(153,119)
Other liabilities	(9,163)
Deferred inflows of resources related to lease receivable	90,985
Net cash used in operating activities	<u><u>\$ (686,199)</u></u>
Noncash Activities	
Capital assets included in payables	\$ 15,592
Capital assets acquired by notes payable (financed purchase)	6,639
Capital assets acquired by new right of use leases	235
Capital assets acquired by new right of use leases with Component Units	132
Capital assets acquired by new subscription agreements	19,997
Capital assets acquired by gift or appropriation	1,086
Like-kind exchanges	1
Commonwealth on-behalf contributions to PSERS	6,644

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

	<u>June 30, 2025</u>
Assets	
Cash and cash equivalents	\$ 152,278
Accounts and interest receivable	4,576
Contributions/pledges receivable	27,095
Due from universities	2,188
Inventories and prepaid expenses	6,005
Restricted cash and cash equivalents	43,814
Short-term investments	25,677
Long-term investments	870,636
Land, buildings, and equipment, net	417,592
Right of use assets	7,182
Other assets	154,655
Total Assets	<u><u>\$ 1,711,698</u></u>
Liabilities	
Accounts and interest payable	\$ 19,654
Deferred revenue	7,989
Annuity liabilities	4,487
Due to universities	22,279
Deposits payable	46,470
Interest rate swap agreements	61
Lease liabilities	6,954
Bonds and notes payable	694,990
Other liabilities	16,081
Total Liabilities	<u>818,965</u>
Net Assets	
Without donor restrictions	190,760
With donor restrictions	701,973
Total Net Assets	<u>892,733</u>
Total Liabilities and Net Assets	<u><u>\$ 1,711,698</u></u>

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Activities

For the Year Ended June 30, 2025

(dollars in thousands)

	2025
Changes in net assets without donor restrictions	
Contributions	\$7,871
Sales and services	27,673
Student fees	30,577
Grants and contracts	18,933
Rental income	82,324
Investment return, net	22,645
Other revenues and gains	17,851
Net assets released from restrictions	<u>51,656</u>
Total Revenues and Gains	259,530
Expenses and Losses	
Program services:	
Scholarships and grants	31,585
Student activities and programs	33,707
University stores	18,179
Housing	76,822
Other programs	44,113
Management and general	34,238
Fundraising	<u>11,881</u>
Total Expenses	250,525
Other expenses and losses	<u>3,078</u>
Total Expenses and Losses	253,603
Change in net assets without donor restrictions	5,927
Changes in net assets with donor restrictions	
Contributions	\$ 54,155
Investment return, net	62,704
Other revenue and gains	3,936
Other expenses and losses	(5,543)
Net assets released from restrictions	<u>(51,656)</u>
Change in net assets with donor restrictions	63,596
Change in total net assets	<u>69,523</u>
Net assets—beginning of year (restated)	823,210
Net assets—end of year	<u><u>\$ 892,733</u></u>

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

**Component Units Expenses by Nature and Function
For the Year Ended June 30, 2025**

(dollars in thousands)

2025										
Natural Expense	Program Activities						Supporting Activities			Total Expenses
	Scholarships and grants	Student activities and programs	University stores	Housing	Other programs	Total Programs	Management and general	Fundraising	Total Supporting	
Salaries and benefits	\$5,684	\$4,996	\$3,659	\$6,904	\$9,331	\$30,574	\$15,040	\$6,913	\$21,953	\$52,527
Gifts and grants	20,187	8,263	0	1,475	4,141	34,066	4,622	21	4,643	38,709
Supplies and travel	36	11,099	4,773	478	4,710	21,096	808	1,126	1,934	23,030
Services and professional fees	52	2,382	372	6,905	5,753	15,464	4,308	2,413	6,721	22,185
Office and occupancy	20	1,248	1,155	15,650	1,771	19,844	2,026	231	2,257	22,101
Depreciation	0	251	328	17,290	2,366	20,235	1,100	36	1,136	21,371
Interest	0	0	0	20,763	1,418	22,181	894	39	933	23,114
Other	5,606	5,468	7,892	7,357	14,623	40,946	5,440	1,102	6,542	47,488
Total Expenses	\$31,585	\$33,707	\$18,179	\$76,822	\$44,113	\$204,406	\$34,238	\$11,881	\$46,119	\$250,525

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2025

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Reporting Entity

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

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

During fiscal year 2024-25, Commonwealth University of Pennsylvania revised its reporting entity to include the Mansfield University Mountaineer Foundation as a discretely presented component unit. As a result, the beginning net assets of the component unit financial statements for fiscal year 2024-25 have been restated, increasing beginning net assets by \$116,500.

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, an amendment of FASB Codification Topic 958, *Not-for-Profit-Entities*. As such, certain revenue recognition criteria

and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the component units' financial information presented herein.

Operating Revenues and Expenses

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

Deferred Outflows and Deferred Inflows of Resources

The statement of net position reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

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

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

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

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

Net Position

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

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

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

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

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

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

Cash Equivalents and Investments

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

Accounts and Loans Receivable

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

Capital Assets

Land and buildings at the university campuses acquired or constructed prior to its creation on July 1, 1983, are owned by the Commonwealth and made available to the universities of the State System. Since the State System neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed using capital funds appropriated by the Commonwealth after June 30, 1983 and made available to the universities.

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

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

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

Impairment of Capital Assets

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

are charged to operations at the time impairment is identified. No write-down of capital assets was required for the year ended June 30, 2025.

Leases and Subscription-Based Information Technology Arrangements

The State System routinely engages in lease agreements or subscription-based information technology arrangements (SBITA) to meet operational needs. The State System's lease contracts relate to land, buildings, and various equipment. For short-term leases and SBITAs with a maximum possible term of 12 months or less at commencement, the State System recognizes periodic revenue or expense based on the provision of the lease contract or SBITA. For all other contracts where the State System is the lessee, that meet the requirements of GASB 87 or GASB 96 and were in excess of the minimum dollar threshold, the State System recognized a lease or subscription liability and an intangible right of use asset based on the present value of the future lease payments or subscription payments over the contracted term of the lease or SBITA. Lease and subscription right of use assets are reported with capital assets, and lease and subscription liabilities are reported as long-term debt in the statement of net position. The right of use lease and subscription assets are amortized over the term of the lease or SBITA, as the State System is not expected to lease assets beyond the underlying asset's useful life. The State System also serves as a lessor for certain real estate. For those agreements required to be capitalized, the financial statements recognize a lease receivable and a deferred inflow of resources, based on the present value of the future lease payments expected to be received during the contracted lease term period and the deferred inflow of resources is amortized evenly over the term of the lease. Lease receivables are reported with other current assets and other noncurrent assets. Deferred inflow – lease receivable is reported as deferred inflow in the statement of net position.

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

A minimum dollar threshold was established for lease and SBITA reporting purposes of \$30,000, effective July 1, 2025. Agreements prior to July 1, 2025, were subject to a reporting threshold of \$25,000.

Unearned Revenue

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

Compensated Absences

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

Pension Plans and OPEB Plans

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

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

For purposes of measuring the net Other Postemployment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the System Plan, Retired Employees Health Program (REHP) and Premium Assistance Program (Premium Assistance) and additions to/deductions from the System Plan, REHP and Premium Assistance plans' fiduciary net position have been determined on the same basis as they are reported by the System Plan, REHP and Premium Assistance plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when they are due and payable in accordance with the benefit terms. Investments are reported at fair value.

Scholarships and Waivers

In accordance with the National Association of College and University Business Officers (NACUBO) in Advisory Report 2003-01, the State System allocates the cost of scholarships, waivers, and other student financial aid between *Discounts and allowances* (netted against tuition and fees and auxiliary enterprises) and *Student aid expense*. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

Income Taxes

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

Use of Estimates

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

Component Unit Restatements

Certain component units restated their prior year financial statements. These restatements resulted in no effect on the beginning of year net assets reflected in the accompanying Component Units Statement of Activities.

New Accounting Standards

In June 2022, GASB issued Statement No. 101, Compensated Absences, effective for reporting periods beginning after December 15, 2023. Statement No. 101, which supersedes Statement No. 16, Accounting for Compensated Absences, defines compensated absences and provides a unified model for recognition of a liability and expense for leave that has not been used, provided it meets specified criteria. The State System adopted Statement No. 101 during the fiscal year ended June 30, 2025. Implementation of the new standard resulted in the recognition of \$86,000 in reduced compensated absences expense during the current fiscal year. The impact on beginning net position as of June 30, 2024, was evaluated and determined to be immaterial; therefore, the opening net position was not restated.

(2) DEPOSITS AND INVESTMENTS

On June 30, 2025, the carrying amount of the State System's demand and time deposits and certificates of deposit for all funds was \$25,299,000, compared to bank balances of \$26,603,000. The difference is caused primarily by items in transit. Of the bank balances, \$3,361,000 were covered by federal government depository insurance or collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve banks in the name of the banking institutions; \$2,060,000 were uninsured and uncollateralized; and \$21,182,000 were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit more than federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

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

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

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

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

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

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

Moody's Rating: The State System uses ratings from Moody's Investors Service, Inc., to indicate the credit risk of investments, i.e., the risk that an issuer or other counterparty to an investment will not fulfill its obligations. An Aaa rating indicates the highest quality obligations with minimal credit risk. Ratings that begin with Aa indicate

high quality obligations subject to very low credit risk; ratings that begin with *A* indicate upper-medium-grade obligations subject to low credit risk; and ratings that begin with *Baa* indicate medium-grade obligations, subject to moderate credit risk, which may possess certain speculative characteristics. Moody's appends the ratings with numerical modifiers 1, 2, and 3, with 1 indicating a higher ranking and 3 indicating a lower ranking within the category. For short-term obligations, a rating of *P-1* indicates that issuers have a superior ability to repay short-term debt obligations, and a rating of *P-2* indicates that issuers have a strong ability to repay short-term debt obligations.

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

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

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

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

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

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

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

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

Commonfund investments, held locally by the universities, are valued based upon the unit values (NAV) of the funds held by the universities at year end. Unit values are based upon the underlying assets of the funds derived from inputs principally from or corroborated by observable market data, by correlation, or other means. Redemption restrictions for the Commonfund vary, depending upon the type of fund in which the universities

have invested, and are restricted to withdrawals only on a weekly basis or the last business day of the month. All withdrawals require five days' notice.

State System Pooled Deposits and Investments

The carrying values (fair values) of deposits and investments for the State System's pooled funds in M&T Bank on June 30, 2025, follow.

State System Pooled Deposits and Investments				
June 30, 2025				
(in thousands)				
	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				\$443
Total deposits				443
Investments				
Commercial paper	2	P1		133,848
Government money market mutual fund	2	Aaa		3,845
U.S. government and agency obligations	2	Aa1	2.18	196,635
Asset-backed securities	2	Aaa	0.65	174,377
	2	NR	0.20	4,995
Collateralized mortgage obligations (CMOs)	2	Aa1	2.17	175,687
Corporate bonds and notes	2	Aaa	2.65	2,124
	2	Aa2	1.65	13,515
	2	Aa3	1.52	25,101
	2	A1	1.11	43,781
	2	A2	1.39	30,303
	2	A3	1.58	38,378
	2	Baa1	1.02	9,553
	2	Baa2	1.8	10,846
	2	Baa2	0.55	1,166
Total investments				864,154
Total deposits and investments				\$864,597

Of the investments noted above at June 30, 2022, \$443,000 was held by a trustee to be used for projects funded under the Pennsylvania Higher Educational Facilities Authority/State System of Higher Education bond issues (note 12). Such investments are made subject to the restrictions of the bond indenture and may be liquidated only for the payment of costs associated with the projects described in the bond indenture.

University Local Deposits and Investments

The carrying values (fair values) of local university deposits and investments on June 30, 2025, follow.

University Local Deposits and Investments				
June 30, 2025				
(in thousands)				
	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				\$24,841
Certificates of deposit				15
Total deposits				24,856
Investments				
U.S. government and agency obligations	1		0.01	552
	2		5.45	6,864
Bond mutual funds	1		120.02	4,641
	2		2.06	2,605
	NAV		0.16	8,426
Debt Securities	1	A2	1.74	139
	1	A3	2.11	249
	1	Baa1	2.47	126
	1	Baa2	3.07	126
	1	NR	0.00	1,670
	2	Aaa	5.42	105
	2	Aa2	5.42	120
	2	Aa3	5.42	324
	2	A1	5.42	453
	2	A2	5.42	674
	2	A3	5.42	627
	2	Baa1	5.42	216
	2	Baa2	5.42	200
	2	NR	5.42	10
Equity/balanced mutual funds	1			12,266
	2			30,004
	3			1,935
	NAV			16,967
Common stock	1			3,465
Total investments				92,764
Total deposits and investments				\$117,620

Gross investment revenue totaled \$51,314,000 for the year ended June 30, 2025. After deducting related investment expenses of \$634,000, net investment revenue was \$50,680,000.

(3) STUDENT REVENUE AND ACCOUNTS RECEIVABLE

Accounts receivable for tuition and fees charged to current and former students totaled \$91,836,000 at June 30, 2025. Of this amount, \$43,572,000 is estimated to be uncollectible based upon the universities' historical losses and periodic review of individual accounts. Other receivables are reported at net realizable value. Accounts will be written off when they are determined to be uncollectible based upon management's assessment of individual accounts.

Tuition and fee revenue is reported net of scholarship discounts and allowances. Gross tuition and fee revenue totaled \$901,937,000 at June 30, 2025. Of this amount, \$372,268,000 represents the amount of student grants, waivers, and scholarships calculated to be a discount against tuition and fees.

Revenue from auxiliary enterprises, which primarily comprise fees from student room and board, student recreation centers, and parking, is reported net of discounts. Gross auxiliary revenue totaled \$360,169,000 at June 30, 2025. After deducting calculated auxiliary discounts of \$43,025,000, net auxiliary enterprises revenue was \$317,144,000.

(4) LEASE RECEIVABLES

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

The lease revenue, interest income and variable lease income for the fiscal year ended June 30, 2025, is summarized in the following schedule.

	June 30, 2025	
	Third Parties	Component Units
Lease Revenue	\$8,031	\$303
Lease Revenue - Variable	233	116
Interest Income	1,048	164
Total	<u>\$9,312</u>	<u>\$583</u>

The following summary provides aggregated information reported for June 30, 2025, for lease receivables including additions and reductions for the year then ended.

<i>(in thousands)</i>				
	Beginning Balance	Additions	Reductions	Ending Balance
Lease Receivable, Third Parties	\$8,966	\$99,386	(\$21,314)	\$87,038
Lease Receivable, Comp Units	7,604	0	(153)	7,451
Total	\$16,570	\$99,386	(\$21,467)	\$94,489

(5) BENEFICIAL INTERESTS

At June 30, 2025, the fair value of beneficial interests totaled \$29,249,000. Of this amount, \$29,248,000 represent gifts that donors placed in trust in perpetuity with third parties, with the respective universities receiving a restricted revenue stream in accordance with the donors' wishes; and \$1,000 represent a split-interest agreement that a donor placed in trust with a third party, and to which the university will take title upon the death of the donor.

(6) CAPITAL ASSETS

Classifications of capital assets and related depreciation and amortization at June 30, 2025 follows.

<i>(in thousands)</i>				
	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Land	\$33,777	\$0	\$0	\$33,777
Construction in progress	69,444	46,606	(51,938)	64,112
Total capital assets not being depreciated	103,221	46,606	(51,938)	97,889
Buildings, including improvements	3,442,025	32,727	26,805	3,501,557
Improvements other than buildings	356,675	4,127	6,842	367,644
Equipment and furnishings	565,009	21,591	(7,957)	578,643
Library books	70,107	242	(461)	69,888
Right of use assets land	1,586	0	0	1,586
Right of use assets buildings	96,354	0	(4,028)	92,326
Right of use assets equipment	4,747	1,046	(1,769)	4,024
Subscription assets	60,266	19,997	3,770	84,033
Total capital assets being depreciated or amortized	4,596,769	79,730	23,202	4,699,701

<i>(in thousands)</i>	<i>(Continued)</i>			
	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Less accumulated depreciation and amortization:				
Buildings and improvements	(1,605,477)	(116,981)	960	(1,721,498)
Land improvements	(245,131)	(12,832)	766	(257,197)
Equipment and furnishings	(500,644)	(23,865)	12,730	(511,779)
Library books	(67,607)	(558)	461	(67,704)
Right of use assets land	(1,074)	(279)	0	(1,353)
Right of use assets buildings	(69,656)	(5,382)	3,149	(71,889)
Right of use assets equipment	(3,000)	(859)	1,769	(2,090)
Subscription assets	(22,696)	(23,470)	6,042	(40,124)
Total accumulated depreciation and amortization	(2,515,285)	(184,226)	25,877	(2,673,634)
Total capital assets being depreciated, net	2,081,484	(104,496)	49,079	2,026,067
Capital assets, net	\$2,184,705	(\$57,890)	(\$2,859)	\$2,123,956

(7) WORKERS' COMPENSATION

The State System is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, State System universities must pay up to \$100,000; for claims occurring on or after July 1, 1995, State System universities must pay up to \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the universities contributed \$674,000, and \$828,000 to the Reserve Fund during the years ended June 30, 2025, and 2024, respectively.

For the years ended June 30, 2025, and 2024, the aggregate liability for claims under the self-insurance limit was \$6,457,000 and \$6,983,000, respectively. The Reserve Fund assets of \$14,325,000 and \$14,221,000 were equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2025, and 2024, respectively. Changes in the workers' compensation claims liability in fiscal years 2024 and 2025 follow.

