

**COMMONWEALTH OF PENNSYLVANIA  
529 GUARANTEED SAVINGS PLAN –  
(PA 529 GSP)  
(AN ENTERPRISE FUND OF THE COMMONWEALTH OF  
PENNSYLVANIA)**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2022 AND 2021**



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**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS PLAN –  
(PA 529 GSP)  
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YEARS ENDED JUNE 30, 2022 AND 2021**

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**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS PLAN – (PA 529 GSP)  
BACKGROUND (UNAUDITED – SEE INDEPENDENT AUDITORS’ REPORT)  
JUNE 30, 2022 AND 2021**

The Tuition Account Program and College Savings Bond Act of 1992 (the Act) established the Commonwealth of Pennsylvania’s (the Commonwealth) Tuition Account Program (TAP) amended by Act 2000-58 effective August 22, 2000, which changed the name to the Pennsylvania 529 Guaranteed Savings Plan (PA 529 GSP) and created a second program called the Pennsylvania 529 Investment Plan (PA 529 IP). The PA 529 IP, similar to a mutual fund, was implemented on July 17, 2002, and is accounted for as a separate fund and is not included in this report.

The PA 529 GSP is administered by the Bureau of Savings Programs (Bureau), an office within the Commonwealth of Pennsylvania Treasury Department (Treasury), and provides the Commonwealth residents the opportunity to save for future education expenses at eligible educational institutions. An eligible educational institution is defined as a college, university, vocational, other post-secondary educational institution, or an elementary or secondary school, as defined by the Internal Revenue Code. As of June 30, 2022, 34 Commonwealth-owned and related universities and community colleges participate in the PA 529 GSP. In addition, private institutions, which are defined as any private or out-of-state public post-secondary educational institution, are considered eligible.

The Act established a 19-member advisory board, to “. . . consider, study, and review the work of the Tuition Account Guaranteed Savings Program Bureau.” Five members are assigned to the board by virtue of their positions, the State Treasurer, the Chairman of the Board of Directors of the Pennsylvania Higher Education Assistance Agency, the Commissioner of Higher Education within the Department of Education, the Chairman of the Council of Higher Education, and the Chancellor of the Pennsylvania State System of Higher Education. Of the remaining 14 positions, 4 members are appointed by the President Pro Tempore of the Senate, 4 members are appointed by the Speaker of the House of Representatives, and 6 members are appointed by the Governor. The board reports annually to the Governor and to the General Assembly on the status of the PA 529 GSP and the Bureau.

The PA 529 GSP assets are maintained in an enterprise fund of the Commonwealth, but are separate from other Commonwealth monies and cannot be used by the Commonwealth for other purposes. The PA 529 GSP funds are not guaranteed by the full faith and credit of the Commonwealth.

As of June 30, 2022 and 2021, respectively, there were 109,673 and 109,948 accounts in the PA 529 GSP. Treasury continues to utilize the services of Marquette Associates, an independent investment consultant, and Actuarial Resources Corporation, the actuary for the PA 529 GSP, to prepare pricing models and provide an assessment of the adequacy of the PA 529 GSP’s assets to meet future obligations.

The enactment of the federal Economic Growth and Tax Relief Act of 2001, recognized by Section 529 of the Internal Revenue Code, gave the PA 529 GSP federal income tax exemption, which was made permanent by the Pension Protection Act of 2006. In addition, the PA 529 GSP is exempt from all taxation by the Commonwealth and its political subdivisions.



## INDEPENDENT AUDITORS' REPORT

The Honorable Stacy Garrity  
State Treasurer, Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania

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

#### ***Opinions***

We have audited the accompanying financial statements of the Commonwealth of Pennsylvania Treasury Department's Tuition Account Program – Guaranteed Savings Plan (PA 529 GSP), an enterprise fund of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the PA 529 GSP's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PA 529 GSP, an enterprise fund of the Commonwealth of Pennsylvania, as of June 30, 2022 and 2021, 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.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the PA 529 GSP 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 PA 529 GSP'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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 PA 529 GSP'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 PA 529 GSP'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 on pages 5-7 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.

The Honorable Stacy Garrity  
State Treasurer, Commonwealth of Pennsylvania


**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the background information on page 1 but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2022, on our consideration of the PA 529 GSP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PA 529 GSP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PA 529 GSP's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
November 1, 2022

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**(UNAUDITED – SEE INDEPENDENT AUDITORS’ REPORT)**  
**JUNE 30, 2022 AND 2021**

Management’s discussion and analysis of the Tuition Account Program - Guaranteed Savings Plan (PA 529 GSP) provides an overview of the PA 529 GSP financial activities for fiscal years ended June 30, 2022 and 2021. Please read it in conjunction with the PA 529 GSP financial statements and accompanying notes.

**Overview of the Program Initiatives**

The PA 529 GSP has continued to market the program aggressively, in order to maintain healthy program participation. Use of modern technology such as email and webinars are proving to be a cost-effective method of reaching many families and financial professionals. Over the fiscal years ended June 30, 2022 and 2021, the PA 529 GSP has enrolled more than 7,559 and 7,340 accounts, respectively.

**Overview of the Financial Statements**

The financial statements consist of the statements of net position, statements of revenues, expenses, and changes in net positions; and statements of cash flows. Together, these statements provide information about the activities of the PA 529 GSP as a whole and present a longer-term view of the PA 529 GSP assets. These statements include all assets and liabilities using the economic resources measurement focus and accrual basis of accounting. All of the revenues recorded when earned and expenses when incurred are considered regardless of when the cash is received or paid.

