

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION

COMMONWEALTH OF PENNSYLVANIA

SINGLE AUDIT REPORTING PACKAGE

YEAR ENDED June 30, 2014

SECTION I

Financial Statements for the Year Ended June 30, 2014

SECTION II

Single Audit Report for the Year Ended June 30, 2014



Pennsylvania's
STATE SYSTEM
of Higher Education

FINANCIAL STATEMENTS
JUNE 30, 2014

**Pennsylvania's State System of Higher Education
Financial Statements
June 30, 2014**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and the aggregate discretely presented component units of the Pennsylvania State System of Higher Education ("the State System"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the State System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100% percent, 100% percent, and 100% percent, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and the aggregate discretely presented component units of the State System as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note (1) to the financial statements, the State System implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2014, which represents a change in accounting principle. As of July 1, 2012, the State System’s net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note (1). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3-13 and the schedules of funding progress for OPEB on page 36 be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2014, on our consideration of the State System’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 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 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 State System’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
September 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

As the public universities of the Commonwealth of Pennsylvania (Commonwealth), the 14 universities of Pennsylvania's State System of Higher Education (State System) are charged with providing high quality education at the lowest possible cost to the students. With over 110,000 students enrolled, the State System is the state's largest higher education provider. Its 14 universities offer the lowest-cost four-year baccalaureate degree programs in the state in more than 120 areas of study. The universities function independently, but being part of the State System enables them to share resources and benefit from economies of scale.

The State System financial statements comprise:

- Bloomsburg University of Pennsylvania
- California University of Pennsylvania
- Cheyney University of Pennsylvania
- Clarion University of Pennsylvania
- East Stroudsburg University of Pennsylvania
- Edinboro University of Pennsylvania
- Indiana University of Pennsylvania
- Kutztown University of Pennsylvania
- Lock Haven University of Pennsylvania
- Mansfield University of Pennsylvania
- Millersville University of Pennsylvania
- Shippensburg University of Pennsylvania
- Slippery Rock University of Pennsylvania
- West Chester University of Pennsylvania
- Office of the Chancellor

Following is an overview of the State System's financial activities for the year ended June 30, 2014, as compared to the year ended June 30, 2013.

FINANCIAL HIGHLIGHTS

In fiscal year 2013/14, the State System received \$412.8 million in General Fund **appropriations** from the Commonwealth, the same amount as

received in fiscal years 2012/13 and 2011/12. This also is the same level of funding the State System received in fiscal year 1997/98—16 years ago.

The State System received a \$13.6 million Realty Transfer Tax allocation from the Commonwealth's **Key '93** (Keystone Recreation, Park and Conservation) Fund, an increase of \$1.9 million, or 16%, from fiscal year 2012/13. With the exception of fiscal years 2010/11 and 2009/10, when no funding was provided, Key '93 funds have provided a consistent revenue stream for university deferred maintenance projects since 1993.

The State System received \$65 million in **Commonwealth capital funding**, primarily for renovation or replacement of existing educational and general buildings. With the exception of fiscal years 2010/11 and 2009/10, when the Commonwealth's capital funding for the State System was \$130 million each year, the State System has received \$65 million annually in Commonwealth capital funding since fiscal year 2000/01. Annual funding is expected to remain at \$65 million for the foreseeable future. The capital appropriations reflected in these statements represent the furnishings and equipment for the Commonwealth-funded construction projects and total \$14.4 million and \$14.8 million in fiscal years 2013/14 and 2012/13, respectively.

As part of its continuing commitment to reward the universities for demonstrated success and continued improvement in student achievement, university excellence, and operational efficiency, the State System's Board of Governors (Board) allocated \$37.0 million of the general appropriation for **performance funding** in fiscal year 2013/14, approximately 1% more than the \$36.6 million allocated in fiscal year 2012/13. Performance funding allocated in fiscal year 2011/12 was \$35.9 million.