<i>(in thousands)</i>				
Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2024	\$20,992	\$4,516	(\$4,304)	\$21,204
2025	\$21,204	\$4,973	(\$5,395)	\$20,782

(8) COMPENSATED ABSENCES

Compensated absences are absences for vacation, holiday, and sick leave for which employees will be paid in cash at termination or retirement. Changes in the compensated absences liability in fiscal years 2024 and 2025 are as follows.

<i>(in thousands)</i>				
Year	Beginning Balance	Additions *	Reductions *	Ending Balance
2024	\$119,473	\$4,417		\$123,890
2025	\$123,890	\$10,146		\$134,036

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

(9) PENSION BENEFITS

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

Following is the total of the State System's pension liabilities, deferred outflows and inflows of resources related to pensions, and the pension expense for the fiscal year ended June 30, 2025.

<i>(in thousands)</i>				
	SERS	PSERS	ARP	Total
Net pension liabilities	\$ 802,940	\$ 75,799	\$ -	\$ 878,739
Deferred outflows of resources:				
Difference between expected and actual experience	36,393	-	-	36,393
Net difference between projected and actual investment earnings on pension plan investments	23,573	1,255	-	24,828
Changes in assumptions	14,142	-	-	14,142
Difference between employer contributions and proportionate share of contributions	2,351	(122)	-	2,229
Changes in proportion	-	1,145	-	1,145
Contributions after the measurement date	54,592	9,783	-	64,375
Total deferred outflows of resources	\$ 131,051	\$ 12,061	\$ -	\$ 143,112

<i>(in thousands)</i>	<i>(Continued)</i>				
		SERS	PSERS	ARP	Total
Deferred inflows of resources:					
Difference between expected and actual experience		897	1,192	-	2,089
Net difference between projected and actual investment earnings on pension plan investments		-	-	-	-
Difference between employer contributions and proportionate share of contributions		295	-	-	295
Changes in proportion		35,165	745	-	35,910
Total deferred inflows of resources		\$ 36,357	\$ 1,937	\$ -	\$ 38,294
Pension expense, excluding prefunding credit		\$ 81,067	\$ 13,064	\$ 47,693	\$ 141,824
Contributions recognized by pension plans		\$ 95,296	\$ 9,783	N/A	\$ 105,079

The State System will recognize the \$54,592,000 reported as 2025 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$9,783,000 reported as 2025 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

<i>(in thousands)</i>		
Fiscal Year Ended	Amortization	
	SERS	PSERS
June 30, 2026	\$ 15,971	\$ (1,623)
June 30, 2027	49,475	2,194
June 30, 2028	(19,494)	28
June 30, 2029	(6,244)	(258)
June 30, 2030	394	-
Totals	<u>\$ 40,102</u>	<u>\$ 341</u>

SERS

Plan Description

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

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

Benefits Provided

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

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

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

Prefunding Adjustment

Act 105 issued in November 2019 authorizes eligible employers to make a one-time advance payment to SERS in exchange for a schedule of credits against the employer's future annual accrued liability contributions to SERS for a period of up to thirty (30) years. In the agreement established with SERS, the State System provided a lump sum payment to SERS of approximately 75 percent of its unfunded actuarial liability (UAL) for \$825 million, through the proceeds of the Series of 2021 bond issuance. In exchange for the lump sum payment, SERS established a schedule of setoff credits that will be issued to the State System totaling over \$1.5 billion over the term of the agreement commencing with the fiscal year ended June 30, 2022. These credits are assigned to each year of the agreement and will be used to support the annual bond payment and will offset the SERS employer expense incurred, generating net savings each year. For the fiscal year ended June 30, 2025, the State System recognized reduced pension expense associated with these credits of \$50,007,000. This amount and the remaining prefunding balance of \$716,086,000 at June 30, 2025, is not reflected in the subsequent tables and schedules related to the SERS plan. The prefunding balance at June 30, 2025, based on the actuarial valuation dated December 31, 2024, was \$ 744,336,434.

Contributions

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

For the SERS defined benefit plan, the State System's actuarially determined contribution rate for most active members was 40.33% of active members' annual covered payroll at June 30, 2025, with less common rates ranging between 27.09% and 31.74%, depending upon the defined benefit plan chosen by the employee. For the SERS defined benefit/defined contribution hybrid plan, the State System's actuarially determined contribution rate was either 16.84% or 17.09% of annual covered payroll, depending upon the hybrid plan chosen by the employee. In addition, the State System was required to contribute to the defined benefit plan 15.54% of the annual covered payroll of employees who selected the straight 401(a) defined contribution plan. The State System's contributions to the SERS defined benefit plan for the year ended June 30, 2025, was \$95,296,000, equal to the required contractual contribution.

The contribution rate of most active members who participate in the SERS defined benefit plan was 6.25% of gross salary, with less common rates ranging between 5.00% and 9.30% of salary, depending upon when the member was hired and what class of membership was elected. Defined benefit contribution rates for active members who participate in the defined benefit/defined contribution hybrid plan were either 3.25% or 3.50% of gross salary, depending upon what class of membership was elected. The contribution rate to the defined contribution plan for active members who participate in the straight 401(a) defined contribution plan was 7.5% of gross salary.

For the SERS defined contribution plan, the State System contributed at actuarially determined rates of between 2.00% and 3.50% of active members' annual covered payroll at June 30, 2025, depending upon the plan chosen by the employee. The contributions for the year ended June 30, 2025, were \$806,000. The vesting period for employer contributions to the defined contribution plan, both for members who participate in the straight 401(a) defined contribution plan and those who participate in one of the defined benefit/defined contribution hybrid plans, is three years. Once money is contributed to the plan, it cannot be removed from the plan, except for making distribution payments to participants. Forfeitures of unvested employer contributions and earnings are invested in the PA Treasury short-term investment fund. The funds are forfeited to the employee's most recent employer and used to offset future contributions to the plan and correct funding discrepancies. Forfeitures seized under the Pension Forfeiture Act are used for administrative expenses of the plan.

Actuarial Methods and Assumptions

Actuarial valuations are performed annually using a December 31 measurement date. Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *19th Investigation of Actuarial Experience* study for the period 2015–2019 was released in July 2020. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost, and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the *19th Investigation of Actuarial Experience* at its September 2020 meeting. In addition, SERS reviews its investment return assumption considering economic conditions every year. At its June 2024 meeting, the SERS Board approved maintaining the assumed investment rate of return at 6.875%. The next SERS actuarial experience review will occur in summer 2025 and will be used for its 2025 annual valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2024, measurement date.

- Entry age actuarial cost method.
- Investments amortized on a straight-line, closed-period basis over five years; assumption changes and noninvestment gains/losses amortized over the average expected remaining service lives of all employees who are provided benefits.
- Inflation of 2.50%.
- Investment return of 6.875%, net of manager fees and including inflation.
- Salary increases based on an average of 4.58%, with a range of 3.30% to 6.95%, including inflation.

- Asset valuation using fair (market) value.
- Mortality rates based on the projected PubG-2010 and PubNS-2010 Mortality Tables, adjusted for actual plan experience and future improvement.
- No cost-of-living adjustments.

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of manager fees and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2024, are summarized below.

Asset Class	Target Allocation	Long-Term Real Rate of Return
Private equity	16.00%	6.25%
Real estate	7.00%	5.15%
U.S. equity	37.00%	5.15%
International developed equity	14.00%	5.00%
Emerging markets equity	2.00%	5.20%
Fixed income	19.00%	2.85%
Inflation protection (TIPS)	3.00%	2.55%
Cash	2.00%	0.50%
	<u>100.00%</u>	

The discount rate used to measure the total SERS pension liability was 6.875%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current SERS members. The long-term expected rate of return on SERS' investments, therefore, was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the SERS net pension liability at June 30, 2025, calculated using the discount rate of 6.875%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.875%) or one percentage point higher (7.875%) than the current rate.

Sensitivity of the State System's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate		
(in thousands)		
1% Decrease 5.875%	Current Rate 6.875%	1% Increase 7.875%
\$980,984	\$802,940	\$525,608

Proportionate Share

At June 30, 2025, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2024, was \$802,940,000.

The allocation percentage assigned to each participating employer is based on a projected contribution method. For the allocation of the December 2024 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2025-26, from the December 31, 2024, funding valuation, to the expected funding payroll. At the December 31, 2024 measurement date, the State System's proportion was 3.9837%, a decrease of 0.0791% from its proportion calculated as of the December 31, 2023 measurement date.

PSERS

Plan Description

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

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

PSERS issues a publicly available financial report that may be obtained at www.psers.pa.gov.

Benefits Provided

Members who joined prior to July 1, 2011, are eligible for monthly retirement benefits upon reaching age 62 with at least one year of credited service, age 60 with 30 or more years of credited service, or any age with 35 or more years of service. Act 120 of 2010 preserved the benefits of members who joined prior to July 1, 2011, and introduced benefit reductions for individuals who become new members on or after July 1, 2011, through June 30, 2019, by creating two new membership classes: Class T-E and Class T-F. To qualify for normal retirement, Class T-E and Class T-F members must complete a minimum of 35 years of service with a combination of age and service that totals 92 or greater, or they must work until age 65 with a minimum of three years of service. Act 5 of 2017 introduced benefit reductions for individuals who become new members on or after July 1, 2019, by creating two new membership classes: Class T-G and Class T-H. To qualify for normal retirement, Class T-G members must complete a minimum of 35 years of service with a combination of age and service that totals ninety-seven or greater, or they must work until age 67 with a minimum of three years of service. Class T-H must work until age 67 with a minimum of three years of service.

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

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits vary depending upon membership class. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members, age 67 with at least three years of credited service for Class T-G and Class T-H members) or has at least five years of credited service (10 years for Class T-E, Class T-F, Class T-G and Class T-H members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Member Contributions

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Class T-C members) or at 6.50% (Class T-D members) of the member's qualifying compensation. Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Class T-C) or at 7.5% (Class T-D) of the member's qualifying compensation. Members who joined PSERS after June 30, 2001, and before July 1, 2011, contribute at 7.5% (Class T-D). For these hires and for members who elected Class T-D, the 7.5% contribution rate began with service rendered on or after January 1, 2002. Members who joined PSERS after June 30, 2011, contribute at the rate of 7.5% (Class T-E) or 10.3% (Class T-F) of their qualifying compensation. Class T-E and Class T-F members are subject to a "shared risk" provision in Act 120 that could cause the rate in future years to fluctuate between 7.5% and 9.5% for Class T-E and 10.3% and 12.3% for Class T-F. Members who joined PSERS after June 30, 2019, contribute at the total rate of 8.25% (Class T-G) or 7.5% (Class T-F) of their qualifying compensation. Class T-G and Class T-H members are also subject to a "shared risk" provision, as well as a "shared gain" provision in Act 5 that could cause the rate in future years to increase or decrease 3% below or 3% above the member's basic contribution rate in increments of 0.75% for Class T-G and Class T-H.

Employer Contributions

The State System's contractually required contribution rate for PSERS for fiscal year ended June 30, 2025, was 33.09% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System contributed was 16.545% of covered payroll. The State System's reported contributions for year ended June 30, 2025, were \$9,783,000 which is equal to the required contractual contribution.

For the PSERS defined contribution plan, the State System is required to contribute at actuarially determined average rate 0.27% of active members' annual covered payroll for the year ending June 30, 2025, depending upon the plan chosen by the employee. Members were first eligible to choose the defined contribution plan on July 1, 2019. The contributions for the year ended June 30, 2025, were \$30,000.

Actuarial Assumptions

The State System records its PSERS pension liability annually utilizing a measurement date one year prior to its fiscal year end. The total PSERS pension liability, as of the June 30, 2024 measurement date, was determined by rolling forward PSERS' total pension liability at June 30, 2023, to June 30, 2024, using the following actuarial assumptions, applied to all periods included in the measurement.

- Valuation date - June 30, 2023
- Actuarial cost method is entry age normal, level percent of pay.
- Investment return of 7.00% with 2.50% inflation.
- Salary increases based on an effective average of 4.5%, which comprises a 2.50% allowance for inflation and 2.00% for real wage growth and merit or seniority increases.
- Mortality rates based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension

plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

PSERS' policy about the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2024.

Asset Class	Target Allocation	Long-Term Real Rate of Return
Global public equity	30.00%	4.80%
Private equity	12.00%	6.70%
Fixed income	33.50%	3.90%
Commodities	5.00%	2.50%
Infrastructure	10.00%	6.40%
Real estate	9.50%	5.90%
	100.00%	

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

The following presents the State System's proportionate share of the PSERS net pension liability at June 30, 2025, calculated using the discount rate of 7.00%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

Sensitivity of the State System's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate		
(in thousands)		
1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
\$99,851	\$75,799	\$55,490

Proportionate Share

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

(in thousands)		
	2025	2024
Total PSERS net pension liability associated with the State System	\$ 151,598	\$ 163,176
Commonwealth's proportionate share of the PSERS net pension liability associated with the State System	(75,799)	(81,588)
State System's proportionate share of the PSERS net pension liability	\$ 75,799	\$ 81,588

PSERS measured the 2025 net pension liabilities as of June 30, 2024. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2024, the State System's proportion was 0.1811%, a decrease of 0.0023% from its proportion calculated as of June 30, 2023.

ARP

The ARP is a defined contribution pension plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2024, was 9.29% of qualifying compensation. The contributions to the ARP for the year ended June 30, 2025, was \$ 46,470,000, from the State System; and \$25,011,000 from active members. No liability is recognized for the ARP.

(10) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Other postemployment benefits (OPEB) are benefits such as healthcare benefits that are paid in the period after employment and that are provided separately from a pension plan. OPEB does not include termination benefits or retirement payments for sick leave. (See note 8)

State System employees who retire after meeting specified service and age requirements are eligible to receive healthcare and tuition benefits in retirement. Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), PASSHE Officers Association (POA), Security Police and Fire Professionals of America (SPFPA), Office and Professional Employees International Union (OPEIU), and nonrepresented employees participate in a defined benefit healthcare plan administered by the State System (System Plan). Employee members of the American Federation of State, County and Municipal Employees (AFSCME); Pennsylvania Doctors Alliance (PDA); and Service Employees International Union (SEIU, Local 668), formerly Pennsylvania Social Services Union (PSSU), participate in the Retired Employees Health Program (REHP), which is a defined benefit healthcare plan sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). In addition to the above, any employee who participates in the Public School Employees' Retirement System (PSERS) pension plan is eligible to receive benefits from the PSERS Health Insurance Premium Assistance Program (Premium Assistance), a defined benefit plan, and all eligible retirees and their eligible dependents receive tuition waivers at any of the 10 State System universities.

Following is the total of the State System's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense for the fiscal year ended June 30, 2025.

(in thousands)

	System Plan	REHP	Premium Assistance	Total
Net OPEB liabilities	\$ 838,185	\$ 245,647	\$ 3,185	\$ 1,087,017
Deferred outflows of resources:				
Difference between expected and actual experience	-	7,680	12	7,692
Net difference between projected and actual investment earnings on OPEB plan investments	-	-	3	3
Changes in assumptions	7,034	7,350	194	14,578
Changes in proportion	-	46,375	82	46,457
Contributions after the measurement date	26,690	17,841	189	44,720
Total deferred outflows of resources	\$ 33,724	\$ 79,246	\$ 480	\$ 113,450
Deferred inflows of resources:				
Difference between expected and actual experience	196,620	59,063	48	255,731
Net difference between projected and actual investment earnings on OPEB plan investments	-	1,380	-	1,380
Changes in assumptions	179,884	63,394	486	243,764
Changes in proportion	-	97,557	141	97,698
Total deferred inflows of resources	\$ 376,504	\$ 221,394	\$ 675	\$ 598,573
OPEB expense	\$ 53,811	\$ 54,698	\$ 217	\$ 108,726
Contributions recognized by OPEB plans	N/A	\$ 17,841	\$ 189	\$ 18,030

The State System will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling \$26,690,000 for the System Plan, \$17,841,000 for the REHP plan, and \$189,000 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

Fiscal Year Ended	Amortization		
	System Plan	REHP	Premium Assistance
June 30, 2026	\$ (127,574)	\$ (55,087)	\$ (97)
June 30, 2027	(109,277)	(54,225)	(127)
June 30, 2028	(109,277)	(36,282)	(129)
June 30, 2029	(23,342)	(17,150)	(11)
June 30, 2030	-	2,755	(20)
Thereafter	-	-	-
Totals	\$ (369,470)	\$ (159,989)	\$ (384)

System Plan

Plan Description

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

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

A total of 10,975 individuals are covered by the benefit terms (down from 11,307 in the prior actuarial valuation), including 5,476 active employees that may be entitled to receive benefit payments upon retirement, 484 retired participants entitled to but not yet receiving benefits, and 5,015 retired participants receiving benefits.

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

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement or the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2025.

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

Actuarial Assumptions and Other Inputs

The System performs actuarial valuations every two years for the System Plan and utilizes a measurement date that is the first day of its current fiscal year end. The actuarial valuation on which the total OPEB liability as of June 30, 2025, is based is dated July 1, 2024, which is the measurement date. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Healthcare cost trend rate of 7.0% in 2024, with 0.5% decrease per year until 5.5% in 2027. Rates gradually decrease from 5.4% in 2028 to 4.0% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model.