**Financial Analysis**

**Summarized Statements of Net Position (Amounts in Thousands)**

	June 30, 2022	June 30, 2021	June 30, 2020	<u>Increase (Decrease)</u>	
				<u>2022 to 2021</u>	<u>2021 to 2020</u>
<b>Assets</b>					
Current Assets	\$ 155,842	\$ 276,397	\$ 209,483	\$ (120,555)	\$ 66,914
Long-Term Investments	2,063,372	2,336,673	2,073,194	(273,301)	263,479
Total Assets	<u>2,219,214</u>	<u>2,613,070</u>	<u>2,282,677</u>	<u>(393,856)</u>	<u>330,393</u>
<b>Liabilities and Net Position</b>					
Current Liabilities	396,824	533,247	467,819	(136,423)	65,428
Long-Term Liabilities	1,345,357	1,342,322	1,350,083	3,035	(7,761)
Total Liabilities	<u>1,742,181</u>	<u>1,875,569</u>	<u>1,817,902</u>	<u>(133,388)</u>	<u>57,667</u>
<b>Net Position</b>					
Unrestricted Net Position	477,033	737,501	464,775	(260,468)	272,726
Total Net Position	<u>\$ 477,033</u>	<u>\$ 737,501</u>	<u>\$ 464,775</u>	<u>\$ (260,468)</u>	<u>\$ 272,726</u>

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**(UNAUDITED – SEE INDEPENDENT AUDITORS’ REPORT)**  
**JUNE 30, 2022 AND 2021**

Total assets decreased by \$394 million and had increased by \$330 million during fiscal years 2022 and 2021, respectively. The decrease in 2022 is attributable mostly to a decrease in long term investments held compared to the prior year as the portfolio’s total return was negative for FY 2022 due to market fluctuation. The portfolio’s return (net of fees) at fiscal year-end 2022 was -9.19 percent, 14.4 percent at June 30, 2021 and 3.85 percent at June 30, 2020. The Plan’s returns decreased due to unusual market changes as sectors like equities decreased from 32.35% to -11.86% and real estate decreased from 25.36% to 4.01% in returns year over year.

Total liabilities decreased by \$133 million and had increased by \$58 million during fiscal years 2022 and 2021, respectively. The decrease can be attributed to a reduction in pending investment purchases at year end compared to 20-21.

The PA 529 GSP net position has decreased by \$260 million during the fiscal year, resulting in the total net position of \$477 million at June 30, 2022, down from \$738 million at June 30, 2021. The Plan is 128.06% funded at June 30, 2022, compared to 143.46% funded at June 30, 2021.

**Summarized Statements of Revenues, Expenses, and Changes in Net Position (Amounts in Thousands)**

	June 30, 2022	June 30, 2021	June 30, 2020	<u>Increase (Decrease)</u>	
				2022 to 2021	2021 to 2020
<b>Operating Revenues</b>					
Tuition Credit Purchases	\$ 213,043	\$ 203,329	\$ 198,191	\$ 9,714	\$ 5,138
Program Fees	6,487	6,502	6,677	(15)	(175)
Total Operating Revenues	<u>219,530</u>	<u>209,831</u>	<u>204,868</u>	<u>9,699</u>	<u>4,963</u>
<b>Operating Expenses</b>					
Tuition Benefit Expenses	228,350	211,041	256,219	17,309	(45,178)
Salaries and Other Administrative Expenses	9,474	8,414	6,699	1,060	1,715
Tuition Credit Refunds	26,010	28,725	25,013	(2,715)	3,712
Total Operating Expenses	<u>263,834</u>	<u>248,180</u>	<u>287,931</u>	<u>15,654</u>	<u>(39,751)</u>
Operating Loss	(44,304)	(38,349)	(83,063)	(5,955)	44,714
<b>Nonoperating Income (Expenses)</b>					
Investment Income	(214,889)	312,298	83,591	(527,187)	228,707
Investment Related Expenses	(1,275)	(1,223)	(1,182)	(52)	(41)
Nonoperating Income	<u>(216,164)</u>	<u>311,075</u>	<u>82,409</u>	<u>(527,239)</u>	<u>228,666</u>
Change in Net Position	<u>\$ (260,468)</u>	<u>\$ 272,726</u>	<u>\$ (654)</u>	<u>\$ (533,194)</u>	<u>\$ 273,380</u>



**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**(UNAUDITED – SEE INDEPENDENT AUDITORS’ REPORT)**  
**JUNE 30, 2022 AND 2021**

Total operating revenues of the PA 529 GSP for fiscal year 2021-2022 were \$220 million, representing an increase of \$10 million in operating revenues compared to fiscal year 2020-2021. The change is due to an increase in tuition credit purchases.

The total operating expenses of the PA 529 GSP for fiscal year 2021-2022 increased by \$16 million compared to total operating expenses for fiscal year 2020-2021. This was due to an increase in Tuition benefit expense of \$17 million and slight decreases of \$3 million in tuition credit refunds as participants continued to use their accounts for higher education. The total operating expense of the PA 529 GSP for fiscal year 2020-2021 had decreased by \$40 million compared to the operating expense for fiscal year 2019-2020 due to decreases in tuition credit expense.

Tuition benefit expenses increased to \$228 million in fiscal year 2021-2022. The program usage resulted in 15,363 beneficiaries using 520,256 credits in fiscal year 2021-2022, as compared to 15,499 beneficiaries using 481,876 credits in fiscal year 2020-2021. Salaries and other administrative expenses increased by \$1 million due to an increase in advertising and slight increases in other operating expenses.

