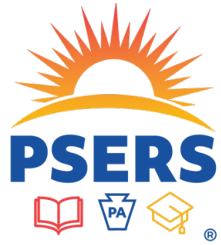


PSERB Resolution 2026-41
Re: FY2025-2026 Financial Statement Audit Report
October 22, 2026

RESOLVED, that the Public School Employees' Retirement Board accepts the recommendation of the Audit, Compliance and Risk Committee and approves the FY2025-2026 Independent Auditor's Report for the audited financial statements, attached.



PENNSYLVANIA
Public School Employees'
Retirement System

Presentation to Those Charged with Governance

Pennsylvania Public School Employees' Retirement System
June 30, 2026 Audit Results

October 14, 2026



SB & Company



October 14, 2026

Dear Pennsylvania Public School Employees' Retirement System Board,

We are pleased to present the results of our audit of the financial statements. The purpose of our audit is to express an opinion on whether the financial statements are not materially misstated in accordance with generally accepted accounting standards. As part of our audit, we considered the internal controls over financial reporting 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 internal controls.

This report summarizes our audit process, results of the audit, our observations, and required communications by either the profession or our firm.

This audit was designed to express an opinion on the financial statements. We considered, and will continue to consider, the current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and have aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you and the users of your financial statements expect.

We received the full support and assistance of the personnel. This report is intended solely for the information and use of the governing body and management, and is not intended to be and should not be used by anyone other than these specified parties.

At SB & Company, LLC, we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to evaluate our services and share with us how we can better exceed your expectations.

We appreciate this opportunity to meet with you.

Very truly yours,

SB & Company, LLC

Table of Contents

- ▶ Executive Summary
 - Scope of Services
 - Results
- ▶ Audit Approach
 - Areas of Audit Emphasis
 - Assessment of Control Environment
 - Evaluation of Key Processes
- ▶ Audit Results
 - Financial Statement Highlights
 - Summary Actuarial Information
- ▶ Required Communications





Scope of Services

- ▶ Audit of the June 30, 2026 financial statements
- ▶ Review of the annual comprehensive financial report
- ▶ Audit of the June 30, 2026 schedule of pension and OPEB employer allocations
- ▶ Year-round advice and consultation



Summary of the Results

- ▶ Issued an unmodified opinion on the financial statements
- ▶ Discovered no instances of fraud
- ▶ No material weaknesses in internal controls were identified during the audit
- ▶ Received full cooperation from management