Fall 2013 enrollment was 112,028, a decrease of 2,443 students, or 2.1%, from fall 2012. This is the third year in a row that the State System has experienced an **enrollment decline**. Fall 2012 enrollment was 114,471, a decrease of 3,753 students, or 3.2%, from the fall 2011 enrollment of 118,224. Fall 2011 was the first year enrollment had declined since 1999. Despite these three years of decline, the State System's fall enrollment has increased 38% since fall of 1983, which was the first year of operation as a System.

Of the 112,028 **students** in the fall 2013 enrollment, 95,494 (85%) were full-time and 16,534 (15%) were part-time students; 98,396 (88%) were undergraduate and 13,632 (12%) were graduate students. These percentages of full- and part-time, graduate and undergraduate, are approximately the same as in fall 2012.

In academic year 2012/13, the State System awarded 25,632 **degrees**, comprising 19,635 bachelor's degrees; 5,416 master's degrees; 175 doctoral degrees; and 406 associate's degrees. This compares to 26,203 degrees awarded in academic year 2011/12 and 22,870 degrees awarded in academic year 2010/11.

The Board approved an annual full-time **tuition rate increase** of \$194 (3%) for undergraduate resident students in fiscal year 2013/14. This compares to an increase of \$188 (3%) in fiscal year 2012/13. The State System's 2013/14 annual tuition rate of \$6,622 for full-time, resident, undergraduate students is the lowest of baccalaureate degree programs in the state.

The Board approved **new tuition rates for resident graduate students and all nonresident students**. The resident graduate tuition rate in 2013/14 was \$442 per credit, an increase of \$13. Nonresident graduate tuition increased by \$19 per credit to \$663. Full-time, undergraduate tuition for nonresident students ranged from \$9,934 to \$16,556, depending on a variety of factors, including the university and program in which a student enrolled, academic preparation, and state of residency. All of the increases average approximately 3%.

The Board approved a \$5 increase to the **tuition technology fee** (\$368 annually) for full-time resident undergraduate students and an \$8 increase (\$558 annually) for full-time

nonresident undergraduate students. All funds raised by the technology fee are used to directly benefit student learning. Universities have used the funds to install new computer labs and to design multimedia classrooms, among other projects.

Mandatory student fees set by the universities increased, on average, by 3.2%. These increases, combined with the increase in tuition and reduction in enrollment, resulted in tuition and mandatory fee revenue (before discounts) of \$1.06 billion, a 4.2% increase over fiscal year 2012/13. The average increase in mandatory student fees was 0.4% in fiscal year 2012/13 over the prior year.

Auxiliary revenue from **room and board fees** (excluding privatized housing revenue recorded by affiliates) was \$266.8 million, an increase of \$0.3 million, or 1.2%, over fiscal year 2012/13. This compares to a fiscal year 2012/13 increase of 7.9% in room and board revenue over the prior fiscal year.

The State System's **average price of attendance** (tuition, mandatory fees, room, and board) of \$18,028 in 2013/14 was \$363 below the average among all four-year public universities in the United States and \$2,228 below the average in the Middle States region (Delaware, Maryland, New Jersey, New York, Pennsylvania, and Washington, D.C.), according to the latest College Board survey.

The State System purchased \$119.9 million in **capital assets** in fiscal year 2013/14, including \$91.5 million to build or improve academic and auxiliary facilities across all 14 universities.

During fiscal year 2013/14, the State System issued Series AO bonds, totaling \$30.9 million, to undertake various university capital projects and issued Series AP bonds, totaling \$46.1 million, to current refund Series Z and AA bonds. \$65.6 million of bond principal and \$44.0 million of interest were paid, and \$51.4 million of bonds were redeemed, bringing the total outstanding **bond debt** to \$859.9 million at June 30, 2014.

In April 2014, Moody's Investors Service, Inc., reaffirmed the State System's **Aa3 bond rating**, but downgraded its current outlook from *stable* to *negative*.