For fiscal year 2021-2022, nonoperating income was a negative \$216 million, which was a \$527 million decrease when compared to the positive \$311 million nonoperating income in fiscal year 2021-2022. The reduction in nonoperating income is due to mostly the end of FY market fluctuation between May and June 2022 that saw the S&P 500 drop by 25% from the year’s high.

This financial report is designed to provide accountholders, patrons, and other interested parties with a general overview of the PA 529 GSP finances and to demonstrate Treasury’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Pennsylvania 529 program at 717-772-5000.

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**STATEMENTS OF NET POSITION**  
**(IN THOUSANDS)**  
**JUNE 30, 2022 AND 2021**

	2022	2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 6,224	\$ 5,750
Receivables:		
Interest	4,291	3,944
Dividends	1,815	2,329
Tax Return Refunds	6	27
Investment Sale Proceeds	8,298	151,548
Investments	135,208	112,799
Total Current Assets	155,842	276,397
<b>NONCURRENT ASSETS</b>		
Investments	2,063,372	2,336,673
Total Assets	\$ 2,219,214	\$ 2,613,070
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 3,456	\$ 2,885
Investment Purchases Payable	15,178	163,298
Due to Program Participants	2,501	2,609
Current Tuition Benefits Payable	319,387	321,594
Securities Lending Obligations	56,302	42,861
Total Current Liabilities	396,824	533,247
<b>LONG-TERM LIABILITIES</b>		
Compensated Absences	152	151
Tuition Benefits Payable	1,345,205	1,342,171
Total Long-Term Liabilities	1,345,357	1,342,322
Total Liabilities	1,742,181	1,875,569
<b>UNRESTRICTED NET POSITION</b>	477,033	737,501
Total Net Position	\$ 477,033	\$ 737,501

See accompanying Notes to Financial Statements.

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**(IN THOUSANDS)**  
**YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
<b>OPERATING REVENUES</b>		
Tuition Credit Purchases	\$ 213,043	\$ 203,329
Program Fees	6,487	6,502
Total Operating Revenues	219,530	209,831
<b>OPERATING EXPENSES</b>		
Tuition Benefit Expense	228,350	211,041
Salaries and Other Administration Expenses	9,474	8,414
Tuition Credit Refunds	26,010	28,725
Total Operating Expenses	263,834	248,180
<b>OPERATING LOSS</b>	(44,304)	(38,349)
<b>NONOPERATING INCOME (EXPENSES)</b>		
Investment Income	(214,889)	312,298
Investment-Related Expenses	(1,275)	(1,223)
Net Nonoperating Income	(216,164)	311,075
<b>CHANGE IN NET POSITION</b>	(260,468)	272,726
Net Position - Beginning of Year	737,501	464,775
<b>NET POSITION - END OF YEAR</b>	\$ 477,033	\$ 737,501

See accompanying Notes to Financial Statements.

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**STATEMENTS OF CASH FLOWS**  
**(IN THOUSANDS)**  
**YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Participants	\$ 219,530	\$ 209,831
Payments to Participants	(253,641)	(235,806)
Payments to Employees and Vendors	(8,923)	(7,381)
Net Cash Used by Operating Activities	(43,034)	(33,356)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(2,942,184)	(4,449,395)
Proceeds from Sale and Maturities of Investments	2,934,147	4,437,097
Interest and Dividend Income	51,545	45,217
Net Cash Provided by Investing Activities	43,508	32,919
<b>NET INCREASE (DECREASE) IN CASH</b>	474	(437)
<b>CASH AT JULY 1</b>	5,750	6,187
<b>CASH AT JUNE 30</b>	\$ 6,224	\$ 5,750
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (44,304)	\$ (38,349)
Effects of Changes in Operating Assets and Liabilities:		
Tax Return Refunds	(21)	17
Accounts Payable and Accrued Liabilities	571	968
Due to Program Participants	(108)	1,394
Tuition Benefits Payable	827	2,566
Compensated Absences	1	48
Total Adjustments	1,270	4,993
Net Cash Used by Operating Activities	\$ (43,034)	\$ (33,356)

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(IN THOUSANDS)**  
**JUNE 30, 2022 AND 2021**

**NOTE 1 PROGRAM DESCRIPTION**

The Commonwealth of Pennsylvania 529 Guaranteed Savings Plan (PA 529 GSP) is a college savings plan that provides a unique way to save for education. It preserves principal while guaranteeing that contributions (adjusted for premiums and fees, if any) will increase at the same rate as tuition inflation at any one of several “Tuition Levels.” Tuition Levels equate to the type of school (Community College, State System of Higher Education, State-Related, Private 4-year Colleges, and Ivy League Colleges) or a specific Pennsylvania public funded school for which an account owner is saving. Whether or not premiums will be instituted in a given year is based on numerous factors including, but not limited to, an actuarial assessment of current tuition rates, projected tuition inflation, the prior earnings of the PA 529 GSP investments, and projected earnings of the PA 529 GSP investments.

In 2018, the General Assembly of the Commonwealth of Pennsylvania enacted legislation which authorized the Pennsylvania Treasury Department (the Department) to establish the Keystone Scholars Grant Program (Keystone Scholars). The purpose of Keystone Scholars is to promote access to postsecondary educational opportunities for each eligible child born after December 31, 2018. Keystone Scholars provides each eligible child with one hundred dollars (\$100), to be used for the child’s future qualified higher education expenses associated with attendance at an eligible educational institution. Keystone Scholars funds are invested in the PA 529 GS.

