Net Assets

Net assets consist of the following at June 30, 2021:

(in thousands of dollars)	
Net assets without donor restrictions:	
Designated for specific purposes:	
Health System	$ 1,627,785
Designated for plant activities	1,524,081
Funds functioning as endowments	1,263,825
Operating general funds carryforward	1,018,758
Unit managed non-general funds	256,689
Designated for scholarships	131,195
Designated for postretirement benefits	(370,630)
Designated for pension prefunding	(1,025,633)
Other designated net assets	252,053
Total designated for specific purposes	4,678,123
Net investment in plant	3,615,323
Non-controlling interest	322,165
Total net assets without donor restrictions	$ 8,615,611
Net assets with donor restrictions:	
Endowment funds	$ 3,373,624
Future contributions	228,797
Split-interest agreements	125,432
Contributions for property, plant and equipment	43,893
Student loan funds	19,314
Total net assets with donor restrictions	$ 3,791,060
Total net assets	$ 12,406,671

Net assets without donor restrictions that are designated for specific purposes have been designated at the discretion of management.

Income Taxes

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

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *"Leases."* This update, and the subsequent other ASUs impacting ASC Topic 842, requires substantial changes to lease accounting to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and this guidance is the recognition of assets associated with a lessee's right to use an asset and corresponding lease liabilities associated with a lessee's obligation for those leases classified as operating under previous GAAP. This update was effective for the University beginning July 1, 2020. The provisions of this update were applied using the optional modified retrospective transition method provided in ASU 2018-11 that resulted in the adoption date of the new standard being the application date. The University elected the transition package of three practical expedients, which eliminates the need to reassess prior conclusions about lease identification, lease classifications, and initial direct costs when transitioning to the new standard. The University did not elect the use-of-hindsight practical expedient, and therefore will continue to utilize remaining lease terms as determined under the legacy ASC Topic 840 lease guidance. The University will use its

incremental borrowing rate as the discount rate as determined at the effective date of the requirements and as based on the remaining term of the lease at that point. When transitioning to the new lease accounting standard, the University calculated the ROU asset and lease liability on the basis of the remaining ASC Topic 840 minimum rental payments and lease term as of the effective date of the standard, with the ROU asset further adjusted by any unamortized lease incentives, prepaid rent, and straight-line rent accrual as of the effective date. As of July 1, 2020, the University recognized an operating lease ROU asset and an operating lease liability of approximately $148.0 million, respectively. The standard had a material impact on the University's consolidated statement of financial position; however, it did not have an impact on the consolidated statement of activities or the consolidated statement of cash flows, and there was no adjustment to beginning net assets.

In August 2018, the FASB issued ASU 2018-13, *"Fair Value Measurement; Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement."* This update modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement and was effective for the University beginning July 1, 2020. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *"Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815); Clarifying the Interactions between Topic 321, Topic 323, and Topic 815."* This update clarifies the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. This update is effective for the University beginning July 1, 2022 with early adoption permitted. The University is currently evaluating the impact this guidance may have on its consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *"Not-for-Profit Entities; Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets."* This update requires a not-for-profit entity to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. In addition, not-for-profit entities are required to disclose additional qualitative and quantitative information related to nonfinancial assets. This update is effective for the University beginning July 1, 2021 with early adoption permitted. The University is currently evaluating the impact this guidance may have on its consolidated financial statements.

Coronavirus Pandemic

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

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

Under CARES and CRRSAA, the University received an allocation of $55.0 million for emergency aid to students and $85.0 million for institutional needs. The University distributed student emergency grants of $30.8 million during 2021 with the disbursement of funds presented within academic and student services expense and the associated revenue captured in United States Government grants and contracts in the consolidated statement of activities. Revenues of $85.0 million were also recognized as United States Government grants and contracts in the consolidated statement of activities in 2021 related to the institutional portion of the allotted funds. The institutional funds were used to offset lost tuition revenues, refunds for housing and dining services, and COVID testing costs. Both CARES and CRRSAA funding were fully utilized at June 30, 2021.

Under ARP, the University was allotted $76.2 million for direct emergency aid to students and $73.8 million for institutional purposes. At June 30, 2021, the University has not drawn on the ARP funds and, therefore, no revenue has been recorded.

As allowed by the CARES Act, at June 30, 2021, the University has deferred payment of $68.0 million for the employer portion of Social Security payroll tax, which is included in accounts payable and other accrued expenses and other liabilities in the consolidated statement of financial position. Fifty percent of the deferred tax credit must be paid by December 31, 2021 with the remainder by December 31, 2022.