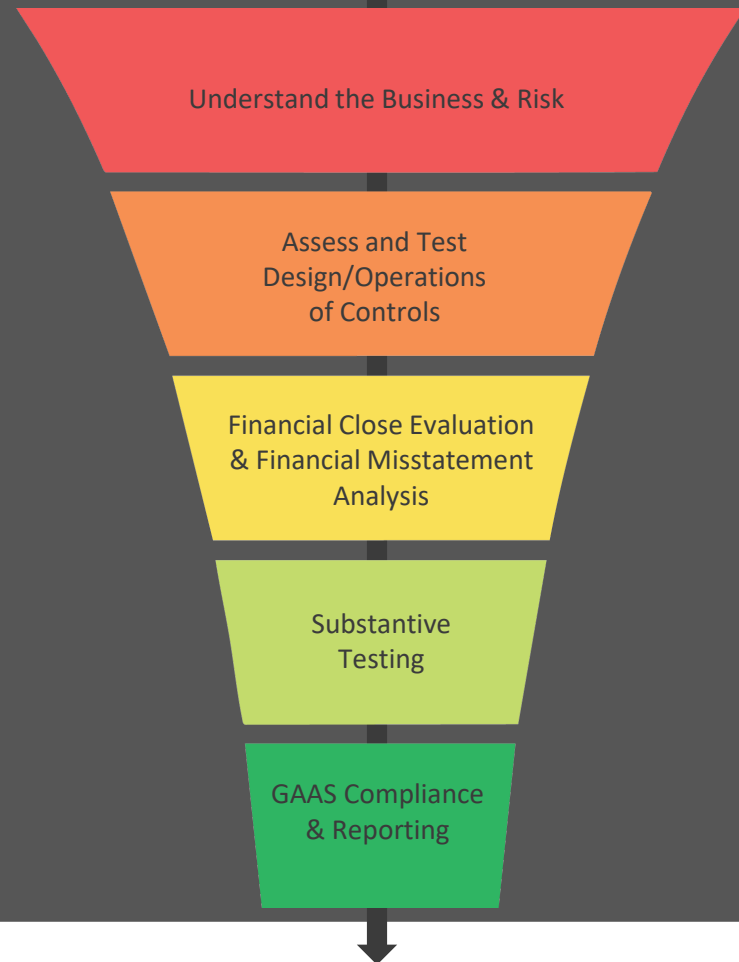
FORCAM Audit Approach



Focus On Risk, Controls, and Account Misstatement

Audit Goals

- ▶ Detect Financial Statement Misstatement Risk
- ▶ Detect Error:
 - ▶ Accounting Principles
 - ▶ Estimate
 - ▶ Information Processing
 - ▶ Account Balances
 - ▶ Footnote Disclosures
- ▶ Fraud
- ▶ Business Failure
- ▶ Risk Mitigation:
 1. Understand
 2. Evaluate
 3. Verify Facts
- ▶ Business Improvement Opportunities
- ▶ Client Expectations



Areas of Audit Emphasis

The main areas of audit emphasis included key industry, business and technical issues as identified during our audit planning and the accounts with greater risk of misstatement due to their inherent risk, error or fraud. Our audit results and comments relating to the issues are presented below.

The significant accounting principles, estimates and judgments were as follows:

- Market valuation of investments
- Total pension and OPEB liabilities
- Actuarial assumptions

The principal areas of audit emphasis were as follows:

- | | |
|---|--|
| ▪ Members' and employers' contributions | ▪ Use of third-party service providers |
| ▪ Cash disbursements | ▪ Footnote disclosure |
| ▪ Benefit payments | ▪ Administrative expenses |
| ▪ Regulatory compliance | ▪ Actuarial valuation |
| ▪ Eligibility process | ▪ Actuarial assumptions |
| ▪ Investment accounting and valuation | ▪ Related party transactions |
| ▪ Census data accounting | |

Evaluation of Control Environment

Area	Points to Consider		Effectiveness
Control Environment	<ul style="list-style-type: none"> ▶ Key executive integrity, ethics and behavior ▶ Control consciousness and operating style ▶ Commitment to competence ▶ Exercise oversight responsibility 	<ul style="list-style-type: none"> ▶ Organizational structure, responsibility, and authority ▶ Enforce accountability ▶ HR policies and procedures 	✓
Risk Assessment	<ul style="list-style-type: none"> ▶ Define objectives and risk tolerances ▶ Identify, analyze, and respond to risk ▶ Assess fraud risk ▶ Identify, analyze, and respond to change 	<ul style="list-style-type: none"> ▶ Mechanisms to anticipate, identify, and react to significant events ▶ Processes and procedures to identify changes in GAAP, business practices, and internal controls 	✓
Control Activities	<ul style="list-style-type: none"> ▶ Design control activities ▶ Design activities for the information system ▶ Implement control activities ▶ Existence of necessary policies and procedures ▶ Clear financial objectives with active monitoring ▶ Logical segregation of duties 	<ul style="list-style-type: none"> ▶ Periodic comparisons of book-to-actual and physical count-to-books ▶ Adequate safeguards of documents, records, and assets ▶ Assess controls in place 	✓
Information and Communication	<ul style="list-style-type: none"> ▶ Use quality information ▶ Communicate internally ▶ Communicate externally ▶ Adequate performance reports produced from information systems ▶ Information systems are connected with business strategy 	<ul style="list-style-type: none"> ▶ Commitment of HR and finance to develop, test, and monitor IT systems and programs ▶ Business continuity and disaster plan for IT ▶ Established communication channels for employees to fulfill responsibilities ▶ Adequate communication across organization 	✓
Monitoring Activities	<ul style="list-style-type: none"> ▶ Perform monitoring activities ▶ Remediate deficiencies ▶ Periodic evaluations of internal controls ▶ Internal audit 	<ul style="list-style-type: none"> ▶ Implementation of improvement recommendations ▶ Compliance review ▶ Enterprise risk process 	✓