THE FINANCIAL STATEMENTS

Balance Sheet

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

The Governmental Accounting Standards Board, or GASB, issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the year ended June 30, 2013, adding new balance sheet classifications and changing the terminology of other balance sheet classifications:

- *Assets* include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation.
- *Deferred Outflows of Resources*, which is defined as a consumption of net position that applies to future periods, reports the deferred loss on bond defeasance.
- *Liabilities* include payments due to vendors and students; the balance of bonds payable; and liabilities such as workers' compensation (the State System is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees).
- *Deferred Inflows of Resources*, which is defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance.
- *Net Position*, which was previously referred to as *Net Assets* or *Fund Balance*, is the sum of Assets plus Deferred Outflows of Resources less Liabilities less Deferred Inflows of Resources.

GASB believes that the new classifications and terminology improve financial reporting and provide clarity to the financial statements.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* reports the revenues earned and the expenses incurred during the fiscal

year. The result is reported as an increase or decrease in net position.

In accordance with GASB requirements, the State System has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public colleges' and universities' **state appropriations are nonoperating revenues**. In addition, GASB requires classification of gifts, Pell grants, investment income and expenses, unrealized gains and losses on investments, interest expense, and losses on disposals of assets as nonoperating. The State System classifies all of its remaining activities as operating.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, required a restatement of the June 30, 2013, *Statement of Revenues, Expenses, and Changes in Net Position*, to reflect the change in reporting bond issuance costs from an asset that is amortized over the life of the bond to an expense in the year incurred.

Statement of Cash Flows

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

Net Position

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

- *Net investment in capital assets* is the cost of land, buildings, improvements, equipment, furnishings, and library books, net of accumulated depreciation, less any associated debt (primarily bonds payable). This balance is not available for the State System's use in ongoing operations, since the underlying assets would have to be sold in order to use the balance to pay current or long-term obligations. The Commonwealth prohibits the State System from selling university land and buildings without prior approval.
- *Restricted* net position represents the portion of balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. *Nonexpendable* restricted net position represents corpuses of endowments and similar arrangements in which only the

associated investment income can be spent. *Expendable* restricted net position represents the portion of restricted funds that is available for expenditure as long as any external purpose and time restrictions are met.

\$73.4 million to \$1.01 billion for the year ended June 30, 2014. Because this liability is expected to be realized gradually over time, and because of its size, the universities fund it only as it becomes due.

- *Unrestricted* net position includes funds that the Board or university presidents have designated for specific purposes, auxiliary funds, and all other funds not appropriately classified as restricted or invested in capital assets.

- The liability for **compensated absences** increased by \$4.8 million to \$114.7 million for the year ended June 30, 2014. Similar to the postretirement benefits liability, cash payouts to employees upon termination or retirement for annual and sick leave balances are expected to be realized gradually over time.

Unrestricted net position reflects two unfunded liabilities:

- The liability for **postretirement benefits** for employees who participate in the State System health care plan increased by

Overall, net position decreased by \$52.8 million in fiscal year 2013/14, compared to a decrease of \$13.9 million (*restated*) in fiscal year 2012/13.

Following is a summary of the balance sheet at June 30, 2014, 2013, and 2012.

(in millions)