The PA 529 GSP, accounted for in the Tuition Account Guaranteed Savings Program Fund, is part of the Commonwealth of Pennsylvania’s (the Commonwealth) financial reporting entity, and is reported as an enterprise fund in the Commonwealth’s June 30, *Comprehensive Annual Financial Report*.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting and Presentation**

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized when earned, and expenses are recognized when the liability is incurred.

**Investments**

The PA 529 GSP generally values its investments at fair value, and net changes in fair values are recorded as a component of investment income in the statements of revenues, expenses, and changes in net position.

*Current Investments*

Current investments are managed by the Commonwealth of Pennsylvania Treasury Department (Treasury) to meet cash requirements of the PA 529 GSP. These investments are readily convertible to cash and are subject to an insignificant risk of changes in value, which would result from changes in interest rates.

Current investments are reported at cost plus allocated interest, which approximates fair value. The securities lending collateral pool, which is a fund operated by the securities lending agent, also is accounted for at cost plus accrued interest, which approximates fair value.

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(IN THOUSANDS)**  
**JUNE 30, 2022 AND 2021**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments (Continued)**

*Noncurrent Investments*

Treasury manages four investment pools, of which the PA 529 GSP is a participant in one of the pools. The pool's investments are reported at fair value. Noncurrent investments are managed by external investment managers utilizing cash expected to be in excess of the PA 529 GSP short-term needs. The fair values of the investment securities are based upon values provided by external pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third party based on similar sales.

Also included in noncurrent investments are alternative investments, which include interests in limited partnerships and limited liability companies invested in venture capital, leveraged buyouts, private equities, hedge funds, real estate, investment trusts, and other investments. These investments are recorded based on net asset value amounts established by the respective fund managers as a practical approximation of fair value. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ materially from the amount reported.

*Fair Value Measurement*

Generally accepted accounting principles prescribed by the GASB require that the investments be measured at fair value and categorized according to the hierarchy that is based on the valuation inputs used to measure fair value. TAP 529 GSP complies with the requirement and additional disclosures have been added to Note 3.

Government Accounting Standards Board's (GASB) Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost, which approximates fair value. PA 529 GSP reports all investments at fair market value and therefore is not required to meet the provisions Statement No. 79 requires.

**Interest and Dividends Receivable**

Interest and dividends receivable includes interest and dividends accrued on investments at year-end that will not be deposited until after the end of the fiscal year.

**Investment Sale Proceeds Receivable**

Investment sale proceeds receivable represents investment sales that occurred on or before year-end for which cash payment will be received after the end of the fiscal year.

**Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities represent the liabilities for the value of assets or services received on or before year-end for which cash payment will be made after the end of the fiscal year.

**Investment Purchases Payable**

Investment purchases payable represents the liability for investment purchases that occurred on or before year-end for which cash payment will be made after the end of the fiscal year.

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(IN THOUSANDS)**  
**JUNE 30, 2022 AND 2021**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Tuition Benefits Payable**

Tuition benefits payable represents the actuarially determined present value of future tuition obligations. Any portion due within the next 12 months is classified as current; otherwise, classification as a long-term liability is appropriate.

**Operating Revenues and Expenses (Dollars are not in Thousands)**

The principal operating revenues of the PA 529 GSP are tuition credit purchases. Revenue is also derived from the annual fees on each account. The total assessment is 40 basis points per account per year (maximum of \$500 annually) based on the current value of tuition credits purchased which is referred to as the tuition inflation value. If an account owner opts for email delivery of statements, the fee is reduced to 30 basis points (maximum of \$250 annually). In practice, the fees are collected quarterly based on the tuition inflation value as of the last day of each calendar quarter subject to a minimum fee of \$1.25. The Plan stopped collecting application program fees on January 1, 2020. These fees were set at \$50 per paper enrollment and \$25 for online enrollment per account. The principal operating expenses of the PA 529 GSP are qualified and nonqualified withdrawals and administrative expenses.

**Nonoperating Revenues and Expenses**

Nonoperating revenues are comprised of investment income earnings. Investment income includes interest, dividends, realized gains and losses, and the change in the fair value of investments during the fiscal year. Expenses classified as nonoperating include investment manager fees and those expenses not directly related to the PA 529 GSP's investment operations.

**Use of Estimates in Preparing Financial Statements**

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 amount of assets and liabilities and disclosure 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.

PA 529 GSP personnel are employees of the Commonwealth of Pennsylvania. As a result, the PA 529 GSP does not pay into the Commonwealth's plan and therefore has no pension or OPEB expenses or liabilities associated with pension or OPEB recorded in the financial statements, these items are recorded at the statewide level in the Annual Comprehensive Financial Report (ACFR) of the Commonwealth of Pennsylvania.

**NOTE 3 DEPOSITS AND INVESTMENTS**

**Deposits**

The carrying amount of the PA 529 GSP's deposits at June 30, 2022 and 2021, respectively, was \$6,224 and \$5,750, and the bank balance was \$8,200 and \$7,235, respectively. These deposits are FDIC insured up to \$250 per account. The remaining balance was covered by Wells Fargo Pooled Collateral. The bank balance at June 30, 2022 was not exposed to custodial credit risk.

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments**

Treasury has formally adopted a written investment policy updated as of June 30, 2020 that applies specifically to the PA 529 GSP. Provisions of the written investment policy and current management of the investments consider custodial credit risk, concentration of credit risk, credit risk, interest rate risk, and foreign currency risk. The identified risks are discussed in detail below.