Evaluation of Key Processes

Process	Function	Understood Design	Tested Operations	Effectiveness
Payroll	Hiring	✓	✓	✓
	Time and Attendance Reporting	✓	✓	✓
	Payroll Accounting and Processing	✓	✓	✓
	Payroll Disbursements	✓	✓	✓
	Separation	✓	✓	✓
Contributions	Billing	✓	✓	✓
	Recognition	✓	✓	✓
	Cash Receipts	✓	✓	✓
	Cutoff	✓	✓	✓
Fixed Assets	Physical Custody	✓		✓
	Capital Project Management	✓		✓
	Asset Accounting	✓		✓
	Depreciation	✓		✓
	Asset Retirement, Disposal and Impairment	✓		✓
Compliance	Assess Internal and External Risk	✓		✓
	Regulatory Compliance	✓		✓
	Monitor Compliance	✓		✓
	Compliance	✓		✓

Evaluation of Key Processes

Process	Function	Understood Design	Tested Operations	Effectiveness
Financial Reporting	Accounting Principles and Disclosure	✓	✓	✓
	Closing the Books	✓	✓	✓
	Report Preparation	✓	✓	✓
	General Ledger and Journal Entry Processing	✓	✓	✓
	Verification and Review of Results	✓	✓	✓
Treasury	Cash Management	✓	✓	✓
	Investment Accounting	✓	✓	✓
	Investment Trading	✓	✓	✓
	Investment Valuation	✓	✓	✓
	Investment Policy Compliance	✓	✓	✓
	Investment Allocation	✓	✓	✓
Estimation	Methodology	✓	✓	✓
	Information	✓	✓	✓
	Calculation	✓	✓	✓
	Assumption	✓	✓	✓

Evaluation of Key Processes

Process	Function	Understood Design	Tested Operations	Effectiveness
Participant Data	Data Control	✓	✓	✓
	Eligibility	✓	✓	✓
	Data Transfer	✓	✓	✓
	Employer and Employee Contribution	✓	✓	✓
Benefit/Claims Payments	Benefit Calculations	✓	✓	✓
	Claims Processing	✓	✓	✓
	Cash Disbursements	✓	✓	✓

Evaluation of Key Processes

Process	Function	Understood Design	Tested Operations	Effectiveness
Information Technology	Logical Access Controls	✓	✓	✓
	Program Changes	✓	✓	✓
	System Operations	✓	✓	✓
	System Mitigation and Data Conversion	✓		✓
	Physical and Environmental Controls	✓	✓	✓
	Back-up and Recovery	✓	✓	✓
	Networks and Communication	✓	✓	✓
	Cloud Service Providers Oversight	✓	✓	✓
	Encryption	✓	✓	✓
	System Maintenance/Software Versions	✓	✓	✓
	Information Technology Policy Framework	✓	✓	✓
	Cybersecurity Preparedness	✓	✓	✓
	Third Party User controls	✓	✓	✓
	Selected Application Controls	✓	✓	✓

Financial Statement Highlights

Statements of Fiduciary Net Position for the Years Ended June 30,

	2026	2025	2024
Receivables	\$ 3,033,563	\$ 3,168,278	\$ 2,565,806
Investments	90,835,265	82,429,238	76,496,369
Securities lending collateral pool	861,246	-	-
Other assets	46,456	81,692	88,775
Total assets	<u>94,776,530</u>	<u>85,679,208</u>	<u>79,150,950</u>
Benefits payable and premium advances	912,624	881,711	915,305
Obligations under securities lending	861,246	-	-
Other liabilities	672,287	1,068,635	863,554
Total liabilities	<u>2,446,157</u>	<u>1,950,346</u>	<u>1,778,859</u>
Restricted net position	<u>\$ 92,330,373</u>	<u>\$ 83,728,862</u>	<u>\$ 77,372,091</u>

Note: amounts in thousands.