Balance Sheet						
	June 30, 2014	Change from Prior Year	Restated June 30, 2013	Change from Prior Year	Restated June 30, 2012	Change from Prior Year
Assets						
Cash and investments	\$1,363.1	0.0%	\$1,362.8	1.7%	\$1,340.3	11.7%
Capital assets, net	1,616.8	(0.8%)	1,629.6	0.4%	1,623.4	4.6%
Other assets and deferred outflows	184.8	5.1%	175.9	(5.6%)	186.4	(11.0%)
Total assets and deferred outflows	\$3,164.7	(0.1%)	\$3,168.3	0.6%	\$3,150.1	6.4%
Liabilities						
Workers' compensation	\$21.7	1.9%	\$21.3	7.6%	\$19.8	4.2%
Compensated absences	114.7	4.4%	109.9	1.6%	108.2	6.3%
Postretirement benefits	1,007.1	7.9%	933.7	8.0%	864.4	9.2%
Bonds payable	859.9	(4.4%)	899.8	(4.4%)	941.7	6.4%
Other liabilities and deferred inflows	422.3	2.5%	411.8	0.4%	410.3	(2.9%)
Total liabilities and deferred inflows	2,425.7	2.1%	2,376.5	1.4%	2,344.4	5.6%
Net Position						
Net investment in capital assets	684.4	5.7%	647.7	5.4%	614.4	2.1%
Restricted	103.3	11.7%	92.5	7.3%	86.2	12.7%
Unrestricted	(48.7)	(194.4%)	51.6	(50.9%)	105.1	66.8%
Total net position	739.0	(6.7%)	791.8	(1.7%)	805.7	8.7%
Total liabilities, deferred inflows, and net position	\$3,164.7	(0.1%)	\$3,168.3	0.6%	\$3,150.1	6.4%

Revenues and Expenses

Overall, fiscal year 2013/14 **operating revenues** increased by 1.1% from the prior fiscal year. Nonoperating revenues increased slightly by 0.1%. **Investment income** (before investment expenses) for fiscal year 2013/14 was \$26.2 million. This represents an increase of \$5.8 million from the prior year. The increase is due in part to the slowing of the rate of decline in interest rates during the course of the fiscal year and to the increase in the average monthly operating capital, which was \$43 million, or 3.5%, higher than in the previous fiscal year. The increase in operating capital can be attributed to the universities' conservative budgeting and spending practices during this financially challenging time.

Universities spent \$721.0 million on **instruction**, or 36.5% of total operating expenses, in fiscal year 2013/14. This represents an increase of \$16.5 million, or 2.3%, over fiscal year 2012/13.

Financial aid to students in the form of waivers and scholarships was \$297.2 million in fiscal year 2013/14, an increase of \$10.3 million from the previous year. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the State System reported \$219.8 million of financial aid as *scholarship discounts and allowances* (netted against tuition and fees) and \$75.6 million as *student aid* expense in fiscal year 2013/14. \$1.8 million of financial aid was reported in Auxiliary enterprises. Following is the breakdown of scholarship discounts and allowances and waivers in fiscal years 2013/14 and 2012/13.

(in millions)

Student Financial Aid		
	2013/14	2012/13
Federal Pell grants	\$143.7	\$140.6
Other federal aid	5.3	6.8
State financial aid including		
PHEAA grants	95.4	89.6
Local government financial aid	1.7	1.7
Scholarships from endowments and restricted gifts and grants	15.5	13.0
Unrestricted scholarships and fellowships	13.9	12.3
Tuition and fee waivers	20.4	21.6
Housing and dining waivers	1.3	1.3
Total	\$297.2	\$286.9

Interest expense on capital asset-related debt was \$36.9 million, a decrease of \$1.1 million over fiscal year 2012/13.

Salaries and benefits totaled \$1.3 billion in fiscal year 2013/14. Compared to fiscal year 2012/13, salary and wage expenses increased by \$10.1 million, or 1.2%, while benefit expenses increased by \$30.9 million, or 7.2%, for an overall increase of \$41.0 million.