The CARES Act revised the Medicare accelerated payment program ("Medicare APP"). For the year ended June 30, 2020, the Health System received approximately $160.3 million of Medicare APP funding under this program which is recorded as accounts payable and other accrued expenses in the consolidated statement of financial position. The Health System has not received additional Medicare APP funding during the year ended June 30, 2021. On October 1, 2020, the Continuing Appropriations Act, 2021 and Other Extensions Act ("Act") was passed, which revised the Medicare APP repayment terms and interest rate for amounts received between the passage of the CARES Act and the end of the COVID-19 public health emergency. The Act delays the beginning of the recoupment of the advance payments to twelve months after the receipt of Medicare APP funds and extends the full repayment term to twenty-nine months. In addition, the Act caps recoupments at 25% for the last eleven months of repayment and 50% for the following six months. The interest is capped at 4% for amounts that remain outstanding at the end of the revised recoupment period. Through the acquisition of Holy Spirit Medical Center and Spirit Physicians, Inc., an additional $27.9 million was recorded as a contract liability during 2021. Recoupment of Medicare APP funds were approximately $23.0 million for the year ended June 20, 2021. As of June 20, 2021, Medicare APP funds of $117.1 million are recorded in accounts payable and other accrued expenses within the consolidated statement of financial position. As of June 30, 2021, Medicare APP funds of $48.2 million are recorded in other liabilities within the consolidated statement of financial position.

Also, during the year ended June 30, 2021, the Health System received approximately $77.9 million from the Public Health and Social Services Emergency Fund ("Provider Relief Fund") of which $87.1 million (including $9.1 million received and deferred at June 30, 2020) has been recognized in Health System revenue within the consolidated statement of activities. Providers who have been allocated a Provider Relief Fund payment must sign an attestation confirming receipt of the funds and agreeing to certain terms and conditions of payment. Amounts recognized in Health System revenue within the consolidated statement of activities are subject to uncertainty as new or revised guidance is released regarding the treatment of the funds. In September 2021, the Health System completed the submission to the Department of Health and Human Services through the on-line portal for Provider Relief Funds received between April 10, 2020 through June 30, 2020. Final approval of the submission has not been received.

The University is unable to quantify the impact that the COVID-19 pandemic will have on continuing financial results during fiscal year 2022, as the impact of COVID-19 will depend on future developments, including the duration of the outbreak and the related advisories and restrictions. The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic mission.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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

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

In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows, which identifies the sources and

uses of the University's cash and shows positive cash generated by operations for the year ended June 30, 2021.

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

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

The following reflects the University's financial assets as of June 30, 2021, reduced by amounts not available for general use within one year. Certain long-term investments could be liquidated if needed based on the terms of their agreements.

(in thousands of dollars)	
Total assets	$ 19,878,734
Less:	
Inventories	(72,604)
Prepaid expenses and other assets	(196,046)
Total investment in plant, net	(6,619,801)
Beneficial interest in perpetual trusts	(29,931)
Operating lease right-of-use assets	(146,215)
Other assets	(201,914)
Total financial assets	12,612,223
Less:	
Noncurrent investments	(8,553,375)
Contractual or donor-imposed restrictions:	
Deposits held by bond trustees	(48,520)
Deposits held for others	(45,690)
Receivables subject to time restrictions	(40,714)
Receivables subject to donor-imposed restrictions	(143,715)
Loans to students, net	(42,912)
Financial assets available to meet cash needs for general expenditures within one year	$ 3,737,297

4. INVESTMENTS

Investments by major category as of June 30, 2021 are summarized as follows:

(in thousands of dollars)	
Fixed income	$ 3,782,575
Equity investments	4,823,628
Real assets	469,251
Opportunistic	689,446
Total	$ 9,764,900

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

Equity index and treasury note futures contracts comprise the University's beneficially held derivative instruments as of June 30, 2021 and are included in the fair value of the University's investments. These contracts are fully cash collateralized and marked to market daily. Futures contracts have minimal credit risk because the counterparties are the exchanges themselves and are employed as a low-cost investment vehicle with daily liquidity which allows the University to maintain desired market exposure considering irregular cash flows. Derivative securities were immaterial as of June 30, 2021.

The following schedules summarize the investment return and its classification in the consolidated statement of activities for the year ended June 30, 2021:

(in thousands of dollars)	Without donor restrictions	With donor restrictions	Total
Investment income	$ 196,619	$ 14,492	$ 211,111
Net realized gains, including endowment spending	144,522	100,527	245,049
Net unrealized gains	649,663	739,379	1,389,042
Total returns	$ 990,804	$ 854,398	$ 1,845,202

5. ENDOWMENT NET ASSETS

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

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

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

From time to time, due to unfavorable market fluctuations, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund, while other assets are unaffected to the same extent and maintain or exceed the level required. Such deficiencies are reported as net assets with donor restrictions. As of June 30, 2021, funds with an original gift value of $6.2 million were "underwater" by $2.2 million. Subsequent investment gains will be used to restore the balance up to the fair market value of the original gift.