Financial Statement Highlights

Statements of Changes in Fiduciary Net Position for the Years Ended June 30,

	2026	2025	2024
Members contributions	\$ 1,362,004	\$ 1,279,699	\$ 1,267,619
Employer contributions	5,860,358	5,644,037	5,418,721
Premiums	671,174	586,469	510,761
Investment income, net	9,540,826	7,405,992	5,771,997
Total additions	<u>17,434,362</u>	<u>14,916,197</u>	<u>12,969,098</u>
Benefits, refunds, and distributions	8,726,318	8,454,278	8,338,361
Administrative expenses	106,533	105,148	100,587
Total deductions	<u>8,832,851</u>	<u>8,559,426</u>	<u>8,438,948</u>
Net change	<u>\$ 8,601,511</u>	<u>\$ 6,356,771</u>	<u>\$ 4,530,150</u>

Note: amounts in thousands.

Financial Statement Highlights

Actuarial Information for Pension for the Years Ended June 30,

	2026	2025	2024
Total pension liability	\$ 123,510,016	\$ 121,447,879	\$ 118,347,937
Less: Plan fiduciary net position	90,905,643	82,631,210	76,492,994
Net pension liability	<u>\$ 32,604,373</u>	<u>\$ 38,816,669</u>	<u>\$ 41,854,943</u>
Plan fiduciary net position as a % of TPL	73.60%	68.04%	64.63%
Covered payroll	<u>\$ 17,197,970</u>	<u>\$ 16,570,598</u>	<u>\$ 15,872,930</u>
	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	<u>\$ 46,312,559</u>	<u>\$ 32,604,373</u>	<u>\$ 21,031,040</u>

Note: amounts in thousands.

Financial Statement Highlights

Summary of Actuarial Information for Pension for the Year Ended June 30, 2026

Actuarial Cost Method	Entry Age Normal - level % of pay
Salary Growth	Effective average of 4.90%, comprised of inflation of 2.50% and 2.40% for real wage growth and for merit or seniority increases
Payroll Growth	3.00%
Investment Rate of Return	7.00%, includes inflation at 2.50%
Mortality	Blended table based on 50% PubT-2016 Employee (Total Teacher dataset) and 50% PubG-2016 (Total General Employees data), adjusted to reflect PSERS' experience and projected using a modified version MP-2021. For disabled annuitants Pub-2016 General Disabled Amount Weighted Male and Female Mortality Tables with SOA scale MP-2021.

Financial Statement Highlights

Actuarial Information for OPEB for the Years Ended June 30,

	2026	2025	2024
Total OPEB liability	\$ 1,785,208	\$ 1,777,941	\$ 1,912,907
Less: Plan fiduciary net position	132,486	133,377	136,448
Net OPEB liability	<u>\$ 1,652,722</u>	<u>\$ 1,644,564</u>	<u>\$ 1,776,459</u>
Plan fiduciary net position as a % of TPL	7.42%	7.50%	7.13%
Covered payroll	<u>\$ 17,197,970</u>	<u>\$ 16,570,598</u>	<u>\$ 15,872,930</u>
	1% Decrease	Current	1% Increase
	3.32%	Discount Rate	5.32%
Net OPEB liability	<u>\$ 1,861,840</u>	<u>\$ 1,652,722</u>	<u>\$ 1,477,018</u>

Note: amounts in thousands.

Financial Statement Highlights

Summary of Actuarial Information for OPEB for the Year Ended June 30, 2026

Actuarial Cost Method	Entry Age Normal - level % of pay
Salary Growth	Effective average of 4.90%, comprised of inflation of 2.50% and 2.40% for real wage growth and for merit or seniority increases
Payroll Growth	3.00%
Investment Rate of Return	4.32% - S&P 20-Year Municipal Bond Rate
Mortality	Blended table based on 50% PubT-2016 Employee (Total Teacher dataset) and 50% PubG-2016 (Total General Employees data), adjusted to reflect PSERS' experience and projected using a modified version MP-2021. For disabled annuitants Pub-2016 General Disabled Amount Weighted Male and Female Mortality Tables with SOA scale MP-2021.
Healthcare Cost Trends	Pre-Age 65 trend rate 5.00% - 6.60%, Post Age 65 trend rate 5.00%