- Annual salary increase of 4%.
- 90% of employees eligible for a subsidy and 7.5% of employees not eligible for a subsidy are assumed to elect coverage. 2% of vested former members are assumed to return to coverage each year upon reaching age 45.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- Retiree premium cost sharing for retired participants covered under "Other Less Subsidized Health Coverage" is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate. Otherwise, retiree premium cost sharing is not assumed to increase after retirement.
- APSCUF mortality rates based on PubT-2010 Above Median Income Headcount-Weighted Mortality Table, including rates for disabled retirees and contingent survivors. All other groups mortality rates based on the PubG-2010 Above Median Income Headcount-Weighted Mortality Table, including rates for disabled retirees and contingent survivors. Both tables incorporate rates projected generationally using Scale MP-2021 to reflect mortality improvement.
- The discount rate increased from 4.13% to 4.29%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2024.
- Participant data is based on census information as of July 1, 2024.
- Rates of withdrawal vary by age and years of service.
- Costs have been loaded by 1.5% to account for dependent medical coverage and 0.5% to account for tuition reimbursements, which are offered to all eligible retirees, regardless of employee bargaining unit when active, and including those not represented when active, who meet years of service and/or age criteria.

The following presents the System Plan's net OPEB liability at June 30, 2025, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.0% decreasing to 3.0%) or one percentage point higher (8.0% decreasing to 5.0%) than the current healthcare cost trend rates (7.0% decreasing to 4.0%).

Sensitivity of the System Plan's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate		
<i>(in thousands)</i>		
1% Decrease (6.0% decreasing to 3.0%)	Healthcare Cost Trend Rates (7.0% decreasing to 4.0%)	1% Increase (8.0% decreasing to 5.0%)
\$714,102	\$838,185	\$994,215

The following presents the State System's net OPEB liability at June 30, 2025, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (3.29%) or one percentage point higher (5.29%) than the current discount rate (4.29%).

Sensitivity of the System Plan's Net OPEB Liability to Changes in the Discount Rate		
<i>(in thousands)</i>		
1% Decrease 3.29%	Current Rate 4.29%	1% Increase 5.29%
\$958,455	\$838,185	\$739,504

System Plan OPEB Liability

The System Plan's total OPEB liability of \$838,185,000 was measured and determined by an actuarial valuation as of July 1, 2024.

Changes in the System Plan Total OPEB Liability (in thousands)	
Fiscal Year Ending	June 30, 2025
Balance beginning of year	\$ 937,363
Service cost	26,330
Interest	38,929
Changes of benefit terms	-
Differences between expected and actual experience	(115,000)
Changes of assumptions	(10,503)
Benefit payments	(38,934)
Net Changes	(99,178)
Balance end of year	\$ 838,185

Effective January 1, 2025, Medicare-eligible retirees and covered spouses enrolled in Medicare Part A and Part B transitioned from the self-insured Medicare Supplement Plan to a fully insured Medicare Advantage PPO Plan. Going forward, newly eligible retirees and spouses will also be enrolled in this Medicare Advantage Plan.

This change is expected to generate significant annual cost savings and, based on current assumptions, reduce the plan's Total OPEB Liability by approximately 40%. However, because premiums for Medicare Advantage Plans may fluctuate, the actual impact on the Total OPEB Liability could differ from the projected reduction.

The plan change will be reflected in the actuarial valuation as of July 1, 2025, for the fiscal year ending June 30, 2026.

REHP

Plan Description

The Retired Employees Health Program (REHP) is a single employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an agreement with the Commonwealth. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and the Secretary of Administration. The REHP does not have a governing board.

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

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

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, and their salary at retirement. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2025.

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

Employer contribution requirements are established by the Commonwealth as provided by pertinent statutory authority. Except for certain employing agencies, employers contributed to the REHP Trust a retiree health assessment rate of \$251 per pay period for each current REHP eligible active employee during the period July 1, 2024 through June 30, 2025. The rate during the period July 1, 2023 through June 30, 2024 was \$275 per pay period.

Actuarial Assumptions and Other Inputs

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

The total OPEB liability in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Participant data based on census information as of December 31, 2023, for the June 30, 2024 measurement date.
- Actuarial Cost Method is Entry Age Normal, which requires an estimate of the projected benefit payable at retirement to determine costs and liabilities.
- Inflation of 2.50%.
- Healthcare cost trend rate of 8.2%, with rates gradually decreasing to 3.9% in 2075 and later, based on the SOA-Getzen trend rate model version 2024_1b.
- Average salary growth of 2.50% per year and an assumed 2.80% payroll growth rate.
- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates for active employees based on PUB-2010 General Employees Headcount-Weighted Mortality Tables and adjusted for mortality improvements using projection scale MP-2021.

The following assumptions were made regarding the discount rate:

- Discount rate of 6.09% as of June 30, 2024.
- The discount rate was based on the long-term expected rate of return on assets held in the OPEB investment pool (6.75%) and a municipal bond rate of 3.93% based on the 20-year Bond Buyer GO Index as of the end of June 2024.

The long-term expected rate of return on REHP plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over

extended periods of time to produce an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US equity	42.00%	5.00%
Non-US equity	22.00%	5.10%
US Fixed income	22.00%	2.40%
Public REITs	4.00%	0.00%
Infrastructure	4.00%	4.30%
Core real estate	4.00%	3.80%
Cash and cash equivalents	1.00%	1.20%
Private Equity	1.00%	8.80%
	100.00%	

The Commonwealth calculated an allocated share of the REHP OPEB liability for each participating employer based upon their actual contributions made to the REHP. The State System's proportion of the collective net OPEB liability was 3.5257% for the measurement date of June 30, 2024, and 3.0292% for the measurement date of June 30, 2023.

The following presents the State System's share of the REHP net OPEB liability at June 30, 2025, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (7.2% decreasing to 2.9%) or one percentage point higher (9.2% decreasing to 4.9%) than the current healthcare cost trend rates (8.2% decreasing to 3.9%).

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (in thousands)		
1% Decrease (7.2% decreasing to 2.9%)	Healthcare Cost Trend Rates (8.2% decreasing to 3.9%)	1% Increase (9.2% decreasing to 4.9%)
\$214,189	\$245,647	\$283,394

The following presents the State System's share of the REHP net OPEB liability at June 30, 2025, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (5.09%) or one percentage point higher (6.09%) than the current discount rate (7.09%).

Sensitivity of the REHP Net OPEB Liability to Changes in the Discount Rate (in thousands)		
1% Decrease 5.09%	Current Rate 6.09%	1% Increase 7.09%
\$275,449	\$245,647	\$220,055

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

Premium Assistance

Plan Description

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

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS Health Options Program. As of June 30, 2021, there were no assumed future benefit increases to participating eligible retirees. Plan members receiving benefits are not required to make contributions.

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.64% of covered payroll for the fiscal year ended June 30, 2024, and 0.75% of covered payroll for the fiscal year ended June 30, 2023. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System contributed was 0.32% of covered payroll.

Actuarial Assumptions and Other Inputs

The State System records its PSERS OPEB liability annually utilizing a measurement date one year prior to its fiscal year end. The total OPEB liability, as of the June 30, 2024 measurement date, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2023, to June 30, 2024, using the following actuarial assumptions, applied to all periods included in the measurement:

- Valuation Date - June 30, 2023
- Actuarial cost method was entry age normal, level percent of pay.
- Investment return of 4.21% based on the S&P 20 Year Municipal Bond Rate.
- Effective average salary growth of 4.5%, comprising 2.50% for inflation and 2.00% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at \$1,200 per year.

- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2022, determined the employer contribution rate for fiscal year 2024.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.
- Participation rate assumed that 63% of eligible retirees will elect premium assistance.
- Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The following assumptions were made regarding the discount rate:

- The discount rate used to measure the total OPEB liability was 4.21% at June 30, 2024, and 4.13% at June 30, 2023.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is a pay-as-you-go plan. A discount rate of 4.21%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2024, was applied to all projected benefit payments to measure the total OPEB liability.
- Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy regarding the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2024.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	100.00%	1.70%
	<u>100.00%</u>	

The net OPEB liability was measured as of June 30, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the total OPEB liability as of June 30, 2023, to June 30, 2024. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a

percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.1793% and 0.1821% for the measurement dates of June 30, 2024 and 2023, respectively.

The following presents the State System's share of the Premium Assistance net OPEB liability at June 30, 2025, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4.0% and 5.8%) or one percentage point higher (between 6.0% and 7.8%) than the current healthcare cost trend rates (between 5.0% and 6.8%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate		
(in thousands)		
1% Decrease (between 4.0% and 5.8%)	Healthcare Cost Trend Rates (between 5.0% and 6.8%)	1% Increase (between 6.0% and 7.8%)
\$3,185	\$3,185	\$3,185

The following presents the State System's share of the Premium Assistance net OPEB liability at June 30, 2025, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (3.21%) or one percentage point higher (5.21%) than the current discount rate (4.21%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate at June 30, 2024		
(in thousands)		
1% Decrease 3.21%	Current Rate 4.21%	1% Increase 5.21%
\$3,598	\$3,185	\$2,839

(11) RIGHT OF USE LEASES, SUBSCRIPTION AGREEMENTS AND FINANCED PURCHASES

The State System routinely leases various facilities and equipment and enters subscription-based information technology arrangements (SBITAs) instead of purchasing the assets. The contracts, at times, may include variable payments, residual value guarantees or termination penalties that are not known or certain to be exercised at the time of the lease or subscription liability valuation. These are recognized as expenses in the period that they occur. For the fiscal year ended June 30, 2025, lease and subscription variable payments, based on performance, totaled \$520,000. There were no termination penalties or residual guarantee payments expensed for the fiscal year ended June 30, 2025. Interest expense on leases and SBITAs for the fiscal year ended June 30, 2025 totaled \$1,128,000 and \$782,000, respectively. Leases that provide for the transfer of title to the State System at the end of the lease term are accounted for as financed purchases. Interest expense recognized on these leases for the fiscal year ended June 30, 2025 totaled \$3,799,000.

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

(in thousands)	Financed Purchases		Right of Use Leases with Third Parties		Right of Use Leases with Component Units		Subscription Liabilities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal Year Ending June 30								
2026	\$8,187	\$6,608	\$3,323	\$215	\$5,344	\$619	\$15,527	\$428
2027	9,863	6,361	3,143	139	3,951	402	5,768	173
2028	10,177	6,042	2,105	75	2,648	264	3,293	81
2029	10,148	5,715	721	43	1,756	152	2,400	18
2030	9,424	5,394	534	28	822	114	412	-
2031 - 2035	46,622	22,153	1,018	45	4,442	379		
2036 - 2040	41,631	15,181	17	20	2,540	59		
2041 - 2045	27,293	9,923	19	18				
2046 - 2050	18,996	5,856	16	16				
2051 - 2055	19,825	1,979	25	13				
2056 - 2060	1,446	18	28	10				
2061 +			66	8				
Total	\$203,612	\$85,230	\$11,015	\$630	\$21,503	\$1,989	\$27,400	\$700

The following summary provides aggregated information reported for June 30, 2025 financed purchases, right of use lease liabilities and subscription liabilities on SBITAs including additions, reductions and reported liabilities for the year then ended.

(in thousands)				
	Beginning Balance	Additions	Reductions	Ending Balance
Financed Purchases	\$208,185	\$6,639	(\$11,211)	\$203,613
Leases, Third Parties	14,670	235	(3,890)	11,015
Leases, Comp Units	27,250	132	(5,879)	21,503
Subscription liabilities	25,231	19,997	(17,829)	27,399
Total	\$275,336	\$27,003	(\$38,809)	\$263,530

(12) BONDS PAYABLE

Bonds payable on June 30, 2025, consisted of several outstanding tax-exempt revenue and taxable bond series issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA), except for Series 2021 which has been issued by the Pennsylvania Economic Development Financing Authority (PEDFA). In connection with the bond issuance, the State System entered into a loan agreement with PHEFA and PEDFA under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The bonds were issued to provide funds to undertake various capital projects at the universities, to refund certain previously issued bonds, or to undertake a prefunding savings program (SERS).

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

Activity for the various bond series for the year ended June 30, 2025, was as follows.

Bonds Payable (in thousands)							
June 30, 2025 and 2024							
Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2024	Bonds Issued	Bonds Redeemed/ Refunded	Balance June 30, 2025	Current Portion
Series AQ issued in May 2015, final maturity June 2036	94,975	3.75%	29,540	-	7,275	22,265	5,120
Series AR issued in September 2015, final maturity June 2040	102,365	3.64%	68,965	-	3,270	65,695	3,435
Series AS issued in June 2016, final maturity June 2037	47,280	3.93%	25,230	-	3,140	22,090	2,985
Series AT issued in September 2016, final maturity June 2055	298,110	3.86%	235,635	-	57,030	178,605	7,385
Series AU issued in September 2017, final maturity June 2042	128,260	3.36%	76,255	-	10,250	66,005	6,835
Series AV issued in September 2018, final maturity June 2045	236,945	4.09%	172,490	-	6,000	166,490	5,810
Series AW issued in September 2019, final maturity June 2044	84,980	4.36%	34,215	-	4,215	30,000	4,420
Series AX issued in July 2020, final maturity June 2042	94,985	3.48%	71,685	-	4,545	67,140	4,765
Series AY issued in October 2020, final maturity June 2036	78,925	1.82%	41,920	-	8,495	33,425	4,950
SERS 2021 issued in April 2021, final maturity June 2042	827,580	2.54%	719,780	-	37,140	682,640	37,575
Series AZ issued in June 2021, final maturity June 2047	142,710	2.74%	130,020	-	4,435	125,585	4,560
Total	2,137,115		1,605,735	-	145,795	1,459,940	87,840

Principal and interest requirements to maturity are as follows.

(in thousands)			
	Principal	Interest	Total
2026	\$ 87,840	\$ 45,291	\$ 133,131
2027	94,750	42,686	137,436
2028	95,585	39,900	135,485
2029	96,105	37,010	133,115
2030	94,380	34,034	128,414
2031 - 2035	432,095	129,188	561,283
2036 - 2040	388,615	64,177	452,792
2041 - 2045	162,920	13,575	176,495
2046 - 2047	7,650	309	7,959
			-
Total	\$1,459,940	\$ 406,170	\$ 1,866,110

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

On October 31, 2023, the State System defeased \$55,435,000 principal amount of eleven different bonds series originally issued between May 2014 and October 2020. As of June 30, 2025, the principal amount of in-substance defeased debt that remains outstanding totals \$42,150,000 (\$49,190,000 at June 30, 2024).

On September 12, 2024, the State System defeased \$58,600,000 principal amount of eight different bonds series originally issued between May 2015 and October 2020. The in-substance defeasance was accomplished by depositing funds irrevocably in trust with an escrow agent, such funds used to purchase U.S. Government Securities. This redemption and in-substances defeasance were performed to reduce average annual debt service by approximately \$2,906,000 at Indiana University and \$2,812,000 at Commonwealth University and resulted in an accounting gain of \$3,928,000. The funds associated with this redemption and defeasance were provided by the Commonwealth of Pennsylvania as part of their 2024-25 State Budget. As of June 30, 2025, the principal amount of in-substance defeased debt that remains outstanding totals \$55,075,000.

(13) RATING ACTIONS

In February 2025, Moody's Ratings maintained the State System's bond rating of Aa3, and stable outlook. The stable outlook reflects Moody's expectations that continued successful execution of the system redesign initiative will enhance prospects for sustainability, aligning expense structures to anticipated smaller enrollment levels, as noted earlier in the Enrollment section. The outlook also reflects expectations of continued strong liquidity, growing Commonwealth financial support and steady declines in bonded debt. At the same time, Moody's maintained the State System's Environmental, Social, and Governance (ESG) and Credit Impact Scores (CIS) of CIS-3. CIS-3 indicates that ESG considerations have a limited impact on the current credit rating, with potential for greater negative impact over time. Strong fiscal management and significant financial resources partly mitigate ESG risk exposure. In February 2025, Fitch Ratings reviewed the State System's rating of A+ with stable outlook, and no rating change was made.

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

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2024, follow.

<i>(in thousands)</i>		June 30, 2025
Deferred Outflows of Resources		
Pension related (see note 9)	\$	143,112
OPEB related (see note 10)		113,450
Unamortized loss on refunding of debt		2,592
Total Deferred Outflows of Resources	\$	<u>259,154</u>
Deferred Inflows of Resources		
Lease receivable (see note 4)	\$	106,697
Pension related (see note 9)		38,294
OPEB related (see note 10)		598,573
Unamortized gain on refunding of debt		1,062
Split-interest agreements		7
Total Deferred Inflows of Resources	\$	<u>744,633</u>

(15) CONTINGENCIES AND COMMITMENTS

Contingencies

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

The State System receives support from federal and Commonwealth grant programs, primarily for student financial assistance, including federal CARES, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and American Rescue Plan Act (ARPA) funding received between fiscal years 2020-21 and 2022-23. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2025, the State System estimates that adjustments, if any, because of such audits would not have a material adverse effect on the accompanying financial statements.

Cheyney University of Pennsylvania

As a result of self-reported compliance issues reported in August 2015, Cheyney University entered into a settlement agreement with the U.S. Department of Education (ED) in February 2020 which resulted in (1) an assessment of \$14,308,377, (2) waiver of its rights to any administrative appeal, and (3) entry into an acceptable repayment agreement with ED. Cheyney made payments as required by the agreement between June 2020 and July 2024. In October 2024, Cheyney satisfied all remaining outstanding debt related to this settlement agreement.

Cheyney had been under the U.S. Department of Education's (ED) Heightened Cash Monitoring 2 (HCM2) status since September 2015. Effective June 2, 2025, Cheyney was returned to the Advanced method of payment and was removed from the HCM2 method of payment. As the university is no longer on a reimbursable method of payment, it has discontinued submitting requests for payment to the regional Payment Analyst.

Insurance

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

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2025, were approximately \$55,252,000.