Endowment net asset composition by type of fund as of June 30, 2021:

(in thousands of dollars)	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 3,335,969	$ 3,335,969
Funds functioning as Endowments	1,259,586	-	1,259,586
Total net assets	$ 1,259,586	$ 3,335,969	$ 4,595,555

Changes in endowment net assets for the years ended June 30, 2021:

(in thousands of dollars)	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of the year	$ 922,801	$ 2,424,281	$ 3,347,082
Endowment return, net	436,605	812,502	1,249,107
Contributions	-	99,186	99,186
Endowment spending	(132,693)	-	(132,693)
Transfers to create funds functioning as endowments	32,873	-	32,873
Endowment net assets, end of the year	$ 1,259,586	$ 3,335,969	$ 4,595,555

Not included above are the endowment net assets of subsidiaries of $42.1 million as of June 30, 2021.

The University has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable stream of funding to programs supported by its endowment while seeking to maintain, over time, the purchasing power of the endowment assets. The overall management objective for the University's pooled endowment funds is to preserve or grow the real (inflation-adjusted) purchasing power of the assets through a prudent long-term investment strategy. This objective would be achieved on a total return basis. Under these policies, as approved by the Board of Trustees and the Penn State Investment Council, the primary investment objective of the University's pooled endowment is to attain a real total return (net of investment management fees) that at least equals a total annual effective spending rate of 5.25% (program spending of 4.5% plus administrative costs of 0.75%) over the long term. To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The endowment assets of the University are invested in a broad range of equities and fixed income securities, thereby limiting the market risk exposure in any one institution or individual investment. The University has a policy of appropriating for distribution each year a certain percentage (4.5% for 2021) of its pooled endowment fund's average fair market value over the prior five years preceding the fiscal year in which the distribution is planned. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to provide generous current spending while preserving "intergenerational equity". This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns.

6. FAIR VALUE MEASUREMENTS

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

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date. Such instruments valued at Level 1 primarily consist of securities that are directly held and actively traded in public markets.

Level 2 – Inputs other than unadjusted quoted prices that are observable for the asset or liability, directly or indirectly, including quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

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

The following table presents information as of June 30, 2021 about the University's financial assets and liabilities, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement or net asset value (NAV) per share:

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Long-term Investment Pool:					
Fixed income					
Public separate accounts	$ 174	$ 577,871	$ -	$ -	$ 578,045
Public funds	127,368	-	-	-	127,368
Private funds	-	-	-	398,281	398,281
Equity investments					
Public separate accounts	669,086	-	-	-	669,086
Private separate accounts	-	-	1,308	-	1,308
Public funds	109,826	-	-	-	109,826
Private funds	-	-	-	3,650,925	3,650,925
Real assets					
Public funds	86,762	-	-	-	86,762
Private funds	-	-	-	380,894	380,894
Opportunistic					
Private funds	-	-	-	481,889	481,889
Total	$ 993,216	$ 577,871	$ 1,308	$ 4,911,989	$ 6,484,384
Operating Investments:					
Fixed income					
Public separate accounts	$ 4,962	$ 2,221,167	$ -	$ -	$ 2,226,129
Public funds	310,045	-	-	-	310,045
Private funds	-	-	-	142,707	142,707
Equity investments					
Public separate accounts	25,437	5	-	-	25,442
Private separate accounts	-	-	1	420	421
Public funds	292,129	-	-	-	292,129
Private funds	-	-	4,783	69,708	74,491
Real assets					
Private separate accounts	-	-	7	-	7
Public funds	1,473	-	-	-	1,473
Private funds	-	-	-	115	115
Opportunistic					
Private funds	-	-	-	207,557	207,557
Total	$ 634,046	$ 2,221,172	$ 4,791	$ 420,507	$ 3,280,516

	Level 1	Level 2	Level 3	NAV	Total
Deposits held by bond trustees:					
Fixed income					
Public funds	$ 17,922	$ -	$ -	$ -	$ 17,922
U.S. dollar cash	-	-	-	-	30,598
Total	$ 17,922	$ -	$ -	$ -	$ 48,520
Beneficial interest in perpetual trusts	$ -	$ -	$ 29,931	$ -	$ 29,931
Liabilities:					
Present value of annuities payable	$ -	$ -	$ 64,917	$ -	$ 64,917

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

The Long-Term Investment Pool (LTIP) is a mutual fund-like vehicle used for investing the University's endowment funds, funds functioning as endowments, and other operating funds that are expected to be held long-term. A unit method of accounting for the LTIP is utilized by the University. Each participating fund enters and withdraws from the LTIP based on monthly unit values. As of June 30, 2021, the fair value of endowment funds and funds functioning as endowments within the LTIP totaled $4,630.9 million. As of June 30, 2021, the fair value of operating funds included in the LTIP totaled $1,853.5 million.