New Accounting Pronouncements

GASB No.	Statement	Effect On PSERS	Effective Date
103	Financial Reporting Model Improvements	No material impact	Fiscal Year 2026
104	Disclosure of Certain Capital Assets	No material impact	Fiscal Year 2026
105	Subsequent Events	Updating disclosure of subsequent events	Fiscal Year 2027

Required Communications

1. Auditor's Responsibilities Under Generally Accepted Auditing Standards (GAAS)

The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, and provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

- ▶ *The significant accounting policies used by management are described in the notes to the financial statements and all were appropriate.*

3. Auditor's Judgments About the Quality of Accounting Principles

We discuss our judgments about the quality, not just the acceptability, of accounting principles selected by management, the consistency of their application, and the clarity and completeness of the financial statements, which include related disclosures.

- ▶ *We have reviewed the significant accounting policies adopted and have determined that those policies are acceptable accounting policies.*

4. Audit Adjustments

We are required to inform the oversight body about adjustments arising from the audit (whether recorded or not) that could in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process. We also are required to inform PSERS' oversight body about unadjusted audit differences that were determined by management to be, individually and in the aggregate, immaterial.

- ▶ *There were no adjustments identified during the audit process.*

Required Communications

5. Fraud and Illegal Acts

We are required to report to PSERS's oversight body any fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.

- ▶ *Our procedures identified no instances of fraud or illegal acts.*

6. Material Weaknesses in Internal Controls

We are required to communicate all significant deficiencies in PSERS's systems of internal controls, whether or not they are also material weaknesses.

- ▶ *There were no material weaknesses noted during the audit.*

7. Other Information in Documents Containing Audited Financial Statements

- ▶ *None.*

8. Disagreements with Management on Financial Accounting and Reporting Matters

- ▶ *None.*

9. Serious Difficulties Encountered in Performing the Audit

- ▶ *None.*

10. Major Issues Discussed with Management Prior to Acceptance

- ▶ *None.*

11. Management Representations

- ▶ *We will receive written representations from management as part of the completion of the audit.*

12. Consultation with Other Accountants

- ▶ *We are not aware of any consultation with other CPA firms.*

13. Non-attest Services

We are required to report all non-attest services we have performed during the year.

- ▶ *None.*

Required Communications

14. Independence

As part of our client acceptance process, we go through a process to ensure we are independent of PSERS.

- ▶ *We are independent of PSERS.*

15. Subsequent Events

We are required to evaluate all subsequent events through our opinion date that may require an adjustment or additional disclosure to the financial statements.

- ▶ *We are not aware of any subsequent events that would require an adjustment or additional disclosure to these financial statements.*

16. Information Technology Responsibility

We obtained an understanding of the design and operations of internal controls, including relevant information technology (IT) internal controls on which we may place reliance.

Our procedures did not address all technology-related risks and were not designed to express an opinion on the effectiveness of technology-related internal controls. Accordingly, our work may not identify all material weaknesses in internal controls or all vulnerabilities related to information technology, including those that could result in a data/cyber breach.

17. Our Responsibility Related to Fraud

We must:

- Plan and perform the audit to obtain reasonable assurance that there is no material misstatement caused by error or fraud;
- Comply with AU-C Section 240: Consideration of Fraud in a Financial Statement Audit;
- Approach all audits with an understanding that fraud could occur in any entity, at any time, by anyone; and
- Perform mandatory procedures required by GAAS and our firm policies.