Current investments include the proportional value of assets purchased by the securities lending program in the amount of \$56,302 and \$42,861 at June 30, 2022 and 2021, respectively. These assets are held by the securities lending pool and not considered in the analysis of the risks identified above. Investment assets in the amount of \$2,142,272 and \$2,406,611 at June 30, 2022 and 2021, respectively, are considered for the identified risks.

At June 30, 2022 and 2021, the PA 529 GSP disclosed total investments of \$2,198,580 and \$2,449,472, respectively, within the Statements of Net Position. This includes participation in the securities lending pool of \$56,302 and \$42,861 and other securities and cash with the custodian of \$2,142,272 and \$2,406,611 at June 30, 2022 and 2021, respectively. At June 30, 2022 and 2021, the securities consist of 42% and 43% fixed income securities, 43% and 47% common stock/mutual funds, 4% and 3% cash and cash equivalents, 11% and 7% alternative investments, respectively.

The investment types and related amount are as follows:

<u>Investment Type</u>	<u>2022</u>	<u>2021</u>
Treasury Group Investments	\$ 80,838	\$ 68,996
Asset-Backed Securities	2,151	2,869
Corporate Obligations	218,395	271,515
Equities	925,594	1,014,340
Mortgage-Backed Securities	250,135	275,192
Preferred Securities	1,032	894
Alternative Investments	140,122	145,912
Private Placements	11,494	12,552
State and Municipal Obligations	4,479	4,789
Sovereign Debt	15,114	19,356
U.S. Government-Sponsored Enterprises	11,781	13,406
Mutual Funds	140,737	223,033
U.S. Treasury Obligations	342,337	352,815
Total Securities	<u>2,144,209</u>	<u>2,405,669</u>
Deposits	(1,937)	942
Total	<u>\$ 2,142,272</u>	<u>\$ 2,406,611</u>



**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

*Custodial Credit Risk*

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, Treasury would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with a contractual relationship between Treasury and its custodial agents, substantially all investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the Commonwealth's custodian. These investments are insured or registered, and the securities are held by Treasury or its agent. The investments in alternative investments are not subject to custodial credit risk because these investments do not have securities that are used as evidence of the investments.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. Treasury places a 10% limit on the concentration of investments in any one fixed income issuer and a 5% limit on the concentration of stock by issuer. The Treasury investment policy places no limitations on government-sponsored enterprises, direct obligations of the U.S. Government or its agencies, and repurchase agreements. Alternative investment managers also have no limitations other than what is stated in their Investment Contract.

The following concentrations existed as of June 30, 2022 and 2021:

<u>Investment Type</u>		
<u>Issuer Name</u>	<u>Fair Value by Issuer</u>	<u>Concentration</u>
<u>2022</u>		
United States Treasury	342,337	16.60%
Vanguard	140,737	6.80%
Fannie Mae	108,232	5.30%
<u>Issuer Name</u>	<u>Fair Value by Issuer</u>	<u>Concentration</u>
<u>2021</u>		
State Street Global Advisors (SPDR's)	\$ 413,012	17.70%
United States Treasury	352,815	15.10%
Vanguard	322,048	13.80%
Blackrock (iShares)	179,052	7.70%
Fannie Mae	118,400	5.10%

The Treasury pooled investments are primarily invested in commercial paper, money market funds, certificates of deposit, and agency investments.

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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized rating agencies such as Moody's Investors Services (Moody's), Standard and Poor's (S&P), and Fitch Information Inc. (Fitch). Treasury requires purchases of the PA 529 GSP assets to be rated investment grade at the time of purchase.

The following tables disclose aggregate fair value, by Moody's, S&P's, and Fitch's credit quality rating category, at June 30.

<u>Rated Securities</u>	<u>2022</u>	<u>2021</u>
<b><i>Moody's Investor Services</i></b>		
Aaa	\$ 25,170	\$ 31,001
Aa	3,690	8,295
A	40,561	43,190
Baa	87,783	108,991
Ba	19,262	21,880
B	2,167	2,180
Moody's Investor Services Subtotal	<u>178,633</u>	<u>215,537</u>
<b><i>Standard and Poor's</i></b>		
AAA	4,645	5,784
AA	597,544	628,443
A	26,084	32,088
BBB	28,947	39,907
BB	3,790	5,391
B	1,267	1,728
Standard and Poor's Subtotal	<u>662,277</u>	<u>713,341</u>
<b><i>Fitch Information Inc. Ratings</i></b>		
AA	272	340
A	2,236	1,787
BBB	10,289	15,347
BB	528	225
Fitch Information Inc. Ratings Subtotal	<u>13,325</u>	<u>17,699</u>
Subtotal - Rated Securities	<u>854,235</u>	<u>946,577</u>
<b><u>Non-Rated</u></b>		
Corporate Obligations	-	192
Treasury Group Investments	80,838	68,996
Mortgage-Backed Securities	1,650	5,790
Preferred Securities	1,032	829
Mutual Funds	39,060	92,567
Subtotal - Non-Rated Securities	<u>122,580</u>	<u>168,374</u>
Total Fixed Income and Cash and Cash Equivalent Securities	<u>\$ 976,815</u>	<u>\$ 1,114,951</u>

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Treasury measures interest rate risk using duration. As a means for limiting Treasury's exposure to fair value losses arising from rising interest rates, Treasury's long-term asset allocation diversifies its fixed income core segment between intermediate duration and longer duration strategies. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. For reporting purposes, Treasury elects to use option-adjusted duration, which considers embedded options affecting cash flows.