- Employer share of **employee health care** costs increased \$9.9 million over fiscal year 2012/13, for a total increase of 8.5%. This follows an increase of 2.9% (\$3.3 million) and a decrease of 6.1% (\$7.4 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years.
- Employer share of **annuitant health care** costs increased \$8.3 million over fiscal year 2012/13, for a total increase of 6.0%. This follows consecutive increases of 2.2% (\$3.0 million) and 6.9% (\$8.7 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years. The increases are caused not only by the increase in health care costs, but also by the increase in the number of retirees.
- Employer contributions to **SERS** (Commonwealth of Pennsylvania State Employees' Retirement System), which is a defined benefits pension plan, increased \$13.0 million over fiscal year 2012/13, for a total increase of 42.6%. This follows consecutive increases of 48.1% (\$9.9 million) and 58.5% (\$7.6 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years. The steep increases were instituted by SERS to fund its unfunded actuarial accrued liability, which was \$17.9 billion at December 31, 2013, up from \$17.8 billion at December 31, 2012. Approximately 40% of the State System's employees are enrolled in SERS.
- Employer contributions to **PSERS** (Public School Employees' Retirement System), which is a defined benefits pension plan, increased 39.3% over fiscal year 2012/13, for a total increase of \$1.1 million. This follows consecutive increases of 55.6% (\$1.0 million) and 20.0% (\$0.3 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years. The steep increases were instituted by PSERS to fund its unfunded actuarial accrued liability, which was \$29.5 billion at June 30, 2013, up

from \$26.5 billion at June 30, 2012. Since only approximately 7% of the State System's employees are enrolled in PSERS, the impact of contribution rate increases from PSERS is far less than the impact from SERS.

- Employer contributions to the **ARP** (Alternate Retirement Plan), which is a defined contribution plan, increased 1.9% over fiscal year 2012/13, for a total increase of \$0.8 million. This follows an increase of 2.6% (\$1.1 million) and a decrease of 2.1% (\$0.9 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years. The changes in annual contributions are attributed to fluctuating employee participation. The employer

contribution rate (9.29%) has been the same since the plan's inception. Since the ARP is a defined contribution plan, the State System has no liabilities related to future benefits. Approximately 49% of the State System's employees are enrolled in the ARP.

- The total cost for **all other employee benefits**, such as Social Security and workers' compensation, decreased by a total of \$2.2 million, or 2.3% less than fiscal year 2012/13, compared to an increase of \$1.5 million in fiscal year 2012/13, or 1.6%, over fiscal year 2011/12.

Following are summaries of salaries, wages, and benefits expenses for the years ending June 30, 2014, 2013, and 2012.

(in millions)

Salaries, Wages, and Benefits

	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year	June 30, 2012	Change from Prior Year
Salaries and wages	\$879.5	1.2%	\$869.4	1.8%	\$853.9	(2.7%)
Benefits						
Employee health care	117.9	8.6%	108.6	3.6%	104.8	(6.9%)
Health & Welfare Fund	8.9	7.2%	8.3	(5.7%)	8.8	4.8%
Annuitant health care	146.2	6.0%	137.9	2.2%	134.9	6.9%
SERS	43.5	42.6%	30.5	48.1%	20.6	58.5%
PSERS	3.9	39.3%	2.8	55.6%	1.8	20.0%
Alternative Retirement Plan (ARP)	43.9	1.9%	43.1	2.6%	42.0	(2.1%)
Other benefits	94.6	(2.3%)	96.8	1.6%	95.3	(2.4%)
Total benefits	458.9	7.2%	428.0	4.9%	408.2	1.5%
Total salaries, wages, and benefits	\$1,338.4	3.2%	\$1,297.4	2.8%	\$1,262.1	(1.4%)

Following are summaries of revenues and expenses for the years ending June 30, 2014, 2013, and 2012.

(in millions)

	Revenues and Gains					
	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year	June 30, 2012	Change from Prior Year
Operating revenues						
Tuition and fees, net	\$809.3	0.6%	\$804.2	2.3%	\$786.4	8.7%
Grants and contracts	160.8	1.8%	157.9	(9.8%)	175.0	5.2%
Auxiliary enterprises, net	331.4	(0.5%)	332.9	1.8%	327.1	2.5%
Other	53.2	19.6%	44.5	(21.5%)	56.7	38.6%
Total operating revenues	1,354.7	1.1%	1,339.5	(0.4%)	1,345.2	7.6%
Nonoperating revenues and gains						
State appropriations	427.1	(0.1%)	427.6	1.2%	422.5	(16.3%)
Investment income, net	26.2	28.4%	20.4	(16.7%)	24.5	2.1%
Unrealized gain on investment	-	-	-	(100.0%)	11.7	91.8%
Gifts, nonoperating grants, and other	167.4	(2.6%)	171.8	(1.5%)	174.4	(2.1%)
Total nonoperating revenues and gains	620.7	0.1%	619.8	(2.1%)	633.1	(11.2%)
Total revenues and gains	\$1,975.4	0.8%	\$1,959.3	(1.0%)	\$1,978.3	0.8%