▶ *Examples of Procedures Performed*

- ▶ *Discuss thoughts and ideas on where the financial statements might be susceptible to material misstatement due to fraud;*
- ▶ *Understand pressures on the financial statement results;*
- ▶ *Understand the tone and culture of PSERS;*
- ▶ *Look for unusual or unexpected transactions, relationships, or procedures;*
- ▶ *Evaluate key processes and controls;*
- ▶ *Consider information gathered throughout the audit; and*
- ▶ *Apply professional skepticism*

The Fraud Triangle

OPPORTUNITY

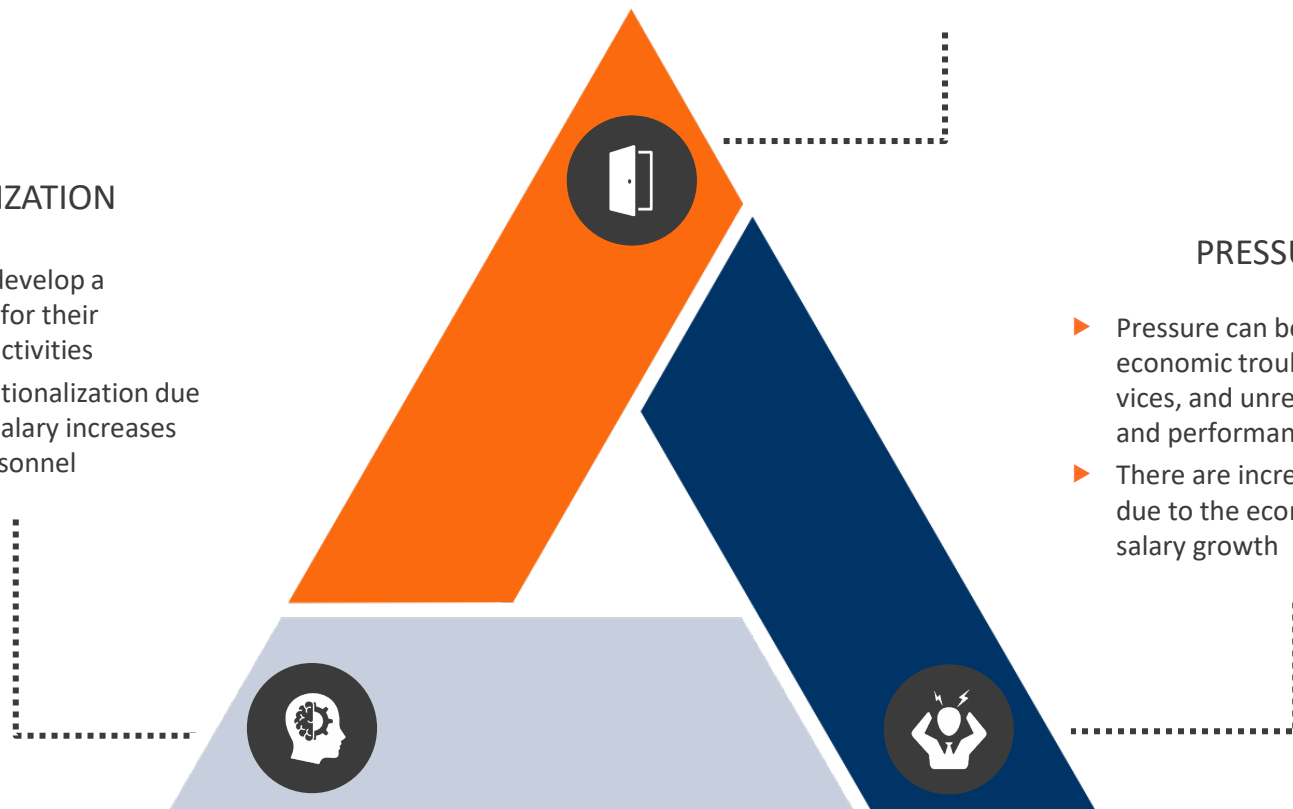
- ▶ Generally provided through weaknesses in internal controls
- ▶ Tone at the top is important

RATIONALIZATION

- ▶ Individuals develop a justification for their fraudulent activities
- ▶ Increased rationalization due to minimal salary increases and less personnel

PRESSURE

- ▶ Pressure can be imposed due to economic troubles, personal vices, and unrealistic deadlines and performance goals
- ▶ There are increased pressures due to the economy and minimal salary growth