Indiana University Proposed College of Osteopathic Medicine

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

Indiana University of Pennsylvania's initial class of students is planned to begin in fall 2027. COCA standards require that a new COM must ramp up enrollment over 3 years, with year 1 at 50 percent of a full class, year 2 at 75 percent, and year 3 with a full class.

As part of the process to seek accreditation for this new endeavor, a new side letter for the faculty CBA is being negotiated to address new pay scales and other working rules for the faculty hired to teach in this COM.

Labor Concentration

Approximately 84% of PASSHE's full-time equivalent (FTE) employees are covered by nine collective bargaining agreements. Seven of those agreements are effective through June 30, 2027 and include the following: American Federation of State, County, and Municipal Employees (AFSCME); Association of Pennsylvania State College and University Faculties (APSCUF); APSCUF Non-Faculty Athletic Coaches; Office of Professional Employees International Union Healthcare Pennsylvania (OPEIU); State College & University Professional Association (SCUPA); Employees International Union (SEIU) and Pennsylvania Doctors Alliance (PDA). The current collective bargaining agreements for police supervisors and security officers with the International Union, Security, Police, and Fire Professionals of America (SPFPA) and PASSHE Officers Association (POA) expired August 31, 2025. The terms of the prior contracts remain in effect until a successor agreement is reached.

(16) SUBSEQUENT EVENTS

Appropriations Delay

The State System receives monthly general appropriations from the Commonwealth of Pennsylvania. For the fiscal year ended June 30, 2025, general appropriations represented approximately 28% of total revenues. Monthly transfers from the Commonwealth during that fiscal year averaged approximately \$51.73 million.

As of the issuance date of these financial statements, the Commonwealth has not enacted its annual budget for the fiscal year beginning July 1, 2025. No general appropriations have been received for July, August, or September 2025, and the timing and amount of future funding are dependent upon the enactment of the annual budget.

The delay in general appropriations funding may affect the liquidity and financial operations of the State System and its universities. To mitigate the impact of delayed appropriations, the State System has adopted several strategies, including utilizing reserves and adjusting cash flows. When required, short-term funding is provided to universities through Appropriation Advance Notes issued from the System's Investment Fund Loan Program, in accordance with Board of Governors' Policy 1986-02-A: Investment. As of the date of issuance of these financial statements, one university has undertaken such an Appropriation Advance Note totaling almost \$1.3 million. This note will be repaid via deduction from the "catch up" appropriation distribution the university will receive for the months of July, August, and September.

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2025
(Unaudited)

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

Determined as of SERS' December 31 measurement dates

(in thousands)

Fiscal Year	State System's Proportion	State System's Proportionate Share	State System's Covered-Employee Payroll	State System's Proportionate Share of NPL as a Percentage of Covered-Employee Payroll	SERS Fiduciary Net Position as a Percentage of Total Pension Liability
2015-16	4.72%	\$858,417	\$297,714	288%	58.90%
2016-17	4.84%	\$931,620	\$300,803	310%	57.80%
2017-18	4.91%	\$848,315	\$309,084	275%	63.00%
2018-19	4.90%	\$1,020,123	\$318,501	320%	56.40%
2019-20	4.77%	\$867,669	\$315,000	276%	63.10%
2020-21	4.42%	\$808,636	\$297,904	271%	67.00%
2021-22	4.18%	\$608,705	\$279,479	218%	76.00%
2022-23	4.15%	\$948,291	\$283,603	334%	61.50%
2023-24	4.06%	\$858,718	\$288,184	298%	65.30%
2024-25	3.98%	\$802,940	\$295,745	271%	67.70%

SERS Schedule of Contributions

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

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2015-16	\$69,021	\$69,021	\$0	\$291,594	23.67%
2016-17	\$83,754	\$83,754	\$0	\$301,828	27.75%
2017-18	\$94,727	\$94,727	\$0	\$304,575	31.10%
2018-19	\$97,467	\$97,467	\$0	\$315,369	30.90%
2019-20	\$97,074	\$97,074	\$0	\$305,074	31.82%
2020-21	\$93,434	\$93,434	\$0	\$291,237	32.08%
2021-22	\$91,297	\$91,297	\$0	\$283,328	32.22%
2022-23	\$92,544	\$92,544	\$0	\$285,524	32.41%
2023-24	\$99,236	\$99,236	\$0	\$294,495	33.70%
2024-25	\$95,296	\$95,296	\$0	\$294,462	32.36%

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

Determined as of PSERS' June 30 measurement dates

(in thousands)

Fiscal Year	PSERS Net Pension Liability				State System's Covered-Employee Payroll	State System's Proportionate Share of NPL as a Percentage of Covered-Employee Payroll	PSERS Fiduciary Net Position as a Percentage of Total Pension Liability
	State System's Proportion	State System's Proportionate Share	Commonwealth's Proportionate Share	Total			
2015-16	0.1852%	\$80,220	\$80,220	\$160,440	\$47,670	168%	54.4%
2016-17	0.1833%	\$90,838	\$90,838	\$181,676	\$47,485	191%	50.1%
2017-18	0.1811%	\$89,442	\$89,442	\$178,884	\$48,236	185%	51.8%
2018-19	0.1836%	\$88,137	\$88,137	\$176,274	\$49,437	178%	54.0%
2019-20	0.1886%	\$88,232	\$88,232	\$176,464	\$52,020	169%	55.7%
2020-21	0.1856%	\$91,388	\$91,388	\$182,776	\$51,994	173%	54.3%
2021-22	0.1777%	\$72,958	\$72,958	\$145,916	\$53,184	137%	63.7%
2022-23	0.1788%	\$79,492	\$79,492	\$158,984	\$55,460	143%	61.3%
2023-24	0.1834%	\$81,588	\$81,588	\$163,176	\$58,119	140%	61.9%
2024-25	0.1811%	\$75,799	\$75,799	\$151,598	\$60,262	126%	64.6%

PSERS Pension Schedule of Contributions

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

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2015-16	\$6,012	\$6,012	\$0	\$48,419	12.41%
2016-17	\$7,107	\$7,107	\$0	\$49,518	14.35%
2017-18	\$7,880	\$7,880	\$0	\$50,586	15.58%
2018-19	\$8,565	\$8,565	\$0	\$53,394	16.04%
2019-20	\$8,771	\$8,771	\$0	\$53,324	16.45%
2020-21	\$8,746	\$8,746	\$0	\$51,994	16.82%
2021-22	\$8,896	\$8,896	\$0	\$53,184	16.73%
2022-23	\$9,342	\$9,342	\$0	\$55,460	16.84%
2023-24	\$9,486	\$9,486	\$0	\$58,119	16.32%
2024-25	\$9,783	\$9,783	\$0	\$60,262	16.23%

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

Fiscal Year	Beginning OPEB Liability	Service cost	Interest	Changes of benefit terms	Differences between expected and actual experience	Changes of assumptions	Benefit payments	Ending OPEB Liability
2017-18	\$1,559,134	\$48,636	\$39,441	\$0	\$0	(\$143,201)	(\$43,968)	\$1,460,042
2018-19	\$1,460,042	\$42,364	\$46,251	(\$1,018)	(\$175,819)	(\$11,542)	(\$45,671)	\$1,314,607
2019-20	\$1,314,607	\$35,611	\$39,561	\$0	\$0	(\$68,676)	(\$41,864)	\$1,279,239
2020-21	\$1,279,239	\$33,131	\$43,290	\$0	(\$150,225)	\$291,462	(\$44,263)	\$1,452,634
2021-22	\$1,452,634	\$44,750	\$27,454	\$0	\$0	(\$91,484)	(\$39,394)	\$1,393,960
2022-23	\$1,393,960	\$40,815	\$32,205	(\$8,221)	(\$209,238)	(\$306,370)	(\$41,120)	\$902,031
2023-24	\$902,031	\$25,367	\$36,829	\$0	\$0	\$10,551	(\$37,415)	\$937,363
2024-25	\$937,363	\$26,330	\$38,929	\$0	(\$115,000)	(\$10,503)	(\$38,934)	\$838,185

Note to Schedule: The System Plan has no assets accumulated in a trust in which the employer contributions are irrevocable, are dedicated to providing OPEB to plan members, or are legally protected from creditors. This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

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

Fiscal Year	Covered Employee Payroll	OPEB Liability as a Percent of Covered Payroll
2017-18	\$592,245	246.53%
2018-19	\$582,841	225.55%
2019-20	\$582,841	219.48%
2020-21	\$570,846	254.47%
2021-22	\$570,846	244.19%
2022-23	\$515,352	175.03%
2023-24	\$515,352	181.89%
2024-25	\$531,606	157.67%

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

Schedule of Proportionate Share of the REHP Net OPEB Liability

Determined as of REHP's June 30 measurement dates

(in thousands)

Fiscal Year	State System's Proportion	State System's Proportionate Share	State System's Covered-Employee Payroll	State System's Proportionate Share of Net OPEB Liability as a Percentage of Covered-Employee Payroll	REHP's Fiduciary Net Position as a Percentage of Total OPEB Liability
2017-18	4.374%	\$860,881	\$117,366	734%	1.40%
2018-19	4.573%	\$658,214	\$117,400	561%	2.20%
2019-20	4.370%	\$455,091	\$116,857	389%	3.80%
2020-21	4.275%	\$526,658	\$116,118	454%	3.67%
2021-22	4.026%	\$411,946	\$104,727	393%	6.12%
2022-23	3.648%	\$359,910	\$100,940	357%	5.92%
2023-24	3.029%	\$235,554	\$105,080	224%	8.81%
2024-25	3.526%	\$245,647	\$104,417	235%	11.61%

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

REHP Schedule of Contributions

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

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2017-18	\$21,441	\$21,441	\$0	\$141,268	15.18%
2018-19	\$25,787	\$25,787	\$0	\$144,385	17.86%
2019-20	\$19,567	\$19,567	\$0	\$139,418	14.03%
2020-21	\$10,369	\$10,369	\$0	\$131,491	7.89%
2021-22	\$9,181	\$9,181	\$0	\$126,955	7.23%
2022-23	\$8,291	\$8,291	\$0	\$125,654	6.60%
2023-24	\$18,688	\$18,688	\$0	\$131,030	14.26%
2024-25	\$17,841	\$17,841	\$0	\$132,369	13.48%

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

Schedule of Proportionate Share of PSERS Net OPEB Liability

Determined as of PSERS' June 30 measurement dates

(in thousands)

Fiscal Year	PSERS Net OPEB Liability				State System's Covered-Employee Payroll	System's Proportionate Share of Net OPEB Liability as a Percentage of Covered-Employee Payroll	PSERS Fiduciary Net Position as a Percentage of Total OPEB Liability
	State System's Proportion	State System's Proportionate Share	Commonwealth's Proportionate Share	Total			
2017-18	0.1811%	\$3,690	\$3,690	\$7,380	\$48,236	7.65%	5.73%
2018-19	0.1836%	\$3,828	\$3,828	\$7,656	\$49,437	7.74%	5.56%
2019-20	0.1886%	\$4,011	\$4,011	\$8,022	\$52,020	7.71%	5.56%
2020-21	0.1852%	\$4,002	\$4,002	\$8,004	\$51,994	7.70%	5.69%
2021-22	0.1770%	\$4,196	\$4,196	\$8,392	\$50,192	8.36%	5.30%
2022-23	0.1780%	\$3,277	\$3,277	\$6,554	\$52,352	6.26%	6.86%
2023-24	0.1821%	\$3,295	\$3,295	\$6,590	\$55,801	5.90%	7.22%
2024-25	0.1793%	\$3,185	\$3,185	\$6,370	\$56,937	5.59%	7.13%

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

PSERS OPEB Schedule of Contributions

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

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2017-18	\$204	\$204	\$0	\$50,586	0.40%
2018-19	\$217	\$217	\$0	\$53,394	0.40%
2019-20	\$220	\$220	\$0	\$53,324	0.41%
2020-21	\$216	\$216	\$0	\$52,900	0.41%
2021-22	\$212	\$212	\$0	\$53,184	0.40%
2022-23	\$204	\$204	\$0	\$55,460	0.37%
2023-24	\$184	\$184	\$0	\$58,119	0.32%
2024-25	\$189	\$189	\$0	\$60,262	0.31%

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

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Appendix III: Summary of Legal Documents

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DEFINITIONS OF CERTAIN TERMS

The following definitions apply to the summaries of the PHEFA Indenture, the PEDFA Indenture and the Loan Agreement and to terms not otherwise defined in the Official Statement.

“Act” shall mean the Pennsylvania Higher Educational Facilities Authority Act of 1967, Act of December 6, 1967, P.L. 678, as from time to time amended or supplemented.

“Additional PEDFA Bonds” shall mean PEDFA Bonds duly executed, authenticated and delivered pursuant to the provisions of the PEDFA Indenture, but shall not refer to or apply to any bonds issued under any other indenture or resolution of the Authority.

“Additional PHEFA Bonds” shall mean PHEFA Bonds duly executed, authenticated and delivered pursuant to the provisions of the PHEFA Indenture, but shall not refer to or apply to any bonds issued under any other indenture or resolution of the Authority.

“Administrative Expenses” shall mean those expenses reasonably and properly incurred by the Authority in carrying out its responsibilities and duties, or in providing its services and facilities to the State System, under the Act or the PHEFA Indenture or pursuant to the Loan Agreement or by the Authority in protecting its rights to indemnification pursuant to the PHEFA Indenture and shall include the fees and expenses of the Trustee with respect to its duties under the PHEFA Indenture.

“Annual Administrative Fee” shall mean the annual fee for the general administrative services of the Authority.

“Authority” shall mean the Pennsylvania Higher Educational Facilities Authority.
“Authority Board” shall mean the governing body of the Authority.

“Authorized Officer” of the Authority or the State System shall mean a “Responsible Officer.”

“Bond Proceeds Fund” shall mean the special account so designated which is established and created pursuant to the PHEFA Indenture.

“Bondowner”, “owner” or “registered owner” or words of similar import, when used with reference to a PHEFA Bonds or a PEDFA Bond, shall mean any person who shall from time to time be the registered owner of any Outstanding PHEFA Bond or PEDFA Bond.

“Business Day” shall mean a date when the Trustee and the Authority are open for business.

“Certificate” shall mean (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or setting forth matters to be determined pursuant to the PHEFA Indenture or (ii) the report of an accountant as to audit or other procedures called for by the PHEFA Indenture.

“Certified Resolution” of the Authority or the State System shall mean a copy of one or more resolutions certified by the Secretary or Assistant Secretary of the Authority or the State

System, as the case may be, under its seal to have been duly adopted by the Board of the Authority or the State System board, as the case may be, and to be in effect on the date of such certification.

“Code” shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“Commonwealth” shall mean the Commonwealth of Pennsylvania.

“Cost” or “Costs” in connection with any Project, shall mean all expenses which are properly chargeable thereto under Generally Accepted Accounting Principles or which are incidental to the financing, acquisition and construction of such Project, including, but without limiting the generality of the foregoing:

- amounts payable to contractors and costs incident to the award of contracts;
- costs for labor, facilities and services furnished by or for the State System or an institution thereof or the Authority and their employees or others, materials and supplies purchased by the State System or an institution thereof or the Authority or others, and permits and licenses obtained by the State System, an institution thereof, the Authority or others;
- engineering, legal, accounting and other professional and advisory fees;
- premiums for surety bonds and insurance during construction and costs on account of personal injuries and property damage in the course of construction and insurance against the same;
- interest during construction;
- the Authority’s initial fee and the Annual Administrative Fee and Administrative Expenses during the period prior to completion of any Project;
- Costs of issuance of the PHEFA Bonds;
- fees and expenses in connection with the acquisition of real and personal property or rights therein, including premiums for title insurance;
- costs of equipment purchased by the State System or an institution thereof and necessary for the completion and proper operation of any Project or property in question;
- amounts required to repay temporary loans or advances from other funds of the State System or an institution thereof made to finance the Costs of any Project;
- Costs of acquisition of real estate, construction and prior construction and/or site costs and improvements performed by the State System or any institution thereof in anticipation of any Project; and
- moneys necessary to fund the Funds created under the PHEFA Indenture.

“Debt Service” shall mean, with respect to any particular calendar year or Fiscal Year, an amount equal to the sum of (i) all interest payable on the Outstanding PHEFA Bonds during such calendar year or Fiscal Year, respectively, plus (ii) the principal due on such PHEFA Bonds during such calendar year or Fiscal Year, respectively.

“Debt Service Payment” shall mean with respect to any Interest Payment Date, the amount of interest and principal due.

“Depository” shall mean any bank, trust company, national banking association, savings bank or savings and loan association, the unsecured debt obligations of which are rated at least an “A+” rating with the Rating Agency, selected by the Authority or the Trustee as a depository of moneys or securities held under the provisions of the PHEFA Indenture and permitted by law to be a depository of Authority funds, and may include the Trustee, provided that all amounts held by the Depository shall be in the name of the Trustee.

“Educational Facility” shall have the same meaning as used in the Act.

“Event of Default” shall mean any of the events specified in the PHEFA Indenture or the Loan Agreement.

“Fiscal Year” shall mean a twelve-month period commencing on the first day of July of any year or any other twelve-month period as the Authority may by resolution determine from time to time, and shall include such shorter or longer period as the Authority shall deem advisable for transitional purposes.

“Forty-Ninth Supplemental Indenture” shall mean the Forty-Ninth Supplemental Indenture of Trust dated as of [June 1, 2021], between the Authority and the Trustee and under which the Series BA Bonds will be issued.

“Forty-Ninth Supplemental Loan Agreement” shall mean the Forty-Ninth Supplemental Loan and Security Agreement dated as of [June 1, 2021], between the Authority and the State System.