The following tables present information related to changes in Level 3 for each category of financial assets and liabilities for year ended June 30, 2021:

(in thousands of dollars)	Long-Term Investment Pool	Operating Investments	Beneficial Interest in Perpetual Trusts
Assets:			
Beginning balance	$ -	$ 5,132	$ 24,509
Total realized and unrealized (losses) gains	-	(331)	5,422
Net transfers in (out)	1,308	(10)	-
Ending balance	$ 1,308	$ 4,791	$ 29,931

	Present Value of Annuities Payable
Liabilities:	
Beginning balance	$ 56,564
Actuarial adjustment of liability	8,435
Gifts	1,160
Sales	(1,242)
Ending Balance	$ 64,917

During 2021, the ownership structure of some University private assets was reassessed and moved from a private fund NAV classification to private separate account Level 3 classification to reflect direct ownership of the investments.

The following table presents the fair value and redemption frequency for private funds' investments whose fair value is not readily determinable and is estimated using NAV or its equivalent as of June 30, 2021:

(in thousands of dollars)	Ending Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Funds With Redemption Ability:				
Fixed income investments	$ 421,442		Monthly	10 days
Equity investments	2,043,168		Daily/Monthly Quarterly	2-90 days
Real asset investments	136,802		Daily/Monthly	Same day
Opportunistic investments	610,372		Daily/Quarterly	0-90 days
Subtotal	$ 3,211,784			
Private Funds Without Redemption Ability:				
Fixed income investments	$ 119,546	$ 116,250		
Equity investments	1,677,885	439,753		
Real asset investments	244,207	161,880		
Opportunistic investments	79,074	56,100		
Subtotal	$ 2,120,712	$ 773,983		
Total	$ 5,332,496	$ 773,983		

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

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

Unfunded commitments represent remaining commitments of the LTIP's drawdown funds as of June 30, 2021.

7. CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows as of June 30, 2021:

(in thousands of dollars)	
In one year or less	$ 45,821
Between one year and five years	85,599
More than five years	122,100
Contributions receivable, gross	253,520
Less allowance	(1,415)
Less discount	(45,459)
Contributions receivable, net	$ 206,646

Contributions received during the year ended June 30, 2021 are discounted at rates ranging from 0.07% to 1.75%. The discount rates for prior periods ranged from 0.11% to 6.28%.

At June 30, 2021 the University has received bequest intentions of $714.0 million, and certain other conditional promises to give of $57.5 million. These intentions and conditional promises to give are not included in the consolidated financial statements.

The following table summarizes the change in contributions receivable, net during the year ended June 30, 2021:

(in thousands of dollars)	
Balance at the beginning of year	$ 208,587
New pledges	59,821
Collections on pledges	(65,194)
Decrease in allowance	2,410
Decrease in unamortized discounts	1,022
Balance at the end of year	$ 206,646

8. LONG-TERM DEBT

The various bond issues, notes payable and capital lease obligations that are included in long-term debt in the statement of financial position consist of the following at June 30, 2021:

(in thousands of dollars)	
The Pennsylvania State University Bonds	
Series 2020A	$ 80,495
Series 2020B	325,390
Series 2020D	1,065,165
Series 2020E	56,850
Series 2019A	105,425
Series 2019B	116,445
Series 2018	62,215
Series 2017A	149,540
Series 2017B	116,905
Series 2016A	111,105
Series 2016B	191,375
Series 2015A	57,560
Series 2015B	92,360
Series 2007B	35,800
Pennsylvania Higher Educational Facilities Authority University Revenue Bonds (issued for The Pennsylvania State University)	
Series 2006	1,610
Series 2004	1,560
Series 2002	535
Penn State Health Bonds	
Series 2019	200,000
Cumberland County Municipal Authority Revenue Bonds (issued for Penn State Health)	
Series 2019	222,000
Lycoming County Authority College Revenue Bonds (issued for Penn College)	
Series 2021A	29,885
Series 2021B	22,780
Series 2016	46,890
Series 2015	2,295
Total bonds payable	3,094,185
Unamortized bond premiums	186,794
Unamortized deferred bond costs	(14,073)

Notes payable, lines of credit and finance leases	
Notes payable	46,843
Lines of credit	150,000
Finance lease obligations	45,029
Total notes payable, lines of credit and capital leases	241,872
Total long-term debt	$ 3,508,778