Responsibility for Mitigating Fraud

1. Management:

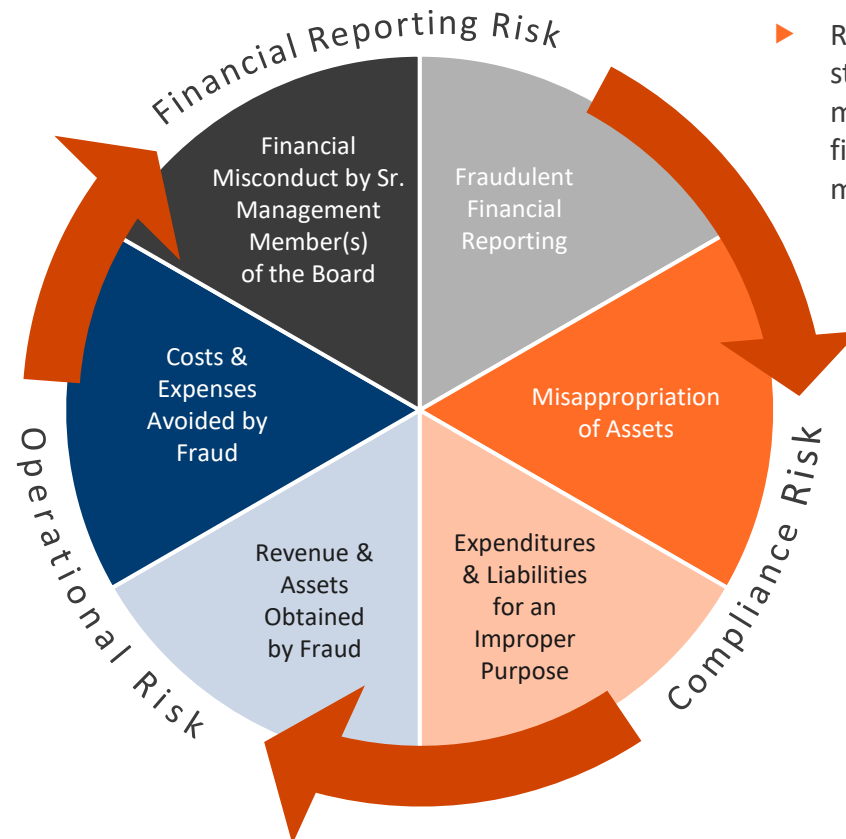
- ▶ CFO/Controller: controls to deter and detect fraud
- ▶ General Counsel/ Compliance: monitoring

2. Governance:

- ▶ Evaluate management identification of fraud risk and mitigation
- ▶ Evaluate implementation of fraud controls
- ▶ Reinforce “tone at the top”
- ▶ Conduct special investigations

3. External Auditor:

- ▶ Evaluate management programs and controls to deter and detect fraud for identified risks
- ▶ Reasonable assurance that financial statements are free of material misstatement due to fraudulent financial reporting or misappropriation of assets
- ▶ Compliance with fraud standard (SAS 99)
 - ▶ Conversations with finance and operations personnel
 - ▶ Disaggregated analytics
 - ▶ Surprise audit procedures
 - ▶ Journal entry testing



Questions?



Client Service Team

Contact Information



William "Bill" Seymour
Engagement Partner

Phone: 410-584-1404

Cell: 443-220-4401

wseymour@sbandcompany.com



Tiana Wynn
Audit Partner

Phone: 410-584-2203

Cell: 443-416-6903

twynn@sbandcompany.com



Renata Reis
Engagement Manager

Phone: 443-353-5451

Cell: 240-938-8528

rreis@sbandcompany.com



Julie Paris
IT Risk Manager

Phone: 443-353-5450

Cell: 443-742-9652

jparis@sbandcompany.com

Executive Assistant:
Chiami Asemota

Office: 443-705-5076

casemota@sbandcompany.com

Executive Assistant:
Susan Teneza

Phone: 410-584-9303

steneza@sbandcompany.com



SB & Company

Knowledge, Quality, Client Service

Thank you.



202-434-8684



sbmarketing@sbandcompany.com



www.sbandcompany.com



1650 Market Street, Suite 3600, Philadelphia, PA 19103