“Fund” shall mean one of the special funds created pursuant to the PHEFA Indenture.

“Generally Accepted Accounting Principles” shall mean those accounting principles, not contrary to those promulgated by a nationally recognized financial standards body, applicable to the preparation of financial statements of institutions of higher learning or public authorities, as appropriate.

“Interest Payment Date” shall mean any date upon which interest on PHEFA Bonds is due and payable in accordance with their terms.

“Investment Securities” shall mean and include any of the following obligations, to the extent the same are at the time legal for investment of funds of the Authority under the Act, including amendments thereto hereafter made, or under other applicable law:

- direct obligations of or obligations guaranteed by the United States of America;

- any bond, debenture, note, participation certificate or other similar obligation issued by any of the following agencies: Government National Mortgage Association, Federal Land Bank, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Farm Credit Banks Consolidated Statewide, Tennessee Valley Authority, United States Postal Service, Farmers Home Administration, Export-Import Bank and Federal National Mortgage Association;

- any other obligation of the United States of America or any federal agency to the payment of the principal of and interest on which the full faith and credit of the United States of America is pledged which may then be purchased with Authority funds or which are legal investments for savings banks, savings associations, or savings and loan associations in the Commonwealth but only if such investments are rated “AA” or better by the Rating Agency, or, upon the discontinuance of such service, another nationally recognized rating service;

- tax-exempt obligations of any state or any instrumentality, agency or political subdivision thereof which are fully secured as to principal and interest by direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and which are rated in the highest rating category by the Rating Agency and which are not by their terms subject to redemption prior to the date on which they are needed for the purposes for which they have been deposited;

- direct and general obligations of any state of the United States, to the payment of which the full faith and credit of such state are pledged, but only if such obligations are rated “AA” or better by the Rating Agency, or, upon the discontinuance of such service, another nationally recognized rating service;

- deposits in interest-bearing time or demand deposits, or certificates of deposit, with an institution the unsecured deposits of which are rated “AA” or better by the Rating Agency at the time of purchase, or, upon discontinuance of such service, another nationally recognized rating service;

- repurchase agreements with an institution rated “A+” or better by the Rating Agency, or, upon discontinuance of such service, another nationally recognized rating service;

- commercial paper (except that of the Authority or an affiliate) or finance company paper rated “A-1” by Standard & Poor’s Corporation;

- investment agreements with an entity whose unsecured debt obligations are rated not less than “AA” by the Rating Agency;

- interest bearing time deposits or certificates of deposit (such deposits or certificates of deposit may be in or issued by the Trustee), or other similar banking arrangements with the Trustee or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor, or a savings and loan association, the deposits of which are insured by the Federal Savings and Loan Insurance Corporation or its successor. Each such interest

bearing time deposit or certificate shall be fully insured by the United States of America or the federal corporations enumerated above;

- certificates of participation, lease and sublease obligations or other similar instruments evidencing the leasing or subleasing of capital assets to any state of the United States whose general obligation bonds are rated “AA” or better by the Rating Agency at the time of purchase, or, upon discontinuance of such service, another nationally recognized rating service; or

- shares or certificates in any short-term investment fund, which short-term investment fund invests not less than 98% of its assets in obligations described in subparagraphs (1) through (11) above, including, without limitation, any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to the PHEFA Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the PHEFA Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates.

“Loan Agreement” shall mean the Loan and Security Agreement dated as of June 1, 1985, between the Authority, as lender, and the State System, as borrower, as previously amended and supplemented and as further supplemented by the Forty-Ninth Supplemental Loan Agreement.

“Outstanding” when used with reference to PHEFA Bonds, shall mean, as of any date, all PHEFA Bonds theretofore or thereupon being authenticated and delivered under the PHEFA Indenture except:

- any PHEFA Bond canceled by the Trustee or the Authority at or prior to such date;

- any PHEFA Bond (or portion of a PHEFA Bond) for the payment or redemption of which there shall be held in trust and set aside either:

- (a) moneys in an amount sufficient to effect payment when due of the principal or the applicable Redemption Price thereof, together with all accrued interest, or

- (b) Investment Securities as described in clauses (1), (2) and (4) of the definition of Investment Securities above in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to provide moneys (whether as principal or interest) in an amount sufficient to effect payment when due of the principal or applicable Redemption Price thereof, together with all accrued interest, or

- (c) any combination of (a) and (b) above,

and, if such PHEFA Bond or portion of a PHEFA Bond is to be redeemed, for which notice of redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice;

- any PHEFA Bond in lieu of or in substitution for which other PHEFA Bonds shall have been authenticated and delivered pursuant to the PHEFA Indenture; and

- any PHEFA Bond deemed to have been paid as provided in the PHEFA Indenture.

“PEDFA Bond” or “PEDFA Bonds” shall mean one of the notes or bonds or all of the notes or bonds, as the case may be, to be authenticated and delivered pursuant to the PEDFA Indenture, including any PEDFA Bond issued in lieu of or in exchange for such PEDFA Bond.

“PHEFA Bond” or “PHEFA Bonds” shall mean one of the notes or bonds or all of the notes or bonds, as the case may be, to be authenticated and delivered pursuant to the PHEFA Indenture, including any PHEFA Bond issued in lieu of or in exchange for such PHEFA Bond.

“PEDFA Indenture” shall mean the Trust Indenture dated as of April 1, 2021, between the Pennsylvania Economic Development Financing Agency and The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, as amended.

“PHEFA Indenture” shall mean the Indenture of Trust dated as of June 1, 1985, between the Authority and the Trustee, as previously amended and supplemented, and as further supplemented by the Forty- Eighth Supplemental Indenture.

“Pledged Revenues” shall mean all amounts payable by the State System to the Authority under the Loan Agreement (except those representing the Annual Administrative Fee and Administrative Expenses of the Authority).

“Project” shall mean each individual Educational Facility financed under the PHEFA Indenture and shall include acquiring, holding, constructing, improvement, maintaining and operating by the State System or an institution thereof, of grounds, premises, buildings, and other property constituting “educational facilities” as defined in the Act and used or useful in providing construction, housing, recreation, or other services related to higher education and related activities, including the financing of the Costs thereof by the Authority and the refinancing by the Authority of the Cost of Educational Facilities previously financed. Project shall also include refunding or redeeming any Outstanding PHEFA Bonds.

“Rating Agency” shall mean Standard & Poor’s Corporation or Moody’s Investors Service, Inc. or Fitch Ratings or any successor thereto.

“Record Date” shall mean, with respect to fixed rate issues, the close of business on the fifteenth day of the calendar month preceding an Interest Payment Date if the Interest Payment Date is on the first day of the month and the first day of the month when an Interest Payment Date is on the fifteenth day of a month, and shall mean with respect to variable rate issues, the close of business on the last Business Day preceding an Interest Payment Date, unless a Special Record Date is otherwise defined and provided for in any Supplemental Indenture.

“Redemption Date” shall mean the date upon which any PHEFA Bond is to be called for redemption pursuant to the PHEFA Indenture.

“Redemption Fund” shall mean the special fund so designated which is established and created pursuant to the PHEFA Indenture.

“Redemption Price” shall mean, with respect to any PHEFA Bond or portion thereof, the amount payable upon redemption thereof, not including interest, if any, accrued to the Redemption Date.

“Resolution” shall mean the resolution or resolutions of the Authority authorizing the issuance of PHEFA Bonds and the execution and delivery of the PHEFA Indenture.

“Responsible Officer” shall mean (i) when used with respect to the Authority, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Controller, the Assistant Controller, the Executive Director or any Assistant Executive Director, (ii) when used with respect to the State System, the Chancellor, Vice Chancellor, President, Chairperson, Vice Chairperson or any person designated as an Administrative Officer by Certificate of the State System, and (iii) when used with respect to either the State System or the Authority, as the case may be, any other person designated by certified resolution of the Board of the Authority or the State System to act for any of the foregoing, either generally or with respect to the execution of any particular document or other specific matter, a certified copy of which resolution shall be on file with the Trustee.

“Revenues” shall mean all unrestricted receipts, revenues, income, gains and all other moneys received by the State System from any source, including without limitation, tuition and fee revenues, Commonwealth appropriations and other operating and non-operating revenues required to be recorded as revenue under Generally Accepted Accounting Principles, exclusive of net assets released from restriction, gifts, grants, bequests and donations which are designated by the donor at the time of making as being for specific purposes.

“Revenue Fund” shall mean the special fund so designated which is established and created pursuant to the PHEFA Indenture.

“Series AI Bonds” shall mean the Authority’s Refunding Revenue Bonds, State System of Higher Education, Series AI, issued under the PHEFA Indenture.

“Series AM Bonds” shall mean the Authority’s Revenue Bonds, State System of Higher Education, Series AM, issued under the PHEFA Indenture.

“Series AN Bonds” shall mean the Authority’s Revenue Bonds, State System of Higher Education, Series AN, issued under the PHEFA Indenture.

“Series AO Bonds” shall mean the Authority’s Revenue Bonds, State System of Higher Education, Series AO, issued under the PHEFA Indenture.

“Series AP Bonds” shall mean the Authority’s Refunding Revenue Bonds, State System of Higher Education, Series AP, issued under the PHEFA Indenture.

“Series AQ Bonds” shall mean the Authority’s Refunding Revenue Bonds, State System of Higher Education, Series AQ, issued under the PHEFA Indenture.

“Series AR Bonds” shall mean the Authority’s Revenue Bonds, State System of Higher Education, Series AR, issued under the PHEFA Indenture.

“Series AS Bonds” shall mean the Authority’s Revenue Bonds, State System of Higher Education, Series AS, issued under the PHEFA Indenture.

“Series AT Bond Insurer” shall mean Assured Guaranty Municipal Corp.

“Series AT Bonds” shall mean the Authority’s Revenue Bonds, State System of Higher Education, Series AT, issued under the PHEFA Indenture.

“Series AU Bonds” shall mean the Authority’s Revenue and Refunding Revenue Bonds, State System of Higher Education, Series AU, issued under the PHEFA Indenture.

“Series AV Bond Insurer” shall mean Build America Mutual Assurance Company.

“Series AV Bonds” shall mean the Authority’s Revenue and Refunding Revenue Bonds, State System of Higher Education, Series AV, issued under the PHEFA Indenture.

“Series AW Bonds” shall mean the Authority’s Revenue and Refunding Revenue Bonds, State System of Higher Education, Series AW, issued under the PHEFA Indenture.

“Series AX Bonds” shall mean the Authority’s Revenue and Revenue Refunding Bonds, State System of Higher Education, Series AX, issued under the PHEFA Indenture.

“Series AX Bond Insurer” shall mean Assured Guaranty Municipal Corp.

“Series AY Bond Insurer” shall mean Build America Mutual Assurance Company.

“Series AY Bonds” shall mean the Authority’s Refunding Revenue Bonds, State System of Higher Education, Series AY, issued under the PHEFA Indenture.

“Series AZ Bond Insurer” shall mean Assured Guaranty Municipal Corp.

“Series AZ Bonds” shall mean the Authority’s Refunding Revenue Bonds, State System of Higher Education, Series AZ, issued under the PHEFA Indenture.

“Series BA Bonds” shall mean the Authority’s Revenue Bonds, State System of Higher Education, Series BA, issued under the PHEFA Indenture.

“Series BA Project” shall mean the issuance of the Authority’s Series BA Bonds and the application of the proceeds to the costs included in the “Series BA Project” as defined in and described in the forepart of this Official Statement.

“Sinking Fund Payment” shall mean, as of any particular date of calculation, the amount required to be paid in all events on a single future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by reason of the maturity of a PHEFA Bond.

“State System of Higher Education” or “State System” or “System” shall mean the State System of Higher Education, a body corporate and politic constituting a public corporation and governmental instrumentality consisting of institutions of higher education recognized by the Board of Education of the Commonwealth.

“Supplemental Indenture” shall mean any indenture supplemental to or amendatory of the PHEFA Indenture, executed and delivered by the Authority and effective in accordance with the PHEFA Indenture.

“Trustee” shall mean The Bank of New York Mellon Trust Company, N.A., or its successor or successors, as successor trustee under the PHEFA Indenture.

“Trust Estate” shall mean the security for the PHEFA Bonds granted to the Trustee by the Authority in the granting clauses under the PHEFA Indenture.

SUMMARY OF LEGAL DOCUMENTS

The following are summaries of certain provisions of the Loan Agreement and the PHEFA Indenture. The summaries should not be regarded as full statements of the documents themselves or of the portions summarized. For complete statements of the provisions thereof, reference is made to the documents in their entireties, copies of which will be available for inspection at the principal corporate trust office of the Trustee.

THE LOAN AGREEMENT

The Loan Agreement, as previously supplemented and as further supplemented by the Forty-Ninth Supplemental Loan Agreement, was entered into between the Authority, as lender, and the State System, as borrower.

(i) The Projects

The State System shall use the proceeds of the PHEFA Bonds in accordance with the Loan Agreement to undertake the Projects, including the Series BA Project, from time to time authorized thereunder and under the PHEFA Indenture.

(ii) Agreement to Lend; Use of PHEFA Bond Proceeds

Under the Loan Agreement, the Authority agrees to make, solely from the proceeds of PHEFA Bonds, and the State System agrees to accept, the loans of PHEFA Bond proceeds to finance the Costs of Projects. The State System agrees to accept disbursement of the proceeds of such loans to be used in the manner provided in the PHEFA Indenture, including the acquisition, construction and/or renovation, improvement and installation of the Projects and the making of all payments required by the Loan Agreement as and when the same shall become due.

(iii) Loan Repayments and Additional Sums

The Loan Agreement is a general obligation of the State System and the full faith and credit of the State System is pledged to the payment of all sums due thereunder. The State System shall pay to the Trustee, as assignee of the Authority, for deposit in the Revenue Fund created under the PHEFA Indenture, the following amounts in immediately available funds: (a) with respect to fixed rate issues, fifteen days prior to an Interest Payment Date, and with respect to variable rate issues, no later than one day prior to an Interest Payment Date, an amount which is sufficient to pay interest on the PHEFA Bonds to be paid on the next Interest Payment Date (taking into account as a credit against such installments, any amounts representing accrued and capitalized interest on deposit in any account of the Bond Proceeds Fund and moneys on deposit in the Revenue Fund for such purpose) and (b) principal of the PHEFA Bonds due (at stated maturity or through sinking fund redemption) and (c) in each year, the State System shall pay directly to the Authority its Annual Administrative Fees and, when due, the Authority's Administrative Expenses incurred from time to time in connection with the Projects, as provided in the PHEFA Indenture.

In lieu of the portion of the loan repayments payable with respect to principal of the PHEFA Bonds becoming due (at stated maturity or through sinking fund redemption) on the next following principal or sinking fund payment date, the State System, or at its direction, the Authority, may purchase, on the open market, PHEFA Bonds of the maturity becoming due and present such PHEFA Bonds to the Trustee for cancellation. The PHEFA Bonds so presented to the Trustee shall be credited to the principal amount of the next payment due thereunder at 100% of the principal amount of such PHEFA Bonds.

The State System may make advance payments as required or permitted by the Loan Agreement. So long as any of the PHEFA Bonds remain Outstanding, the obligation of the State System to pay sums due under the Loan Agreement shall be absolute and unconditional and shall not be suspended, abated, reduced, abrogated, waived, diminished or otherwise modified in any manner or to any extent whatsoever, regardless of any rights of setoff, recoupment or counterclaim that the State System might otherwise have against the Authority or the Trustee or any other party or parties and regardless of any contingency, act of God, event or cause whatsoever and notwithstanding any circumstances or occurrence that may arise or take place after the date of the Loan Agreement.

(iv) Concerning the Projects

The State System will undertake and proceed to complete any Projects financed by the Authority under the Loan Agreement with all reasonable dispatch and will use its best efforts to complete or cause the completion of such component parts to take place on or before the dates specified in the PHEFA Indenture or as soon thereafter as may be practicable, except for delays

incident to strikes, riots, acts of God or the public enemy or any delay beyond the reasonable control of the State System; but if for any reason the State System's undertakings with respect to any Project shall not be completed by such dates there shall be no resulting diminution in or postponement of the loan repayments required to be made by the State System under the Loan Agreement.

The State System shall enforce any construction contracts and purchase orders relating to a Project and will cause the State System's undertakings with respect to such Project to be completed substantially in accordance with any plans and specifications which may have been prepared therefor.

The State System agrees to obtain, or cause to be obtained, in connection with the construction of any Project, a surety bond or bonds covering performance of contracts and payment for labor and materials. Such bonds shall be executed by responsible surety companies and shall be in amounts aggregating not less than 100% of the contract price. The State System shall have the exclusive right to receive the proceeds of such bonds.

The State System will not do or refrain from doing any act whereby any surety on any bond may be released in whole or in part from any obligations assumed by it or from any agreement to be performed by it under any surety bond and the State System will comply with all present and future laws, acts, rules, regulations, orders, and requirements lawfully made relating to any acquisition or construction undertaken in accordance with the Loan Agreement.

The State System may amend the plans and specifications, if any, at any time prior to the completion date thereof, including amendments which change the proposed allocation of moneys in the account established for the State System in the Bond Proceeds Fund among components of such Project or which delete components of its undertakings under the Loan Agreement with respect to the Project. No such changes shall be made, and no amendment shall be made to the plans and specifications, if any, which shall so modify the State System's undertakings with respect to a Project that they fail to qualify as Educational Facilities eligible for assistance by the Authority under the Act.