Debt issuance	Interest rate mode	Interest rates	Payment ranges and maturity *(in thousands of dollars)*
The Pennsylvania State University Bonds			
Series 2020A	Fixed	4.00% - 5.00%	$1,195 to $3,090 through September 2040 with $17,980 and $22,490 due September 2045 and 2050, respectively
Series 2020B	Fixed	1.519% - 2.888%	$5,895 to $13,910 through September 2035 with $67,170 and $89,310 due September 2040 and 2050, respectively
Series 2020D	Fixed	1.09% - 2.84%	$25,480 to $33,545 through September 2035 with $304,225 and $328,000 due September 2043 and 2050, respectively
Series 2020E	Fixed	5.00%	$4,520 to $7,010 through March 2031
Series 2019A	Fixed	5.00%	$1,655 to $6,720 through September 2049
Series 2019B	Fixed	2.05% - 3.50%	$2,610 to $3,720 through September 2034 with $20,455 and $52,515 due September 2039 and September 2049, respectively
Series 2018	Fixed	2.00% - 5.00%	$1,075 to $2,320 through September 2037 with $16,650 and $18,255 due September 2043 and September 2048, respectively
Series 2017A	Fixed	2.00% - 5.00%	$2,760 to $5,965 through September 2037 with $34,750 and $44,620 due September 2042 and September 2047, respectively
Series 2017B	Fixed	2.033% - 3.793%	$2,790 to $3,830 through September 2032 with $21,305 and $56,595 due September 2037 and September 2047, respectively
Series 2016A	Fixed	5.00%	$3,110 to $6,465 through September 2036 with $37,520 due September 2041
Series 2016B	Fixed	4.00% - 5.00%	$7,165 to $22,195 through September 2036
Series 2015A	Fixed	5.00%	$1,740 to $3,445 through September 2035 with $20,000 due September 2040
Series 2015B	Fixed	5.00%	$4,395 to $8,435 through September 2035
Series 2007B	Fixed	5.25%	$4,345 to $5,955 through August 2027
Pennsylvania Higher Educational Facilities Authority University Revenue Bonds			
Series 2006	Fixed	5.125%*	$1,610 due September 2025
Series 2004	Fixed	5.00%*	$1,905 due September 2024
Series 2002	Fixed	5.00%*	$2,435 due March 2022

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

Penn State Health Bonds			
Series 2019	Fixed	3.806%	$200,000 due November 2049

Debt issuance	Interest rate mode	Interest rates	Payment ranges and maturity
Cumberland County Municipal Authority Revenue Bonds			
Series 2019	Fixed	3.00% - 5.00%	$4,915 to $9,315 through November 2039 with $52,355 and $63,940 due November 2044 and November 2049, respectively
Lycoming County Authority College Revenue Bonds			
Series 2021A	Fixed	5.00%	$1,720 to $4,565 through July 2030
Series 2021B	Fixed	0.250% - 3.014%	$800 to $1,930 through July 2037
Series 2016	Fixed	2.125% - 5.00%	$1,545 to $3,615 through October 2032 with $19,345 due October 2037
Series 2015	Fixed	2.50% - 5.00%	$465 to $610 through January 2025

The Lycoming County Authority Tax-Exempt College Revenue Series A 2021 Bonds were issued by Penn College in April 2021 for the purpose of refunding $34.7 million of the Authority's College Revenue Bond Series 2011.

The Lycoming County Authority Federally Taxable College Revenue Series B 2021 Bonds were issued by Penn College in April 2021 for the purpose of refunding $21.0 million of the Authority's College Revenue Bond Series 2012.

The University believes it has complied with all financial debt covenants for the year ended June 30, 2021.

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

Year	Annual Installments *(in thousands of dollars)*
2022	$ 83,585
2023	85,720
2024	88,350
2025	91,045
2026	99,570
Thereafter	2,645,915
Total	$ 3,094,185

The fair value of the University's bonds payable is estimated based on current rates offered for similar issues with similar security, terms and maturities using available market information as supplied by the various financial institutions who act as trustees or custodians for the University. At June 30, 2021, the carrying value and estimated fair value of the University's bonds payable, including issuance premiums and deferred bond costs, are $3,266.9 million and $3,430.7 million, respectively. Certain bond issues have associated issuance premiums; these issuance premiums total $186.8 million at June 30, 2021 and are presented within the statement of financial position as long-term debt. These issuance premiums will be amortized over the term of the respective outstanding bonds. Certain bond issues have associated deferred bond costs; these deferred bond costs total $14.1 million at June 30, 2021 and are presented within the statement of financial position as a reduction in long-term debt. These deferred bond costs will be amortized over the term of the respective outstanding bonds.

Notes payable and lines of credit

The University has five notes payable included within the consolidated statement of financial position at June 30, 2021 with balances of $3.6 million, $4.7 million, $6.2 million, $6.4 million, and $25.9 million. These notes have payments due through June 2024, June 2025, March 2026, August 2039, and September 2040 and bear interest

at 2.60%, 2.85%, 2.80%, 2.65%, and 2.65%, respectively. The current portion of payments due under these notes totals $4.9 million at June 30, 2021.

In July 2020, the University issued two lines of credit totaling $250 million to provide support for its liquidity position in the wake of the COVID-19 pandemic. As of June 30, 2021, $50 million was drawn on these lines of credit which is included within the consolidated statement of financial position. The interest rates on these lines of credit are LIBOR-based with unused fees on the undrawn portions. At June 30, 2021 the interest rates on the lines of credit were 1.23% and 1.50% and the unused fee rates were 0.25%. The expiration date for the two lines of credit is July 31, 2023.