At June 30, 2022 and 2021, Treasury's fixed income portfolio had the following option-adjusted durations by investment type:

<u>2022</u>	Amount of Securities with Duration	Option- Adjusted Duration in Years	Fair Value of Securities with No Duration Available	Total
Asset-Backed Securities	\$ 2,150	1.79	\$ -	\$ 2,150
Corporate Obligations	218,394	7.21	-	218,394
Mortgage-Backed Securities	250,091	6.20	43	250,134
Treasury Group Investment	80,838	0.08	-	80,838
U.S. Government Sponsored Enterprises	11,781	2.85	-	11,781
U.S. Treasury Obligation	342,338	6.31	-	342,338
Private Placements	11,494	4.62	-	11,494
Sovereign Debt	15,114	6.81	-	15,114
Preferred Securities	-	-	1,032	1,032
Mutual Funds	-	-	39,060	39,060
State and Municipal Obligations	4,480	12	-	4,480
Total	<u>\$ 936,680</u>		<u>\$ 40,135</u>	<u>\$ 976,815</u>

<u>2021</u>	Amount of Securities with Duration	Option-Adjusted Duration in Years	Fair Value of Securities with No Duration Available	Total
Asset-Backed Securities	\$ 2,869	1.79	\$ -	\$ 2,869
Corporate Obligations	271,498	7.87	17	271,515
Mortgage-Backed Securities	275,142	4.83	50	275,192
Treasury Group Investment	68,996	0.08	-	68,996
U.S. Government Sponsored Enterprises	13,406	3.62	-	13,406
U.S. Treasury Obligation	352,815	6.85	-	352,815
Private Placements	12,552	5.13	-	12,552
Sovereign Debt	19,356	8	-	19,356
Preferred Securities	-	-	894	894
Mutual Funds	-	-	92,567	92,567
State and Municipal Obligations	4,789	13	-	4,789
Total	<u>\$ 1,021,423</u>		<u>\$ 93,528</u>	<u>\$ 1,114,951</u>

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Treasury's policy authorizes PA 529 GSP to purchase securities denominated in a foreign currency. Foreign currency holdings totaled 12% and 8% of the total investment portfolio as of June 30, 2022 and 2021, respectively. The amounts invested, by currency, at June 30, 2022 and 2021 are as follows:

<u>Currency</u>	<u>Cash and Equivalents</u>	<u>Equities</u>	<u>Preferred Securities</u>	<u>Total</u>
<u>2022</u>				
Australian Dollar	\$ -	\$ 11,972	\$ -	\$ 11,972
British Pound Sterling	(735)	32,330	-	31,595
Canadian Dollar	419	22,169	-	22,588
Colombian Peso	7	151	35	193
Danish Krone	-	6,646	-	6,646
Euro Currency Unit	(1)	54,383	997	55,379
Hong Kong Dollar	-	43,282	-	43,282
Hungarian Forint	-	102	-	102
Indonesian Rupiah	2	1,823	-	1,825
Israeli Shekel	(310)	784	-	474
Japanese Yen	(1,155)	42,715	-	41,560
Malaysian Ringgit	2	2,593	-	2,595
Mexican Peso	-	1,779	-	1,779
New Zealand Dollar	-	1,182	-	1,182
Norwegian Krone	-	924	-	924
Philippines Peso	1	699	-	700
Singapore Dollar	-	2,941	-	2,941
South African Rand	50	4,981	-	5,031
Swedish Krona	-	4,825	-	4,825
Swiss Franc	-	18,019	-	18,019
Thailand Baht	-	939	-	939
Turkish Lira	-	90	-	90
Total	<u>\$ (1,720)</u>	<u>\$ 255,329</u>	<u>\$ 1,032</u>	<u>\$ 254,641</u>

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

*Foreign Currency Risk (Continued)*

Currency	Cash and Equivalents	Equities	Preferred Securities	Total
<u>2021</u>				
Australian Dollar	\$ -	\$ 10,308	\$ -	\$ 10,308
British Pound Sterling	3	19,339	-	19,342
Canadian Dollar	7	15,631	-	15,638
Colombian Peso	-	113	33	146
Danish Krone	-	5,446	-	5,446
Euro Currency Unit	145	45,890	861	46,896
Hong Kong Dollar	26	24,600	-	24,626
Hungarian Forint	-	174	-	174
Indonesian Rupiah	-	938	-	938
Israeli Shekel	-	911	-	911
Japanese Yen	54	45,988	-	46,042
Malaysian Ringgit	-	1,690	-	1,690
Mexican Peso	-	1,306	-	1,306
New Zealand Dollar	-	896	-	896
Norwegian Krone	-	645	-	645
Philippines Peso	-	1,142	-	1,142
Singapore Dollar	-	3,977	-	3,977
South African Rand	-	2,414	-	2,414
Swedish Krona	-	5,500	-	5,500
Swiss Franc	-	23,147	-	23,147
Thailand Baht	-	606	-	606
Turkish Lira	-	121	-	121
Total	<u>\$ 235</u>	<u>\$ 210,782</u>	<u>\$ 894</u>	<u>\$ 211,911</u>

**Securities Lending Program**

The fiscal code provides Treasury with numerous custodial responsibilities; the securities lending program (SLP) is an integral part of the custodial function. A contract between Treasury and its custodian, acting as lending agent, provides that the custodian lends securities owned by the PA 529 GSP, and other Commonwealth participants, to independent brokers, dealers, and banks, acting as borrowers.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. The fair value of collateral received must be at least 102% of the fair value of the securities lent. Securities lent consist of equity securities, U.S. Government agency obligations, U.S. Treasury obligations, corporate obligations, and investments in the PA 529 IP. All initial collateral received consists of cash. Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. Collateral other than cash is marked to market daily. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligations to borrowers are reported.