The State System is also required to maintain builder's risk insurance (or equivalent coverage) upon work done or materials furnished (except excavations, foundations and other structures not customarily covered), worker's compensation insurance, employer's liability insurance and public liability, comprehensive automobile liability insurance and property insurance with respect to construction of new facilities.

(v) Costs of Projects

The State System shall direct to the Trustee requisitions for payment of proper Costs with respect to the Projects in accordance with the procedures established in the PHEFA Indenture; provided, however, that the State System shall not submit any requisition which, if paid, would result in the proceeds of the PHEFA Bonds being used other than to pay the Costs of the State System's undertakings with respect to a Project.

(vi) Completion of Projects

Under the Loan Agreement, the State System is obligated to complete its undertakings with respect to Projects at its own expense regardless of the adequacy of the moneys allocated to the State System in any particular account established in the Bond Proceeds Fund under the PHEFA Indenture or the adequacy of other moneys made available to the State System by the Authority. The Authority makes no warranty, either express or implied, that the amounts to be deposited pursuant to the PHEFA Indenture in any account established for the State System in the Bond Proceeds Fund will be sufficient to complete payment of the Costs of any Projects. The State System agrees that if, after exhaustion of the moneys allocated to the State System in the account established for the State System in the Bond Proceeds Fund and any other moneys made available by the Authority, the State System should pay any portion of the Costs of a Project, it shall not be entitled to any reimbursement therefor from the Authority, the Trustee or the Bondowners any of the PHEFA Bonds, nor shall it be entitled to any diminution in or postponement of the amounts payable under the Loan Agreement.

(vii) Additional Projects

In the event that the State System should wish to undertake an additional Project with unused balances in the account established for the State System in the Bond Proceeds Fund (whether because of the deletion of a component of the State System's undertakings with respect to the Project or otherwise), the State System may provide for the payment of the Costs of such additional Project from the unused balances in such account in the Bond Proceeds Fund, provided that it shall comply with the foregoing requirements with respect to changes in a Project, and provided further that both an Officer's Certificate of the Authority to the effect that the additional Project is duly authorized under the Act and applicable Authority resolutions shall have been delivered.

(viii) Assignment to Trustee

The Authority shall assign the Loan Agreement and all sums payable under the Loan Agreement (other than amounts representing payments of the Authority's Annual Administrative Fees and Administrative Expenses and amounts representing the Authority's rights to indemnification pursuant to the Loan Agreement), to the Trustee, in trust, to be held and applied pursuant to the provisions of the PHEFA Indenture. The State System (1) consents to the assignment to the Trustee and accepts notice thereof; (2) agrees to pay directly to the Trustee all such sums without any defense, set-off or counterclaim arising out of any default on the part of the Authority under the Loan Agreement or any transaction between the State System and the Authority; and (3) agrees that the Trustee may exercise all rights granted the Authority thereunder.

(ix) Additional Authority Financing

If the State System shall deem it necessary or advisable that additional Projects be undertaken, or if it is deemed necessary by the State System to refund Outstanding PHEFA Bonds or obtain additional financing for the completion of a Project, the State System may request the Authority to provide a loan for all or part of Costs thereof. Upon receipt of a request of the State System, the Authority shall use its best efforts to provide such money from available sources under

the PHEFA Indenture or through the issuance of Additional PHEFA Bonds or other evidences of indebtedness of the Authority.

(x) Certain Additional Covenants of the State System

The State System represents and covenants in the Loan Agreement that it is (i) a body corporate and politic constituting a public corporation and governmental instrumentality; (ii) organized and operated exclusively for educational purposes; and (iii) not for pecuniary profit. The State System agrees that it shall not perform any act nor enter into any agreement which shall change such status.

The State System covenants that it will preserve and maintain its existence as a public corporation under the laws of the Commonwealth, and to the extent permitted by law at any given time, remain free from Federal, state and local income, property, franchise and other taxes, and preserve and maintain its authority to operate the Projects.

The State System covenants that it will maintain the necessary accreditation to enable it to maintain its authority to operate its constituent educational institutions as institutions of higher education in the Commonwealth within the meaning of the Act.

The State System covenants that throughout the term of the Loan Agreement:

(A) it will take whatever actions are necessary to continue to be organized and operated in a manner which will preserve and maintain the exemption from federal income taxation of the State System; and

(B) it will not perform any acts nor enter into any agreements which shall cause any revocation or adverse modification of such federal income tax status of the State System; and

(C) it will not carry on or permit to be carried on in any Project (or with PHEFA Bond proceeds or the proceeds of any loan refinanced with PHEFA Bond proceeds) any trade or business the conduct of which would cause the interest paid by the Authority on the PHEFA Bonds to be subject to Federal income tax in the hands of the Bondowners thereof; and

(D) it will not take any action or permit any action to be taken on its behalf, or cause or permit any circumstances within its control to arise or continue, if such action or circumstances would cause the interest paid by the Authority on the PHEFA Bonds to be subject to Federal income tax in the hands of the Bondowners thereof if such PHEFA Bonds were issued on a federally tax-exempt basis; and

(E) neither it nor any person related to it within the meaning of the Code, pursuant to an arrangement, formal or informal, will purchase the PHEFA Bonds in an amount related to the total amount payable under and secured by the Loan Agreement.

The State System covenants that it shall not pledge more than twenty percent (20%) of its Revenues to secure any indebtedness it may incur or guaranties it may undertake without simultaneously granting such a lien for the benefit of the PHEFA Bonds.

The State System further covenants that:

(1) during the term of the Loan Agreement it will not initiate any proceedings or take any action whatsoever to dissolve or liquidate or to terminate its existence as a public corporation or otherwise dispose of all or substantially all of its assets, or the Projects, either in a single transaction or in a series of related transactions, except as provided in the Loan Agreement.

(2) it shall pay or cause to be paid to the public officers charged with the collection thereof, promptly as the same become due, all taxes (or contributions or payments in lieu thereof).

(3) it will, at its own expense, keep and maintain or cause to be kept and maintained the Projects in good order, repair and operating condition.

(4) all actions taken by the State System to acquire and carry out the Projects, including the making of contracts or the entering into of purchase orders, have been and will be in full compliance with all pertinent laws, ordinances, rules, regulations and orders applicable to the State System.

(5) it will keep accurate records and books of account with respect to the revenues and expenses of the State System in accordance with generally accepted accounting principles and, within 150 days after the end of each Fiscal Year during the term of the Loan Agreement, provide a statement of revenue and expenses to the Authority and the Trustee.

(6) the Authority, by its duly authorized representatives, at reasonable times, and for purposes of determining compliance with the Loan Agreement and confirming the progress and completion of a Project, may inspect any part of a Project.

(xi) Events of Default and Remedies

“Events of Default” as defined in the Loan Agreement include the State System’s failure:

(1) to make payments required under Section 4.01 thereof relating to payment of the principal of and interest on The PHEFA Bonds when the same shall become due and payable;

(2) to make any other payment required thereunder and such failure continues for 10 days after the Authority or the Trustee gives notice that such other payment is due and unpaid; or

(3) to perform any of its other covenants or to perform any of its obligations under the Loan Agreement and such failure continues for 60 days after the Authority gives

the State System notice thereof; provided, however, that if such performance requires work to be done, actions to be taken, or conditions remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 60-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the State System shall commence such performance within such 60-day period and shall diligently and continuously prosecute the same to completion.

An “Event of Default” also occurs if the State System shall become insolvent or unable to pay its debts as they mature, or shall file a voluntary petition seeking reorganization or to effect a plan or other arrangement with creditors, or shall file an answer admitting the jurisdiction of the court and the material allegations of an involuntary petition, pursuant to any act relating to bankruptcy or to any act purporting to be amendatory thereof, or shall be adjudicated bankrupt or insolvent, or shall make an assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its assets, or shall apply for or consent to or suffer the appointment of any receiver or trustee for it or a substantial part of its property or assets; or a proceeding shall be instituted, without the application, approval or consent of the State System pursuant to any act relating to bankruptcy or to any act purporting to be amendatory thereof, seeking (i) adjudication of the State System as bankrupt or insolvent, (ii) reorganization of, or an order appointing any receiver or trustee for a substantial part of the property or assets of the State System, or (iii) issuance of a writ of attachment or any similar process against a substantial part of the property or assets of the State System and any such proceeding shall result in the entry of an order for relief or any such adjudication or appointment shall continue undismissed, or pending and unstayed, for any period of 30 consecutive days.

If any of the foregoing Events of Default shall happen, then and at any time thereafter while such Event of Default is continuing, the Authority may, in addition to its other remedies at law or equity or provided for in the Loan Agreement, if the Trustee shall have declared the principal of any PHEFA Bonds then Outstanding to be immediately due and payable pursuant to the PHEFA Indenture, with the prior written consent of the Trustee, declare amounts payable under the Loan Agreement to be immediately due and payable; then there shall become due and payable under the Loan Agreement as then current damages an amount equal to the principal of all PHEFA Bonds so declared to be immediately due and payable plus accrued interest to the date of payment of such PHEFA Bonds and all other amounts then due and payable under the Loan Agreement to the Authority. Until said amounts are paid by the State System, the Authority shall continue to have all of the rights, powers and remedies herein set forth, and the State System’s obligations thereunder shall continue in full force and effect.

(xii) Amendment of Loan Agreement

The Authority and the State System may execute an appropriate supplement or amendment to the Loan Agreement in connection with the issuance of Additional PHEFA Bonds as contemplated by the PHEFA Indenture. In addition, the Authority and the State System may enter into any written amendments to the Loan Agreement as shall not adversely affect the rights of or the security of the Bondowners of the PHEFA Bonds, only for the following purposes:

- (1) to cure any ambiguity, defect, or inconsistency or omission in the Loan Agreement or any amendment thereto;

(2) to grant to or confer upon the Authority any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon it;

(3) to reflect a change in applicable law; or

(4) to provide terms not inconsistent with the PHEFA Indenture or the Loan Agreement; provided, however, that the Loan Agreement as so amended or supplemented shall provide at least the same security for Bondowners of PHEFA Bonds issued under the PHEFA Indenture as the Loan Agreement prior to such amendment.

All other amendments to the Loan Agreement must be approved by the Trustee and, if the PHEFA Indenture must be amended with the Bondowners' consent, by the Bondowners also, in the same manner and to the same extent as is set forth in the PHEFA Indenture.

THE PHEFA INDENTURE

The Series BA Bonds are being issued under and subject to the provisions of the PHEFA Indenture to which reference must be made for complete details of the terms of the Series BA Bonds as well as the Series AI Bonds, the Series AM Bonds, the Series AN Bonds, the Series AO Bonds, the Series AP Bonds, the Series AQ Bonds, the Series AR Bonds, the Series AS Bonds, the Series AT Bonds, the Series AU Bonds, the Series AV Bonds, the Series AW Bonds, the Series AX Bonds, the Series AY Bonds, the Series AZ Bonds and any other Additional PHEFA Bonds which may be issued under the PHEFA Indenture.

(xiii) Pledge and Assignment

The PHEFA Bonds are limited obligations of the Authority payable under the PHEFA Indenture solely from the Trust Estate. Under the PHEFA Indenture, the Pledged Revenues payable to the Authority from the State System under the Loan Agreement and all income and receipts earned on funds held by the Trustee under the PHEFA Indenture have been pledged to the Trustee for the equal and ratable benefit (except as set forth in the PHEFA Indenture) of the Bondowners of all PHEFA Bonds Outstanding under the PHEFA Indenture. The rights of the Authority under the Loan Agreement (other than the rights to receive payment of its Annual Administrative Fees and Administrative Expenses and the Authority's right to receive indemnification pursuant to the Loan Agreement) have been assigned to the Trustee to secure the payment of the PHEFA Bonds and the performance and observance of the covenants in the PHEFA Indenture.

(xiv) Disposition of the Proceeds of the Sale of the Series BA Bonds

Upon the issuance and delivery of the Series BA Bonds, the Authority shall forthwith transfer the proceeds to the Trustee and the Trustee shall deposit the same in the Settlement Account of the Bond Proceeds Fund established under the PHEFA Indenture and the Forty-Ninth Supplemental Indenture to be transferred and applied upon the order of the Authority and approved by the State System. From the proceeds of the Series BA Bonds, the Trustee shall make the following transfers or expenditures from the Settlement Account: (1) amounts representing accrued interest on the Series BA Bonds shall be transferred to an account established in the Revenue Fund and applied to the payment of interest on the Series BA Bonds on the first Interest

Payment Date following issuance thereof, (2) payment of the costs of issuance of the Series BA Bonds shall be paid, and (3) the balance remaining shall be transferred to the Series BA Account of the Revenue Fund for application to the payment of the Series BA Project in accordance with the procedures established in the PHEFA Indenture.

(xv) Additional PHEFA Bonds

Under the PHEFA Indenture, the Authority is authorized to issue, at the request of the State System under the Loan Agreement, Additional PHEFA Bonds for the purpose of undertaking any additional Projects on behalf of the State System or to refund any prior series of PHEFA Bonds Outstanding under the PHEFA Indenture. Such Additional PHEFA Bonds, if issued, will be equally and ratably secured under the PHEFA Indenture with Series AI Bonds, the Series AN Bonds, the Series AO Bonds, the Series AP Bonds, the Series AQ Bonds, the Series AR Bonds, the Series AS Bonds, the Series AT Bonds, the Series AU Bonds, the Series AV Bonds, the Series AW Bonds, the Series AX Bonds, the Series AY Bonds and the Series AZ Bonds except to the extent expressly limited under the PHEFA Indenture.

(xvi) Establishment of Funds

The “Bond Proceeds Fund” established under the PHEFA Indenture shall contain funds deposited therein pursuant to the PHEFA Indenture and shall be expended only (i) to pay the cost of financing a Project, (ii) to pay Costs of issuance, and (iii) to pay accrued and capitalized interest on PHEFA Bonds. Under the PHEFA Indenture, the Trustee is directed to establish separate accounts in which to deposit proceeds of the various series of PHEFA Bonds. Amounts in the Bond Proceeds Fund or any account established therein shall be held for the benefit of all PHEFA Bonds Outstanding under the PHEFA Indenture (other than with respect to any capitalized interest account created for a specific series of PHEFA Bonds which shall be held and applied solely for the particular specified PHEFA Bonds).

Payments shall be made from any account of the Bond Proceeds Fund to pay Costs of each Project, but only upon receipt by the Trustee of the requisitions and certifications required by the PHEFA Indenture. Upon the completion of each Project, evidenced in the manner provided in the PHEFA Indenture, amounts in the applicable account of the Bond Proceeds Fund may, at the option of the Authority upon the direction of the State System, be transferred to the Revenue Fund to be applied to the payment of Debt Service on the applicable series of PHEFA Bonds or to the redemption of PHEFA Bonds or to any other account of the Bond Proceeds Fund to be used to pay costs of additional Projects.

The “Revenue Fund” established under the PHEFA Indenture shall contain Pledged Revenues of the Authority received by the Trustee under the Loan Agreement. Under the PHEFA Indenture, the Trustee is directed to establish separate accounts within the Revenue Fund in connection with each series of PHEFA Bonds. Moneys in the Revenue Fund are pledged for the equal and ratable benefit of all PHEFA Bonds Outstanding under the PHEFA Indenture, except as expressly limited by the PHEFA Indenture.

The Trustee shall pay out of the Revenue Fund the following amounts in the following order, on the dates specified, for the following purposes (i) on each Interest Payment Date, the

amounts required, taking into consideration the amounts otherwise available, for the payment of principal, Sinking Fund Payments, Redemption Price, if any, and interest due on the Outstanding PHEFA Bonds on such date; (ii) on the Redemption Date or date of purchase of PHEFA Bonds the amounts required for the payment of accrued interest on PHEFA Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for; (iii) upon the written direction of the Authority on each Interest Payment Date to the payment of certain fees and expenses of the Trustee, including costs of redemption of PHEFA Bonds; and (iv) all remaining amounts shall be transferred to the Redemption Fund upon the written direction of the Authority at the request of the State System.

The "Redemption Fund" shall contain amounts which are required to be deposited therein pursuant to the PHEFA Indenture and any other amounts available therefor and determined by the State System pursuant to the Loan Agreement to be deposited therein subject to the provisions of the PHEFA Indenture, and the Trustee shall apply all amounts so deposited to the redemption of PHEFA Bonds. At any time prior to the date upon which notice is given that PHEFA Bonds are to be redeemed from such amounts, the Trustee shall apply any amounts in the Redemption Fund to the purchase of any of PHEFA Bonds which may be redeemed by application of such amounts upon the direction of the Authority at the written direction of the State System. The Trustee shall purchase PHEFA Bonds at such times, for such prices, in such amounts and in such manner as the Authority upon written direction of the State System shall from time to time direct.

(xvii) Deposits

In order to permit any amount to be available for use at the time when needed, amounts held under the PHEFA Indenture by the Trustee or any Depositary, as such, may if and as directed by the State System, be deposited in the commercial banking department of the Trustee or Depositary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Trustee or Depositary. The Trustee or Depositary shall allow and credit on such amounts at least such interest, if any, as it customarily allows upon similar funds of similar size and under similar conditions or as required by law.

All amounts deposited by the Trustee or Depositary shall be continuously and fully secured (a) by lodging with the Trustee, as custodian, as collateral security, Investment Securities having a market value (exclusive of accrued interest) not less than the amount of such deposit, and (b) in such manner as may then be required by applicable federal or state laws and regulations regarding security for the deposit of public funds provided that in no event shall such security be in an amount less than such deposit. It shall not be necessary, unless required by applicable law, for the Trustee to give security for the deposit of any amounts to the extent that such deposit is insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or their respective successors, or which are held in trust and set aside by them for the payment of the principal or Redemption Price of or interest on any PHEFA Bonds, or for the Trustee or any Depositary to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys.