During 2020, the Health System established lines of credit with PNC Bank, Fulton Bank and Huntington Bank in the amounts of $75 million, $55 million and $100 million, respectively. Total drawn amounts of $105 million on these lines of credit were repaid in full during 2021, and all lines of credit have expired.

In April 2021, the Health System established a revolving line of credit with PNC Bank in the amount of $230 million, expiring in April 2024. The interest rate on the line of credit is LIBOR-based plus a spread, with a commitment fee on the undrawn portion. As of June 30, 2021, the Health System had drawn $100 million on the line with such amount reflected in the current portion of long-term debt. The interest rate as of June 30, 2021 was 0.8%.

9. LEASES

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

Future maturities of lease liabilities at June 30, 2021 are as follows:

(in thousands of dollars)

Year	Finance Leases	Operating Leases
2022	$ 10,070	$ 31,304
2023	8,739	27,709
2024	6,858	21,817
2025	5,092	19,954
2026	2,400	17,908
Thereafter	23,942	73,818
Total lease payments	57,101	192,510
Less amount representing interest	(12,072)	(44,456)
Total lease obligations	45,029	148,054
Current portion	8,200	24,373
Long-term portion	$ 36,829	$ 123,681

Supplemental lease activity for the year ended June 30, 2021 is as follows:

Components of Lease Expense	*(in thousands of dollars)*
Finance lease expense:	
Amortization of ROU assets	$ 9,210
Interest on lease liabilities	2,042
Total finance lease expense	11,252
Operating lease expense	44,788
Total lease expense	$ 56,040

The weighted-average remaining lease term and weighted-average discount rate at June 30, 2021 were as follows:

	Weighted-Average Remaining Lease Term (Years)	Weighted-Average Discount Rate
University:		
Finance leases	12.37	4.00%
Operating leases	5.79	3.52%
Health System:		
Finance leases	6.57	6.55%
Operating leases	10.12	5.00%

Supplemental cash flow information related to leases for the year ended June 30, 2021 is as follows:

(in thousands of dollars)

ROU assets acquired in exchange for finance lease liabilities	$	7,495
ROU assets acquired in exchange for operating lease liabilities		25,444
Beginning operating lease ROU asset balance		147,991
Beginning operating lease liability balance		147,991
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from finance leases		2,042
Operating cash outflows from operating leases		23,019
Financing cash outflows from finance leases	$	10,908

10. FUNCTIONAL AND NATURAL CLASSIFICATION OF EXPENSES

Functional expenses by natural classification as of June 30, 2021 are as follows:

(in thousands of dollars)	Educational and General	Auxiliary Enterprises	Health System	Total
Salaries and wages	$ 1,762,358	$ 122,132	$ 1,431,531	$ 3,316,021
Benefits	636,626	61,539	376,882	1,075,047
Depreciation	283,963	37,470	114,241	435,674
Plant operations and maintenance	98,383	11,675	82,963	193,021
Other components of net periodic postretirement benefit cost	62,033	-	-	62,033
Interest	23,058	26,595	5,589	55,242
Supplies, services, and other	435,147	169,049	1,120,067	1,724,263
Total	$ 3,301,568	$ 428,460	$ 3,131,273	$ 6,861,301

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

11. RETIREMENT BENEFITS

The University provides retirement benefits for substantially all regular employees, primarily through either contributory defined benefit plans administered by the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and The Public School Employees' Retirement System (PSERS) or defined contribution plans administered by the Teachers Insurance and Annuity Association (TIAA). The University is billed for its share of the estimated actuarial cost of the defined benefit plans ($34.5 million, net of applied setoff

credits of $93.3 million, for the year ended June 30, 2021). The Health System provides retirement benefits for substantially all employees through one of three defined contribution plans administered by Empower Retirement. The University's total cost for retirement benefits, included in expenses, is $213.0 million for the year ended June 30, 2021.

The SERS is the administrator of a cost-sharing, multi-employer retirement system established by the Commonwealth of Pennsylvania to provide pension benefits for employees of state government and certain independent agencies. As provided by statute, the SERS Board of Trustees has exclusive control and management responsibility of the funds and full power to invest the funds. The SERS funding policy provides for periodic member contributions at statutory rates and employer contributions at actuarially determined rates (expressed as a percentage of annual gross pay) that are sufficient to accumulate assets to pay benefits when due. In April 2020, the University entered into an agreement with SERS to prefund $1,061.0 million of the University's unfunded actuarial accrued liability in exchange for credits against future contributions. The University's contributions to this plan for the year ended June 30, 2021 were $31.0 million (net of applied setoff credits of $93.3 million) and represent approximately 5.8% of total contributions to the plan based on projections for fiscal year 2021. The plan is funded at less than 65% with the funded ratio of the plan at 59.4% as of December 31, 2020.