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Securities Lending Program (Continued)**

To the extent collateral received consists of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by Treasury. At June 30, 2022 and 2021, \$56,302 and \$42,861, respectively, was reported as the PA 529 GSP investments related to Treasury's securities lending program investing cash collateral into a pool. Substantially all of the cash collateral is invested in overnight repurchase agreements. Either the PA 529 GSP or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration usually overnight. Therefore, the duration of lending agreements does not generally match the maturities of the investments made with cash collateral. The resulting interest rate risk is mitigated by the lending agent's ability to reallocate lending agreements among SLP participants.

The SLP requires that the lending agent indemnify Treasury for all claims, liabilities, and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal years ended June 30, 2022 and 2021, there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury restrictions on the amount of the loans that could be made.

At June 30, 2022 and 2021, there was no credit risk related to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The carrying amount and fair value of the securities lent at June 30, 2022 and 2021 was \$54,371 and \$41,709, respectively, of individual securities.

**Fair Value Measurement**

The PA 529 GSP categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, as follows:

*Level 1* – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

*Level 2* – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and

*Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Fair Value Measurement (Continued)**

The PA 529 GSP has the following fair value measurements as of June 30, 2022 and 2021:

	Balance as of June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Debt Securities:				
Corporate Obligations	\$ 218,395	\$ -	\$ 218,395	\$ -
Asset Backed Securities	2,151	-	2,151	-
State and Municipal Obligations	4,479	-	4,479	-
U.S. Government Sponsored Enterprises	11,781	-	11,781	-
U.S. Treasury Obligations	342,337	342,337	-	-
Mortgage-Backed Securities	250,135	-	250,135	-
Private Placements	11,494	-	11,494	-
Sovereign Debt	15,114	-	15,114	-
Equity Securities:				
Equity	925,594	925,594	-	-
Preferred Securities	1,032	1,032	-	-
Other:				
Treasury Group Investment*	80,838	80,838	-	-
Mutual Funds	140,737	-	140,737	-
Total Investments by Fair Value Level	2,004,087	\$ 1,349,801	\$ 654,286	\$ -
Investments Measured at the Net Asset Value (NAV):				
Private Equity Alternative Managers	25,844			
Real Estate Alternative Managers	77,352			
Fund of Funds Alternative Managers	36,926			
Total Investments at NAV	140,122			
Total Investments Measured at Fair Value	\$ 2,144,209			

\*Treasury Group Investments are pooled and managed as Level 1. The underlying securities are comprised of 53% Level 1 and 47% Level 2. investments" (reference CCP FV%)

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Fair Value Measurement (Continued)**

	Balance as of June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Debt Securities:				
Corporate Obligations	\$ 271,515	\$ -	\$ 271,323	\$ 192
Asset Backed Securities	2,869	-	2,869	-
State and Municipal Obligations	4,789	-	4,789	-
U.S. Government Sponsored Enterprises	13,406	-	13,406	-
U.S. Treasury Obligations	352,815	352,815	-	-
Mortgage-Backed Securities	275,192	-	275,192	-
Private Placements	12,552	-	12,552	-
Sovereign Debt	19,356	-	19,356	-
Equity Securities:				
Equity	1,014,340	1,014,340	-	-
Preferred Securities	894	894	-	-
Other:				
Treasury Group Investment*	68,996	68,996	-	-
Mutual Funds	223,033	-	223,033	-
Total Investments by Fair Value Level	<u>2,259,757</u>	<u>\$ 1,437,045</u>	<u>\$ 822,520</u>	<u>\$ 192</u>

Investments Measured at the Net Asset Value (NAV):

Private Equity Alternative Managers	26,521
Real Estate Alternative Managers	60,614
Fund of Funds Alternative Managers	58,777
Total Investments at NAV	<u>145,912</u>
Total Investments Measured at Fair Value	<u>\$ 2,405,669</u>

"Treasury Group Investments are pooled and managed as Level 1. The underlying securities are comprised of 47% Level 1 and 53% Level 2. investments"

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt 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. Debt securities classified in Level 3 are valued by a loan-pricing matrix. If vendor pricing is not available, the price defaults to cost.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Level 2 valuations are based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets.



**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Fair Value Measurement (Continued)**

Other securities classified in Level 1 of the fair value hierarchy consist of mutual funds. The underlying funds are reported at fair value, determined by Vanguard based on the net asset value per share of each mutual fund as of the close of the New York Stock Exchange (NYSE) on the reporting date (Level 1 inputs). Other securities classified in Level 2 of the fair value hierarchy consist of Treasury Group investments. The underlying investments for the pools consist of 53% Level 1 securities and 47% Level 2 securities at June 30, 2022.

Investments Measured at NAV Restrictions as of June 30, 2022 and 2021:

<u>2022</u>	Fair Value	Unfunded Commitments	Redemptions Frequency	Redemption Notice Period
Private Equity Alternative Managers	\$ 25,844	\$ -	Monthly	60 days
Real Estate Alternative Managers	77,352	15,875	Monthly	N/A, 30-60 days
Fund of Funds Alternative Managers	36,926	-	Monthly, Quarterly	N/A, 45-90 days
Total Investments at NAV	<u>\$ 140,122</u>			
<u>2021</u>	Fair Value	Unfunded Commitments	Redemptions Frequency	Redemption Notice Period
Private Equity Alternative Managers	\$ 26,521	\$ -	Monthly	60 days
Real Estate Alternative Managers	60,614	11,495	Monthly	N/A, 30-60 days
Fund of Funds Alternative Managers	58,777	21,030	Monthly, Quarterly	N/A, 45-90 days
Total Investments at NAV	<u>\$ 145,912</u>			

Private Equity Managers – This type of investment objective is to provide an above average return by investing in private companies across a variety of industries. The fair value of the investments in this manager has been determined using the NAV per share (or its equivalent) of the investments. These investments cannot be easily redeemed as distributions are received through the liquidation of the underlying assets.