(in millions)

	Expenses and Losses					
	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year	June 30, 2012	Change from Prior Year
Operating expenses						
Instruction	\$721.0	2.3%	\$704.5	3.1%	\$683.4	(1.9%)
Research	5.1	(5.6%)	5.4	(18.2%)	6.6	(7.0%)
Public service	37.5	9.6%	34.2	1.2%	33.8	(5.1%)
Academic support	171.9	0.6%	170.8	7.5%	158.9	(0.1%)
Student services	176.6	3.7%	170.3	2.4%	166.3	1.0%
Institutional support	264.0	2.3%	258.1	2.7%	251.4	0.7%
Operations and maintenance of plant	152.3	6.4%	143.2	4.4%	137.1	(2.3%)
Depreciation	120.2	0.6%	119.5	5.6%	113.2	4.6%
Student aid	75.6	1.5%	74.5	(2.7%)	76.6	(3.8%)
Auxiliary enterprises	251.8	3.5%	243.3	3.3%	235.5	1.9%
Total operating expenses	1,976.0	2.7%	1,923.8	3.3%	1,862.8	(0.5%)
Other expenses and losses						
Interest expense on capital asset-related debt	36.9	(2.6%)	37.9	(8.9%)	48.6	33.5%
Loss on disposal of assets	12.1	92.1%	6.3	173.9%	2.3	283.3%
Unrealized loss on investment	3.2	(37.3%)	5.1	-	-	-
Total other expenses and losses	52.2	5.7%	49.3	(3.1%)	50.9	37.6%
Total expenses and losses	\$2,028.2	2.8%	\$1,973.1	3.1%	\$1,913.7	0.2%

FUTURE ECONOMIC FACTORS

The **Commonwealth** ended fiscal year 2013/14 with General Fund collections that were \$508.8 million, or 1.7%, less than estimated. The Commonwealth budget, which is highly dependent on a growing economy, faces additional challenges, such as increased pension obligations, wage and benefit increases, debt service, and medical and entitlement costs. These mandated cost drivers are expected to consume virtually all revenue growth. In his *2014/15 Budget in Brief*, Governor Tom Corbett stated that, "While economic forecasts for Pennsylvania are positive, the commonwealth's tax revenue growth is expected to be modest and less than the increase of its major budget cost drivers."

Revenue and Enrollment

In fiscal year 2014/15, the State System will receive \$412.8 million in **General Fund appropriations**, the same as received in fiscal years 2013/14, 2012/13, and 2011/12. This funding level is approximately the same as the appropriations the State System received from the Commonwealth in fiscal year 1997/98.

The Commonwealth has continued its commitment to fund the State System's deferred maintenance projects with a Realty Transfer Tax allocation from the **Key '93** funds. The State System has received \$13.4 million from this revenue stream in fiscal year 2014/15, a 1.3% decrease from the \$13.6 million received in fiscal year 2013/14. Key '93 funds are derived from the Realty Transfer Tax; the actual amount received is an estimate and may be adjusted based upon the health of the real estate market.

The Board approved a \$198 (3.0%) **increase in tuition** for the 2014/15 academic year. This sets the new rate for full-time, resident, undergraduate students at \$6,820, the lowest among all four-year colleges and universities in Pennsylvania.