All amounts so deposited by the Trustee or Depositary shall be credited to the particular Fund from which such amounts were derived.

(xviii) Investment of Funds

Moneys in any Fund shall be continuously invested and reinvested and/or deposited and redeposited by the Trustee, as permitted in the PHEFA Indenture, as the State System shall direct the Trustee in writing. The State System shall consult with the Trustee from time to time as to the investment of amounts in the Funds and Accounts established or confirmed by the PHEFA Indenture. Except as otherwise provided herein, the State System shall give written directions to the Trustee to invest and reinvest the moneys in said Funds and Accounts in Investment Securities so that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed by the Authority to be so expended. The Investment Securities purchased shall be held by the Trustee and shall be deemed at all times to be part of such Fund or Account, and the Trustee shall keep the Authority and the State System advised as to the details of all such investments.

Except as otherwise provided therein, Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of the PHEFA Indenture shall be deemed at all times to be a part of such Fund, but the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof may be deposited in the Bond Proceeds Fund during the construction period of any Project and thereafter shall be deposited in the Revenue Fund as Pledged Revenues or shall be credited to the Revenue Fund from time to time as Pledged Revenues and reinvested.

Except as otherwise provided herein, the Trustee shall sell at the best price obtainable with reasonable diligence, or present for redemption or exchange, any Investment Security purchased by it pursuant to the PHEFA Indenture whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund for which such investment was made. The Trustee shall advise the Authority and the State System in writing, on or before the twentieth day of each calendar month, or as soon as practicable thereafter of all investments held for the credit of each Fund in its custody under the provisions of the PHEFA Indenture as of the last business day of the preceding month.

(xix) Valuation of Funds

In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at the lower of cost or fair market value.

(xx) Covenants of the Authority

The Authority shall, among other things, promptly pay solely from the Trust Estate the principal or Redemption Price, if any, of every PHEFA Bond and all interest thereon. The Authority shall preserve and protect the pledge of the Trust Estate, Pledged Revenues and other assets and revenues.

The Authority shall at all times do and perform all acts and things necessary in order to assure that interest paid on PHEFA Bonds shall, for the purposes of federal income taxation, be and remain excludable from the gross income of the recipients thereof and be and remain exempt from such taxation.

The Authority shall not permit at any time or times any of the proceeds of PHEFA Bonds or any other funds of the Authority to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any PHEFA Bond to be an “arbitrage bond” as defined in the Code. The Authority shall not permit at any time or times any proceeds of any PHEFA Bonds or any other funds of the Authority to be used, directly or indirectly, in a manner which would result in the exclusion of any PHEFA Bond from the treatment afforded by subsection (a) of Section 103 of the Code.

Notwithstanding any terms, provisions or covenants to the contrary contained in the PHEFA Indenture, the Authority shall not be prohibited from issuing obligations not exempt from federal income taxation so long as the tax-exempt status of any PHEFA Bonds Outstanding immediately prior to the issuance of such taxable obligations shall not be adversely affected thereby.

(xxi) Additional Obligations

The Authority shall not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a superior or equal charge and lien on the revenues and assets pledged under the PHEFA Indenture, except that (i) Additional PHEFA Bonds may be issued from time to time pursuant to a Supplemental Indenture of the Authority subsequent to the issuance of the initial issue of PHEFA Bonds under the PHEFA Indenture on a parity with the PHEFA Bonds of such initial issue of PHEFA Bonds and secured by an equal charge and lien on the revenues and assets pledged under the PHEFA Indenture and payable equally therefrom (except for certain funds held under the PHEFA Indenture); and (ii) Additional PEDFA Bonds may be issued from time to time pursuant to the PEDFA Indenture payable on a parity with the PHEFA Bonds (except for certain funds held under the PEDFA Indenture).

(xxii) Supplements and Amendments

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture of the Authority may be executed and delivered which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority, shall be fully effective in accordance with its terms:

to close the PHEFA Indenture against, or to provide limitations and restrictions in addition to the limitations and restrictions contained in the PHEFA Indenture on, the authentication and delivery of PHEFA Bonds; or

to add to the covenants and agreements of the Authority in the PHEFA Indenture other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the PHEFA Indenture as theretofore in effect; or

to add to the limitations and restrictions in the PHEFA Indenture other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the PHEFA Indenture as theretofore in effect; or

to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the PHEFA Indenture, but only if the surrender of such right,

power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the PHEFA Indenture; or

to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the PHEFA Indenture, of the Pledged Revenues or of any other revenues or assets; or

to modify any of the provisions of the PHEFA Indenture in accordance therewith; or

to provide for the issuance of Additional PHEFA Bonds pursuant to the PHEFA Indenture.

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture may be entered into, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and the Authority of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the PHEFA Indenture; or

to insert such provisions clarifying matters or questions arising under the PHEFA Indenture as are necessary or desirable and are not contrary to or inconsistent with the PHEFA Indenture as theretofore in effect; or

to provide for additional duties of the Trustee.

Any other modification of or amendment to the PHEFA Indenture and of the rights and obligations of the Authority and of the Bondowners of the PHEFA Bonds may be made by a Supplemental Indenture, but only with the written consent of the Bondowners at least two-thirds in principal amount of the PHEFA Bonds Outstanding at the time such consent is given. In case the modification or amendment changes the terms of any Sinking Fund Payment, the written consent of Bondowners at least two-thirds in principal amount of each of the PHEFA Bonds entitled to such Sinking Fund Payment is required. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding PHEFA Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Bondowner of such PHEFA Bond, or shall reduce the percentages or otherwise affect the classes of PHEFA Bonds the consent of the Bondowners which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any fiduciary without its written assent thereto.

Upon the written consent of the Bondowners all the PHEFA Bonds then Outstanding, the terms and provisions of the PHEFA Indenture and the rights and obligations of the Authority and the Bondowners the PHEFA Bonds may be modified or amended in any respect. However, any provision of the PHEFA Indenture expressly recognizing or granting rights in or to a bond insurer

may not be amended in any manner which affects its rights under the PHEFA Indenture without the insurer's prior written consent.

(xxiii) Defaults and Remedies

Events of Default, as defined in the PHEFA Indenture, include, among other things, the following:

the Authority shall default in the payment of the principal of or Redemption Price, if any, on any PHEFA Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; or

payment of any installment of interest on any of the PHEFA Bonds shall not be made as the same shall become due; or

the Authority shall file a petition in bankruptcy or seek a composition of its indebtedness; or

an Event of Default (as defined in the Loan Agreement) under the Loan Agreement; or

the Authority shall fail or refuse to comply with the other provisions of the PHEFA Indenture, or shall default in the performance or observance of any of the other covenants, agreements, or conditions on its part contained in the PHEFA Indenture or the PHEFA Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the Bondowners not less than twenty-five percent (25%) in principal amount of the Outstanding PHEFA Bonds.

Upon the happening and continuance of any Event of Default specified in paragraphs (1) through (3) above, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraphs (4) and (5) above, the Trustee may proceed and, upon the written request of the Bondowners not less than twenty-five percent (25%) in principal amount of the Outstanding PHEFA Bonds, shall proceed, in its own name to protect and enforce the rights of the Bondowners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondowners, including the right to require the Authority to receive and collect revenues, including Pledged Revenues, adequate to carry out the covenants and agreements as to, and to require the Authority to carry out any other covenants or agreements with Bondowners and to perform its duties under the Act;

by bringing suit upon the PHEFA Bond;

by action or suit in equity, to require the Authority to account as if it were the trustee of an express trust for the Bondowners of the PHEFA Bonds;

by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondowners of the PHEFA Bonds; or

by declaring all PHEFA Bonds due and payable and, if all defaults shall be cured, then with the written consent of the Bondowners not less than sixty-six and two-thirds percent (66-2/3%) in principal amount of the Outstanding PHEFA Bonds, by annulling such declaration and its consequences.

Anything in the PHEFA Indenture to the contrary notwithstanding, upon the happening and continuance of an Event of Default with respect to a particular series of PHEFA Bonds, if such PHEFA Bonds are insured by a municipal bond insurance policy, the insurer thereunder shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondowners of such series of PHEFA Bonds or the Trustee for the benefit of the Bondowners of such series of PHEFA Bonds under the PHEFA Indenture.

In the enforcement of any rights and remedies under the PHEFA Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Authority for principal, Redemption Price, interest or otherwise, under any provisions of the PHEFA Indenture or a Supplemental Indenture or of the PHEFA Bonds, with interest on overdue payments at the rate of interest specified in such PHEFA Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such PHEFA Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce a judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

Upon the occurrence of any Event of Default and upon the filing of a suit or commencement of other judicial proceedings to enforce the rights of the Bondowners under the PHEFA Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers for the Authority, but only with respect to the Trust Estate, pending such proceedings, with such powers as the court making such appointment shall confer.

(xxiv) Limitation on Actions by Bondowners

Bondowners shall have no right to pursue any remedy under the PHEFA Indenture unless (a) the Trustee shall have given written notice of an Event of Default, (b) the Bondowners at least 25% in principal amount of the PHEFA Bonds then Outstanding shall have requested the Trustee, in writing, to exercise the powers granted under the PHEFA Indenture or to pursue such remedy, and (c) the Trustee shall have been offered indemnity satisfactory to it against costs, expenses and liabilities.

(xxv) Removal of Trustee

The Trustee shall be removed by the Authority if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Authority and signed by the Bondowners a majority in principal amount of the PHEFA Bonds then Outstanding or their attorney-in-fact duly authorized. The Authority may remove the Trustee at any time, except during

the existence of an Event of Default under the PHEFA Indenture, for such cause as shall be determined in the sole discretion of the Authority.

(xxvi) Defeasance

If the Authority shall pay or cause to be paid to the Bondowners of the PHEFA Bonds, the principal or Redemption Price and interest to become due thereon and make all other payments under the PHEFA Indenture then the pledge of any revenues and assets hereby pledged and all other rights granted thereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Trustee shall pay over and deliver to the Authority all moneys or securities held by it pursuant to the PHEFA Indenture which are not required for the payment or redemption of PHEFA Bonds not theretofore surrendered for such payment or redemption.

All Outstanding PHEFA Bonds and all interest installments appertaining to such PHEFA Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid if (i) in case any of said PHEFA Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to publish notice of redemption on said date of such PHEFA Bonds; (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if any, and interest due and to become due on said PHEFA Bonds on and prior to the redemption Date or maturity date thereof, as the case may be, and (iii) in the event said PHEFA Bonds are not by their terms subject to redemption within the next succeeding sixty days, the Authority shall have given the Trustee irrevocable instructions to mail notice to the Bondowners of such PHEFA Bonds that the deposit required by (ii) above has been made with the Trustee and that said PHEFA Bonds are deemed to have been paid and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said PHEFA Bonds. For purposes of defeasance, Investment Securities shall mean and only such obligations as are described in clauses (1), (2) and (4) of the definition of Investment Securities (to the extent such securities are guaranteed or otherwise secured by the United States of America), or deposits in interest-bearing time or demand deposits or certificates of deposit secured by obligations of the types described in paragraphs (1) and (2) of the definition of Investment Securities.

Notwithstanding anything to the contrary, in the event that the principal and/or interest due on an outstanding series of PHEFA Bonds shall be paid pursuant to a municipal bond insurance policy, such series of PHEFA Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Authority to the Bondowners continue to exist and shall run to the benefit of the insurer under such municipal bond insurance policy who shall also be subrogated to the rights of such registered Bondowners.

THE PEDFA INDENTURE

(i) Issuance of Prior PEDFA Bonds

The Authority issued one series of PEDFA Bonds pursuant to the PEDFA Indenture. From time to time hereafter, upon the authorization and execution by the Authority of a series of Additional PEDFA Bonds and delivery thereof to the trustee under the PEDFA Indenture, and without any further action on the part of the Authority, the Authority may deliver such Additional PEDFA Bonds on the terms and in the aggregate principal amount set forth in the supplement to the PEDFA Indenture related thereto.

(ii) Additional PEDFA Bonds

Conditioned upon the receipt by the trustee under the PEDFA Indenture of the documents and other items required by the PEDFA Indenture, the Authority may delivery Additional PEDFA Bonds from time to time to finance or refinance the Project and Costs of Issuance, to the extent permitted under the PEDFA Indenture and the Funding Agreement, so long as no Event of Default shall have occurred and be continuing under the PEDFA Indenture (as all the preceding terms are defined in the PEDFA Indenture). Each series of Additional PEDFA Bonds shall be delivered pursuant to and evidenced by a supplement to the PEDFA Indenture. Except as otherwise provided in a supplement to the PEDFA Indenture, each series of Additional PEDFA Bonds shall be a on a parity and equally and ratably secured under the PEDFA Indenture as to the Pledged Revenues (as defined in the PEDFA Indenture) with the PEDFA Bonds previously delivered, without preference, priority or distinction of any Additional PEDFA Bonds over any other Additional PEDFA Bonds. All such Additional PEDFA Bonds shall be in substantially the same form as set forth in the PEDFA Indenture, with such changes as are specified in any supplement to the PEDFA Indenture permitted by the PEDFA Indenture.

(iii) Additional and Permitted Indebtedness

Additional PEDFA Bonds may be issued for the purposes described in the PEDFA Indenture. The Authority shall not issue any Additional PEDFA Bonds unless at or prior to the issuance of such Additional PEDFA Bonds there shall be filed with the trustee under the PEDFA Indenture the documents required pursuant to the PEDFA Indenture. Upon receipt of a request of the State System, accompanied by required document, the Authority may, but shall have no obligation to, provide all or any part of the amounts requested by issuance and sale of Additional PEDFA Bonds.

Nothing in the loan agreement executed in connection with the PEDFA Indenture will preclude the State System from incurring Short-Term Indebtedness, Long-Term Indebtedness (other than to the extent set forth below), or Subordinated Indebtedness (as such terms are defined in the PEDFA Indenture).

(1) The State System will not incur any additional indebtedness (including Additional PEDFA Bonds and Additional PHEFA Bonds) for which the State System pledges more than twenty percent (20%) of its Revenues (as defined in the PEDFA Indenture) as security therefor without simultaneously granting an equal or superior lien on such Revenues to the Authority to be assigned to the trustee under the PEDFA Indenture in order to additionally secure the PEDFA Bonds.

(2) In the event that the State System shall grant such a pledge as described in subsection (1) above, the State System will agree to enter into an Intercreditor Agreement in connection therewith and will agree to file any required UCC-1 Financing Statements in connection therewith as provided in the loan agreement associated with the PEDFA Indenture.

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Appendix IV: Form of Opinion of Bond Counsel

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[November] __, 2025

Pennsylvania Higher Educational
Facilities Authority
400 North Street, 6th Floor
Harrisburg, PA 17120

State System of Higher Education
2300 Vartan Way, Suite 207
Harrisburg, PA 17110

The Bank of New York Mellon Trust Company, [Underwriter/Representative]
N.A., as Trustee
1735 Market Street, 9th Floor
Philadelphia, Pennsylvania 19103

Re: \$64,345,000* Pennsylvania Higher Educational Facilities Authority, State System of
Higher Education Revenue Bonds, Series BA

Dear Recipients:

We have acted as Bond Counsel to the Pennsylvania Higher Educational Facilities Authority (the “Authority”) in connection with the issuance of its \$64,345,000* principal amount of its State System of Higher Education Revenue Bonds, Series BA (the “Bonds”) pursuant to the Indenture of Trust dated as of June 1, 1985, as supplemented from time to time (the “Indenture”), including by a Forty-Ninth Supplemental Indenture of Trust dated as of November 1, 2025 (the “Forty-Ninth Supplemental Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., successor as Trustee (the “Trustee”).

The Bonds are being issued for the purpose of financing a project (the “Project”) consisting of: (i) the construction and renovation of certain student housing known as the South Campus Apartments, comprised of eleven (11) facilities (the “West Chester Project”) on the campus of West Chester University of Pennsylvania; (ii) the construction and renovation of certain student housing known as Johnson Hall, comprised of one (1) facility (the “Kutztown Project,” and together with the West Chester Project, the “Project”) on the campus of Kutztown University of Pennsylvania; (iii) the payment of capitalized interest on the Series BA Bonds through December 15, 2027; and (iv) contingencies and payment of costs and expenses incident to the issuance of the Series BA Bonds.

To effect the financing of the Project, the Authority and the State System of Higher Education (the “System”) will execute and deliver a certain Forty-Ninth Supplemental Loan and Security Agreement dated as of November 1, 2025 (the “Forty-Ninth Supplemental Agreement”), which amends and supplements the Loan and Security Agreement dated as of June 1, 1985, as supplemented from time to time (the “Loan Agreement”) between the Authority and the System pursuant to which the Authority will lend the proceeds of the Series Bonds to the System and the System unconditionally agrees to pay the principal of, and interest on such loan, in installment amounts, and at times, sufficient to, among other things, pay the principal of, and interest on, the Bonds when and as the same shall become due, subject to the terms and conditions of the Loan Agreement and the Indenture.

We have examined (i) an executed copy of the Indenture, (ii) the Loan Agreement, (iii) the form of Bonds, and (iv) such constitutional and statutory provisions and such other resolutions, certificates, instruments and documents as we have deemed necessary or appropriate in order to enable us to render an informed opinion as to matters set forth herein.