Real Estate Managers - This type of investment's objective is to provide investors a return by investing in Real Estate Investment Trusts, mortgage loans, and other real estate development projects in certain metropolitan markets. The fair value of the investments in these managers have been determined using the NAV per share (or its equivalent) of the investments.

Fund of Fund Managers - This type of investment objective aims to achieve broad diversification and appropriate asset allocation with investments in a variety of fund categories that are all wrapped into one fund. This strategy invests in a portfolio that contains different underlying assets through investing in other types of funds instead of investing directly in bonds, stocks, and other types of securities. The fair value of investments in this manager have been determined using the NAV per share (or its equivalent) of the investments. The redemption notices of these investments vary from 45 or 90 day required notice to a partnership agreement in which no withdrawals can occur until agreement expires.

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
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**NOTE 4 TUITION BENEFITS PAYABLE**

Tuition benefits payable represents the actuarially determined present value of future tuition obligations. The reported liability for tuition benefits payable of \$1,664,592 and \$1,663,765 at June 30, 2022 and 2021, respectively, is based on several assumptions, including those related to tuition cost increases, investment experience, income from account maintenance fees, and program expenses. The increase in the tuition benefits payable as of June 30, 2022, can be attributed to an increase in future benefits payable.

Changes in tuition benefits payable are as follows:

<u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>	<u>Due in a Year</u>
<u>\$ 1,663,765</u>	<u>\$ 229,177</u>	<u>\$ 228,350</u>	<u>\$ 1,664,592</u>	<u>\$ 319,387</u>
<u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2021</u>	<u>Due in a Year</u>
<u>\$ 1,661,199</u>	<u>\$ 213,607</u>	<u>\$ 211,041</u>	<u>\$ 1,663,765</u>	<u>\$ 321,594</u>

Important assumptions used in the actuarial valuations include the following:

Yield on investments      5.5%    all future years

Asset-based fees are 40 basis points per account with a maximum of \$500 (not in thousands) annually based on the current value of tuition credits purchased which is referred to as tuition inflation value in 2022 and future years and were 40 basis points in 2021. If an account owner opts for email delivery of statements, the fee is 30 basis points with a maximum of \$250 (not in thousands) annually in 2022 and future years.

<u>Tuition Increases</u>	<u>Annual Inflation Assumption</u>	
	<u>2022</u>	<u>2021</u>
School		
Pennsylvania Community Colleges	4.0%	4.0%
Universities of the State System of Higher Education	3.8%	3.8%
The Pennsylvania State University - Main Campus	4.8%	4.8%
The Pennsylvania State University - Branch Campuses	3.0%	3.0%
University of Pittsburgh	4.5%	4.5%
University of Pittsburgh - Branch Campuses	3.5%	3.5%
Pennsylvania College of Technology	4.8%	4.8%
Temple University	4.0%	4.0%
Lincoln University	4.3%	4.3%
State-Related Average	4.5%	4.5%
Thaddeus Stevens College	4.0%	4.0%
PA Private Colleges and Universities	5.3%	5.3%
Ivy League Universities	5.3%	5.3%

**COMMONWEALTH OF PENNSYLVANIA 529 GUARANTEED SAVINGS – (PA 529 GSP)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(IN THOUSANDS)**  
**JUNE 30, 2022 AND 2021**

**NOTE 4 TUITION BENEFITS PAYABLE (CONTINUED)**

<u>Premiums</u> School	<u>Credit Premium Assumption</u>	
	<u>2022</u>	<u>2021</u>
The Pennsylvania State University - Main Campus	0.0%	0.0%
The Pennsylvania State University - Branch Campuses	0.0%	0.0%
University of Pittsburgh	0.0%	0.0%
State-Related Average	0.0%	0.0%

**NOTE 5 COMMITMENTS AND CONTINGENCIES**

At June 30, 2022 and 2021, the PA 529 GSP had commitments remaining to fund alternative investments of \$15,875 and \$32,525, respectively.

**NOTE 6 SUBSEQUENT EVENTS**

On June 27, 2022, the Treasurer announced that all asset-based fees will be waived for the upcoming fiscal year. Additionally, all GSP accounts with at least \$100 in contributions as of June 30 received a \$10 deposit. Over 98,000 accounts were eligible for the promotion. The waived fees and \$100 deposit were funded by the GSP surplus earnings.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Stacy Garrity  
State Treasurer, Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Commonwealth of Pennsylvania Treasury Department's Tuition Account Program – Guaranteed Savings Plan (PA 529 GSP), an enterprise fund of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the PA 529 GSP's basic financial statements, and have issued our report thereon dated November 1, 2022.

***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the PA 529 GSP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PA 529 GSP's internal control. Accordingly, we do not express an opinion on the effectiveness of PA 529 GSP's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

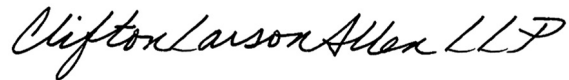
The Honorable Stacy Garrity  
State Treasurer, Commonwealth of Pennsylvania

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether PA 529 GSP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
November 1, 2022