12. POSTRETIREMENT BENEFITS

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

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

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

Effective January 1, 2016, any non-union employee who retires on or before December 31, 2020 will receive a $5,000 term life insurance policy benefit at no cost to the employee. If a non-union employee retires after December 31, 2020, no life insurance benefit is provided. For certain union employees, a $5,000 term life insurance policy is provided at no cost to the employee regardless of their retirement date.

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

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

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

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

Included in net assets without donor restrictions at June 30, 2021 is an unrecognized actuarial loss of $108.9 million that has not yet been recognized in net periodic postretirement cost.

The following sets forth the plan's benefit obligation, plan assets and funded status reconciled with the amounts recognized in the University's consolidated statement of financial position at June 30, 2021:

Change in benefit obligation: *(in thousands of dollars)*	
Benefit obligation at beginning of year	$ 2,344,814
Service cost	37,137
Interest cost	61,951
Actuarial gain	(399,022)
Benefits paid	(45,338)
Plan assumptions	61,142
Benefit obligation at end of year	$ 2,060,684

Change in plan assets: *(in thousands of dollars)*	
Fair value of plan assets at beginning of year	$ -
Employer contributions	45,338
Benefits paid	(45,338)
Fair value of plan assets at end of year	$ -
Funded status	$ (2,060,684)
Unrecognized prior service cost (benefit)	-
Unrecognized net actuarial loss	-
Accrued postretirement benefit expense	$ (2,060,684)

Net periodic postretirement cost includes the following components for the year ended June 30, 2021:

Operating expenses:	
Service cost	$ 37,137
Nonoperating activities:	
Interest cost	61,951
Amortization of prior service cost	(906)
Amortization of unrecognized net loss	987
Net periodic postretirement cost	$ 99,169

The assumed healthcare cost trend rate used in measuring the accumulated postretirement benefit obligation was 6.70% for the year ended June 30, 2021, reduced each year to an ultimate level of 5.00%. The postretirement benefit obligation discount rate was 3.23% for the year ended June 30, 2021. During 2021, the plan had favorable claims experience compared to assumptions in addition to positive results related to the change in the mortality table improvement scale.

If the healthcare cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation would be increased by $402.4 million as of June 30, 2021. The effect of this change on the sum of the service cost and interest cost components of the net periodic postretirement benefit cost would be an increase of $23.8 million as of June 30, 2021. If the healthcare cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation would be decreased by $316.3 million as of June 30, 2021. The effect of this change on the sum of the service cost and interest cost components of the net periodic postretirement benefit cost would be a decrease of $18.0 million as of June 30, 2021.

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

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

	(in thousands of dollars)
2022	$ 53,755
2023	58,628
2024	64,117
2025	69,537
2026	74,480
2027-31	437,095

13. PENN STATE HEALTH

Penn State Health was organized exclusively for the charitable, educational, and scientific purposes as defined and limited by Section 501(c)(3) of the Internal Revenue Code of 1986. The Health System's purpose is to promote, support and further the charitable, educational, and scientific purposes of the University. The Health System is controlled by the University with a 20% minority ownership by Highmark Health. The Health System recorded non-controlling interest, excess of revenues over expenses, related to this minority interest. The total non-controlling interest related to Highmark Health is recorded in net assets without donor restrictions within the consolidated statement of financial position with a value at June 30, 2021 of $319.8 million.

The wholly owned subsidiaries of the Health System include the Milton S. Hershey Medical Center (MSHMC), Saint Joseph's Regional Health Network and Medical Group (SJRHN/SJMG), Penn State Community Medical Group (PSCMG), Holy Spirit Medical Center (HSMC), Nittany Health, Inc. ("Nittany"), Central PA Health Network (CIN), Penn State Health Hampden Medical Center ("Hampden"), Penn State Health Lancaster Medical Center (LPADC) and Penn State Health Life Lion, LLC (PSHLL).

The Health System has three, not-for-profit, acute care hospitals. MSHMC is a 639-licensed bed academic medical center located in Hershey, Pennsylvania. The hospital is a Level 1 Regional Trauma Center. Additionally, MSHMC operates an ambulatory surgical center, which provides endoscopy procedures to the Centre County Region. SJRHN is a 204-licensed bed hospital in the Berks County Region. SJRHN owns Saint Joseph Health Services, LLC ("SJHS, LLC") which is a for-profit subsidiary. HSMC was acquired on November 1, 2020 and is a 306-licensed bed hospital in Cumberland County. All acute care hospitals provide inpatient, outpatient and emergency services.

The Health System has two acute care hospitals that are under construction. Hampden will be a 108-licensed bed acute care hospital to be located in Cumberland County. Hampden is scheduled to open in Fall of 2021. LPADC will be a 129-licensed bed acute care hospital to be located in Lancaster.