In rendering this opinion we have assumed the genuineness of all signatures on all documents and certificates that we examined, the legal capacity and authority of all persons executing such documents, the authenticity of all documents submitted to us as originals, and the conformity to originals of all documents submitted to us as copies and the authenticity of the originals of said copies. As to questions of fact material to our opinion, we have relied upon the opinions of counsel to the Authority and the System, the representations of the Authority and the System contained in the Indenture and the Loan Agreement, in certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

We express no opinion herein relating to the accuracy, completeness or sufficiency of the Preliminary Official Statement or Official Statement pertaining to the Bonds or any other offering material relating to the Bonds and make no representation that we have independently verified the contents of any such offering material, including the appendices thereto.

The Authority has covenanted in the Forty-Ninth Supplemental Indenture and the System has covenanted in the Forty-Ninth Supplemental Loan Agreement, with respect to the Bonds, to comply with the requirements of Section 148(f) of the Code which provides for the rebate of certain arbitrage profits to the United States. For the purposes of the opinions set forth below, we have assumed that the Authority and the System will comply with the covenants set forth in the Forty-Ninth Supplemental Indenture, the Forty-Ninth Supplemental Loan Agreement, and the Joint Tax Certificate dated the date hereof relating to the tax exempt status of interest on the Bonds. Based upon the foregoing, it is our opinion, under existing law and as of the date hereof, subject to the qualifications and limitations set forth herein, that:

1. The Authority is a body corporate and politic constituting a public corporation and a government instrumentality organized and existing under the Pennsylvania Higher Educational Facilities Authority Act of December 6, 1967, P.L. 678, No. 318, as amended (the "Act"), of the Commonwealth of Pennsylvania and has the power to undertake the Project, to enter into the transactions contemplated by the Indenture and the Loan Agreement and to carry out its obligations thereunder.
2. The Forty-Ninth Supplemental Indenture and the Forty-Ninth Supplemental Loan Agreement have been duly authorized, executed and delivered by the Authority and constitute the valid and binding obligations of the Authority enforceable against it in accordance with their respective terms.
3. The Series BA Bonds have been duly and validly authorized, executed, issued and delivered by the Authority and constitute the valid and binding limited obligations of the Authority enforceable against it in accordance with their terms, payable from the sources provided therefor in the Indenture.
4. All right, title and interest of the Authority in and to the installment payments due under the Loan Agreement have been duly assigned to the Trustee (except for the fees and expenses payable to the Authority and the Authority's right to indemnification).
5. Under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of issuance of the Bonds, the interest on the Bonds is exempt from the Commonwealth personal income tax and the Commonwealth corporate net income tax, but this exemption shall not extend to gift, estate, succession or inheritance taxes or other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains or income derived from the sale, exchange or other disposition of the Bonds, are subject to state and local taxation within the Commonwealth.

6. Interest (including original issue discount) on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), under existing laws as enacted and construed on the date hereof, assuming the accuracy of the certifications of the Authority and the System and continuing compliance by the Authority and the System with the requirements of the Code. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest is taken into account in determining the "adjusted financial statement income" (as defined in Section 56A of the Code) of "applicable corporations" (as defined in Section 59 of the Code) for purposes of computing the alternative minimum tax imposed on such corporations.
7. [Original issue premium on a Bond issued at an issue price that exceeds its principal amount is amortizable periodically over the term of a Bond through reductions in the holder's tax basis for the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortization of premium does not create a deductible expense or loss.]

Except as set forth in paragraphs 6 and 7 above, we express no opinion regarding other federal tax consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The rights of any owner of the Bonds and the enforceability of the Bonds, the Indenture, and the Loan Agreement are subject to: (a) the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or a court of equity), including judicial limitations on rights to specific performance; (b) the valid exercise of the constitutional powers of the United States of America and of the sovereign police and taxing powers of state or other governmental units having jurisdiction; and (c) bankruptcy, insolvency, reorganization, moratorium or other similar laws heretofore or hereafter in effect affecting creditors' rights, to the extent constitutionally applicable.

This opinion letter is rendered on the basis of federal law and the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof. We undertake no obligation to update or supplement this letter under any circumstance including if, after the date hereof, facts or events come to our attention or changes in law occur which could affect the opinions expressed herein. We express no opinion herein as to any matter not set forth in the numbered sections above.

Attention is called to the facts that the Bonds are limited obligations of the Authority, payable only out of the revenues of the Authority pledged under the Indenture and certain other moneys available therefor as provided in the Indenture; that the Bonds do not pledge the credit or taxing power of the Commonwealth of Pennsylvania or any political subdivision thereof; and that the Authority has no taxing power.

Very truly yours,

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Appendix V: Form of Continuing Disclosure Agreement

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CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is dated as of November 1, 2025, between the STATE SYSTEM OF HIGHER EDUCATION (the “System”), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as dissemination agent (the “Dissemination Agent”),

WITNESSETH:

WHEREAS, on October 28, 2025, pursuant to a competitive bid awarded to [Underwriter] with respect to the Series BA Bonds (as defined below), on behalf of itself and others (collectively, the “Underwriters”), the Pennsylvania Higher Educational Facilities Authority agreed to sell its \$[64,345,000] State System of Higher Education, Revenue Bonds, Series BA (the “Bonds”) to the Underwriters; and

WHEREAS, the proceeds of the Bonds are being loaned to the System by the Authority pursuant to a Loan and Security Agreement dated as of June 1, 1985, between the Pennsylvania Higher Educational Facilities Authority (the “Authority”) and the System, as previously supplemented and as further supplemented by a Forty-Ninth Supplemental Loan and Security Agreement dated as of November 1, 2025, between the Authority and the System (as so supplemented, the “Loan Agreement”); and

WHEREAS, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), provides that a Participating Underwriter (as defined in the Rule) shall not purchase or sell municipal securities in connection with an Offering (as defined in the Rule) unless the Participating Underwriter has reasonably determined that an issuer of municipal securities, or an obligated person for whom financial or operating data is presented in the final official statement, has undertaken, either individually or in combination with other issuers of such municipal securities or obligated persons, in a written agreement or contract for the benefit of holders of such securities, to provide, either directly or indirectly through an indenture trustee or a designated agent, certain specified financial information and operating data and notices of certain material events; and

WHEREAS, the System is the only “obligated person” with respect to the Bonds for purposes of the Rule; and

WHEREAS, in order to induce the Participating Underwriter to purchase the Bonds, the System desires to undertake to provide the information and notices required by the Rule;

NOW, THEREFORE, in consideration of the premises, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Definitions. In addition to the terms defined in the above recitals, the following terms shall have the meanings specified below:

“Annual Financial Information” shall mean the annual financial information to be provided annually containing the information specified in Schedule 1 hereto, as such schedule may be amended as provided herein.

“Bondowner” or “Bondowners” shall mean the registered owners, holders and/or beneficial owners from time to time of the Bonds.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB as provided at <http://www.emma.msrb.org> or any similar system that is acceptable to or as may be specified by the Securities and Exchange Commission from time to time.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

“Fiscal Year” shall mean, in the case of the System, the fiscal year of the System as determined from time to time by the System (currently the System’s Fiscal Year begins on July 1 of each calendar year and ends on June 30 of the following calendar year).

“Indenture” shall mean the Indenture of Trust dated as of June 1, 1985, between the Authority and The Bank of New York Mellon Trust Company N.A., as successor trustee, as previously supplemented and as further supplemented by a Forty-Ninth Supplemental Indenture of Trust dated as of November 1, 2025, pursuant to which the Bonds are being issued.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Reportable Event” shall mean any of the events listed on Schedule 2 hereto with respect to the Bonds.

“Trustee” shall mean The Bank of New York Mellon Trust Company, N.A., as successor trustee under the Indenture.

Section 2. Covenants of the System. The System covenants to comply with all requirements of the Rule. In furtherance of the foregoing, and without limiting the generality thereof, the System agrees to provide to EMMA and to the Dissemination Agent, the Annual Financial Information within one hundred fifty (150) days following the end of each Fiscal Year of the System and to provide notice after the occurrence of any Reportable Event, in a timely manner not in excess of ten (10) business days, to EMMA. In addition, the System covenants to provide notice in a timely manner to EMMA of a failure by the System to provide the Annual Financial Information as and when specified in the preceding sentence. At the same time that the System provides any Annual Financial Information or any notice to EMMA, the System shall provide a copy to the Authority and the Trustee. Financial statements will be prepared in accordance with generally accepted accounting principles. In the event that audited financial statements for any Fiscal Year are not available within one hundred fifty (150) days after the end of such Fiscal Year, the System shall provide its unaudited financial statements for such Fiscal Year and shall provide the audited financial statements as soon as practicable after they become available for distribution.

The System represents and warrants that it is currently in compliance with its continuing disclosure obligations under the Rule with respect to obligations issued on its behalf prior to the date hereof. The Trustee shall have no duty to review, verify or analyze the Annual Financial Information or financial statements delivered to it hereunder and shall hold such Annual Financial Information and financial statements solely as a repository for the benefit of the Bondowners. The Trustee shall not be deemed to have notice of any information contained therein, or default or Event of Default (as defined in the Indenture) which may be disclosed therein in any manner.

Section 3. Duties of Dissemination Agent; Fees and Expenses.

(a) If, within 15 days prior to the applicable date specified in Section 2 hereof, the Dissemination Agent has not received a copy of the applicable Annual Financial Information, the Dissemination Agent shall notify the System and the Authority of such fact. The Dissemination Agent shall also notify the System and the Authority within two (2) business days of the occurrence of any Reportable Event of which a responsible officer of the Dissemination Agent's designated Global Corporate Trust office has actual knowledge. In notifying the System and the Authority of such Reportable Event, the Dissemination Agent shall not be required to determine the materiality of such Reportable Event, or determine whether an unscheduled draw reflects financial difficulties.

(b) The Dissemination Agent shall have no responsibility or liability in connection with the System's filing obligations under this Disclosure Agreement, and it shall have no responsibility to review, and shall not be responsible for, the contents of any Annual Financial Information or Reportable Events report filed hereunder. The Dissemination Agent shall have only those duties specifically set forth in this Disclosure Agreement and no other duties shall be implied. Anything in this Disclosure Agreement to the contrary notwithstanding, in no event shall the Dissemination Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Dissemination Agent has been advised of the likelihood of such loss or damage and regardless of the form of action. The System shall pay the reasonable fees of the Dissemination Agent (as agreed to by the System and the Dissemination Agent) and shall, upon written request, promptly reimburse the Dissemination Agent for reasonable expenses of the Dissemination Agent incurred in carrying out its duties hereunder. This Section 3(b) shall survive the termination of this Disclosure Agreement or the removal or resignation of the Dissemination Agent or the System.

(c) The Dissemination Agent may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Dissemination Agent may consult with counsel and the advice or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in accordance with such advice or opinion of counsel. The Dissemination Agent may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed. None of the provisions of this Disclosure Agreement shall require the Dissemination Agent to expend or risk its own funds or otherwise to incur any financial liability in the performance of any of its duties hereunder. This provision shall not be construed to limit the sovereign immunity of the Commonwealth of Pennsylvania or the System.

Section 4. Termination of Reporting Obligations. The System's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the System's obligations under the Loan Agreement are assumed in full by some other entity and the System has been released from its obligations under the Loan Agreement with respect to the Bonds in connection therewith, such other entity shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the System and the System shall have no further responsibility hereunder except as provided in Section 3. In addition, the System's obligation to provide information and notices as specified in Section 2 hereof shall terminate at such other times as such information and notices (or any portion thereof) are no longer required to be provided by the Rule as it applies to the Bonds.

Section 5. Amendment. The System and the Dissemination Agent may amend this Disclosure Agreement, including amendments deemed necessary or appropriate in the judgment of the

System (whether to reflect changes in the availability of information or in accounting standards or otherwise), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the undertakings of the System contained in Section 2 hereof or to Schedule 1 hereto, and such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the System or the type of business or operations conducted by the System;

(b) The undertakings contained in this Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment either (i) is approved by the Bondowners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondowners of the Bonds, the Authority or the Dissemination Agent.

(d) The System shall provide notice of any amendment to this Disclosure Agreement to EMMA in a timely manner. Before being required to execute any proposed amendment to this Disclosure Agreement, the Dissemination Agent shall be provided with an opinion of counsel reasonably satisfactory to it to the effect that such proposed amendment is permitted under this Section 5.

Section 6. Remedies for Default. In the event of a breach or default by the System of its covenants to provide Annual Financial Information and notices as provided in Section 2 hereof, or a breach or default by the Dissemination Agent hereunder, the Dissemination Agent or any Bondowners of Bonds shall have the right, but not the obligation, to bring an action in a court of competent jurisdiction to compel specific performance by the System, or the Dissemination Agent, as applicable. No monetary damages may be recovered under any circumstances for any breach or default by the System of its covenants hereunder. A breach or default under this Disclosure Agreement shall not constitute an Event of Default under the Indenture or the Loan Agreement.

Section 7. Reimbursement of Authority and Dissemination Agent. The Authority shall have no responsibility or liability for this Disclosure Agreement or the System's obligations, including filing obligations, under this Disclosure Agreement, including, without limitation, financial information, operating data or notices provided under this Disclosure Agreement or for the contents of such filings or omissions therefrom. The System agrees to compensate and reimburse (to the extent permitted by law) the Authority, the Dissemination Agent and their respective members, officers, directors, employees and agents for any claims, loss, expense (including reasonable attorney's fees and expenses) or liability arising from or based upon this Disclosure Agreement and the transactions contemplated hereunder, including, without limitation, (i) any breach by the System of this Disclosure Agreement or (ii) any Annual Financial Information or notices provided under this Disclosure Agreement or any omissions therefrom, the foregoing agreement being conditioned upon a final determination of liability on the part of the System being first established by a court of law. This provision may not be construed to limit the sovereign immunity of the Commonwealth of Pennsylvania or the System. This Section 7 shall survive the termination of this Disclosure Agreement and the earlier removal or resignation of the Dissemination Agent.

Section 8. Miscellaneous.

(a) Binding Nature of Agreement. This Disclosure Agreement shall be binding upon the System and the Dissemination Agent and inure to the benefit of the System, the Authority and the Dissemination Agent and their respective successors and assigns.

(b) Notices. All notices and other communications required or permitted under this Disclosure Agreement shall be in writing and shall be deemed to have been duly given, made and received only when delivered (personally, by recognized national or regional courier service, or by other messenger, for delivery to the intended addressee) or when deposited in the United States mails, registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

i) If to the Authority:

Pennsylvania Higher Educational Facilities Authority
400 North Street
6th Floor
Harrisburg, PA 17120
Attention: Executive Director

ii) If to the Dissemination Agent:

The Bank of New York Mellon Trust Company, N.A.
1735 Market Street, 8th FL
Philadelphia, PA 19103
Attention: Global Corporate Trust

iii) If to the System:

State System of Higher Education
2300 Vartan Way, Suite 207
Harrisburg, Pennsylvania 17110
Attention: Executive Vice Chancellor

Any party may alter the address to which communications are sent by giving notice of such change of address in conformity with the provision of this Section for the giving of notice.

(c) Execution in Counterparts. This Disclosure Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Disclosure Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

(d) Controlling Law. This Disclosure Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania and the Rule (including any successor rule or regulation thereto).

(e) Resignation. The Dissemination Agent may resign and thereby become discharged from the duties as such under this Disclosure Agreement by notice given in accordance with subsection (b) above, such resignation to become effective on the earlier of the tenth (10th) day following the System's

receipt of such notice (or at such different date as stated in such notice) or the effective date of the System's appointment of a new Dissemination Agent under this Disclosure Agreement.

(f) Successor Dissemination Agent. Any corporation or association into which the Dissemination Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Dissemination Agent in its individual capacity shall be a party, or any corporation or association to which all or substantially all of the corporate trust business of the Dissemination Agent in its individual capacity may be sold or otherwise transferred, shall be the Dissemination Agent hereunder without further act, provided that the Dissemination Agent shall provide the Authority and the System with at least thirty (30) days prior written notice of such merger, conversion, consolidation or sale.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Continuing Disclosure Agreement as of the date first written above.

STATE SYSTEM OF HIGHER EDUCATION

By: _____
Sharon P. Minnich,
Executive Vice Chancellor

**THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Dissemination Agent**

By: _____
Rhonda J. Brannon,
Vice President

Schedule 1

Annual Financial Information

The System will provide financial and operating data, including audited financial statements, generally consistent with the following information contained in Appendix I of the Official Statement dated October 20, 2025, relating to the Bonds (the “Official Statement”) within one hundred fifty (150) days following the end of each Fiscal Year of the System beginning with the Fiscal Year ending June 30, 2026: Accreditation; Degrees Awarded; Enrollment; Application and Admissions; Tuition, Student Fees and Competition; Freshman Enrollment Composition; Student Financial Aid; Commonwealth Appropriations; Unrestricted Net Assets; Faculty and Staff; and Outstanding Indebtedness.

Schedule 2

Reportable Events

The following events with respect to the Bonds shall constitute Reportable Events:

1. principal and interest payment delinquencies
2. non-payment related defaults, if material
3. unscheduled draws on debt service reserves reflecting financial difficulties
4. unscheduled draws on credit enhancements reflecting financial difficulties
5. substitution of credit or liquidity providers, or their failure to perform
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds
7. modifications to rights of Bondowners of the Bonds, if material
8. bond calls, if material, and tender offers
9. defeasances of the Bonds
10. release, substitution or sale of property securing repayment of the Bonds, if material
11. rating changes
12. bankruptcy, insolvency, receivership or similar event of the System
13. the consummation of a merger, consolidation, or acquisition involving the System or the sale of all or substantially all of the assets of the System other than in the ordinary course of business, or the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. the appointment of a successor or additional trustee or the change of name of a trustee, if material
15. the incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect securities holders, if material
16. a Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties
17. failure to provide annual financial information as required

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