On June 23, 2020, the Health System established Penn State Health Life Lion, LLC. The purpose of PSHLL is to provide emergency medical services into a broader geographic region. On December 1, 2020 PSHLL began operations.

The Health System, through its medical groups, operates a non-acute and ambulatory network with consists of over 94 sites of patient care in nine counties. The Health System, through its affiliates, also operates two-joint venture specialty hospitals, the Penn State Health Rehabilitation Hospital (PSHR) and Pennsylvania Psychiatric Institute (PPI). The Health System has additional jointly owned health care centers, home health care services and ambulatory surgical centers. These include Hershey Outpatient Surgery Center (HOSC), Hershey Endoscopy Center (HEC), Cancer Care Partnership (CCP) and Horizon Healthcare Services ("Horizon"). Nittany owns 72% interest in HOSC and therefore the operations of HOSC are included in the consolidated financial statements of the Health System, with the 28% unowned interest reported as non-controlling interest. This non-controlling interest is recorded in net assets without donor restrictions within the consolidated statement of financial position with a value at June 30, 2021 of $2.4 million.

During 2021, the Health System received cash contributions related to the Community Health Reinvestment Act from Highmark Health. The cash contributions of $30.0 million are recorded as Health System revenue on the consolidated statement of activities. Additionally, during 2021, the Health System paid Highmark Health $226.6 million related to employee benefit expenses and recorded $658.2 million in net patient revenue related to Highmark Health third party payor contracts. As of June 30, 2021, the Health System has a liability due to Highmark Health in the amount of $3.1 million. This liability is related to a contractual agreement between the parties and is included in accounts payable and other accrued expenses in the consolidated statement of financial position.

14. CONTINGENCIES AND COMMITMENTS

Contractual Obligations

The University has contractual obligations for the construction of new buildings and for additions to existing buildings in the amount of $1,620.7 million, of which $1,214.0 million has been paid or accrued as of June 30, 2021. The contract costs are being financed from available resources and from borrowings.

Letters of Credit

The University has available letters of credit in the amount of $39.7 million as of June 30, 2021. These letters of credit are used primarily to comply with minimum state and federal regulatory laws that govern various University activities. The fair value of these letters of credit approximates contract values based on the nature of the fee arrangements with the issuing banks.

Guarantees

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

Self-Insurance

The University has a coordinated program of commercial and self-insurance for medical malpractice claims for the Health System through the use of a qualified trust and a domestic captive insurance company in combination with a self-insured retention layer and is supplementing this program through participation in the Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCARE Fund"), in accordance with Pennsylvania law. An estimate of the present value, discounted at 2% for the year ended June 30, 2021, of the medical malpractice claims liability in the amount of $162.5 million is recorded as of June 30, 2021.

The subsidiaries of the Health System are self-insured for all medical malpractice claims asserted on or after July 1, 2001, for all amounts that are below the coverage of excess insurance policies and not included in the insurance coverage of the MCARE Fund. Under the self-insurance program, the Health System is required to maintain a malpractice trust fund in an amount at least equal to the expected loss of known claims. The balance of this trust fund was $33.6 million at June 30, 2021. The Health System intends to fund any claims due during the next year from cash flows from operations.

With approval from the Pennsylvania Department of Labor and Industry (PA-DLI), the University elected to self-insure potential obligations applicable to Pennsylvania workers' compensation. Claims under the program are contractually administered by a third-party administrator. The University purchased insurance coverage from a commercial insurer for claims in excess of $600,000 per incident. An estimate of the self-insured workers' compensation claims liability in the amount of $7.3 million, discounted at 0.87%, is recorded as of June 30, 2021. The University has established a trust fund, in the amount of $14.5 million at June 30, 2021, as required by PA-DLI, to collateralize and to provide for the payment of claims under this self-insurance program. The Health System is self-insured for workers' compensation claims and has purchased excess policies through commercial insurers which cover individual claims in excess of $750,000 per incident for workers' compensation claims.

The University and the Health System are self-insured for certain health care benefits provided to employees. The University and the Health System have purchased excess insurance policies which cover employee health benefit claims in excess of $600,000 per employee per year. The University and the Health System provide for reported claims and claims incurred but not reported.

Litigation and Contingencies

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

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

15. SUBSEQUENT EVENTS

The University has evaluated subsequent events through December 17, 2021, the date on which the consolidated financial statements were issued. It did not identify any subsequent events to be disclosed other than those below or previously noted.

In July 2021, the University paid off all outstanding amounts on its two lines of credit and the related loan documents were fully terminated.

In November 2021, the Health System issued the Lancaster County Hospital Authority Revenue Bonds (Penn State Health), Series 2021 in the amount of $288.8 million for the purpose of financing the construction of the Penn State Health Lancaster Medical Center.

THE PENNSYLVANIA STATE UNIVERSITY

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VIRTUE LIBERTY AND INDEPENDENCE