With an undergraduate population comprising almost 90% Pennsylvania residents—and the majority of those being traditional-age students enrolling right out of high school—the State System's enrollment historically has been closely tied to the state's high school demographic trends. The National Center for Education Statistics estimates that there were about 3,600 fewer **high school graduates** in Pennsylvania in spring 2013 than in spring 2012, a drop of about 2.7%. This continuing downward trend, which is especially pronounced in western Pennsylvania, is expected to continue for the next three years before leveling off.

Pension Costs

In his *2014/15 Budget in Brief*, Governor Tom Corbett stated:

Rising pension costs will claim a significantly larger share of new revenues, threatening to overwhelm the budget and the vital programs and services that it funds. If pensions alone were the only area of state government growing, the challenge posed here might be less acute. But, pensions are not the only area of state government seeing substantial cost growth. As pension costs grow significantly for the next several years without pension reform, the future is likely to include program and service reductions as more and more pressure is put on the commonwealth's budget.

In fiscal year 2014/15, SERS (State Employees' Retirement System) continued its steep increases in employer **pension contribution rates** that are anticipated to persist through fiscal year 2015/16 and remain high for the foreseeable future. The most predominant employer-paid SERS rates for State System employees rose nearly 32% in 2014/15, after increases of 44% in 2013/14 and more than 50% in 2012/13; the rates are anticipated to increase almost 25% in 2015/16. A similar pattern is occurring with PSERS (Public School Employees' Retirement System). The contribution rate for the ARP (Alternative Retirement Plan), a defined contribution plan, remains unchanged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement 68 will require the State System to report on its balance sheet a net **pension liability for SERS and PSERS**, which is the difference between the State System's share of the total SERS and PSERS pension liabilities and the funding set aside in a qualified trust to pay the benefits to current employees, retirees, and their beneficiaries. Although an estimate of the State System's liability has not been calculated by SERS or PSERS, the effect on the financial statements is expected to be significant. The State System will begin recording this liability in fiscal year 2014/15.

SERS

- At December 31, 2013, SERS' actuarial accrued pension liability of \$43.9 billion was 59.2% funded, compared to 58.8% funded at December 31, 2012, and 65.3% funded in the previous year.
- The actuarial value of SERS' assets was \$25.9 billion at December 31, 2013, compared

to \$25.3 billion at December 31, 2012, and \$27.6 billion the previous year.

- \$17.9 billion of the SERS' actuarial pension liability was unfunded at December 31, 2013, compared to \$17.8 billion unfunded at December 31, 2012, and \$14.7 billion the previous year. This is debt already incurred by the Commonwealth, and it is an obligation that cannot be eliminated by reducing future benefits. SERS predicts that it may take as many as 40 years to fully fund this liability.
- Employer contributions to SERS in 2013 were only 60.2% of the actuarially calculated Annual Required Contribution, up from 53.9% and 42.8% in 2012 and 2011, respectively.
- The number of new retirees added to the SERS' rolls in 2013 (6,944) was 76% higher than those removed from the rolls (3,953). The annual allowance paid to retirees was 5.4% (\$2.5 billion) higher than 2013.
- On a positive note, in 2013 the SERS fund produced investment returns of 13.6%.
- At December 31, 2013, State System employees represented 4.9% of active SERS members.

PSERS

- At June 30, 2013, PSERS' actuarial accrued pension liability of \$87.8 billion was 66.3% funded, down from 69.1% funded at June 30, 2012, and 75.1% funded in the previous year.
- The actuarial value of PSERS' assets was \$58.2 billion at June 30, 2013, compared to \$59.1 billion at June 30, 2012, and \$59.3 billion the previous year.
- \$29.5 billion of the PSERS' actuarial pension liability was unfunded at June 30, 2013, compared to \$26.5 billion unfunded at June 30, 2012, and \$19.7 billion unfunded the previous year. This is debt already incurred and cannot be eliminated by reducing future benefits.
- The 2013 employer contributions were only 46% of the actuarially calculated Annual Required Contribution.
- State System employees represent approximately 0.4% of reported member salaries covered under PSERS.

Compensation Costs

Compensation requirements for approximately 87% of State System employees are established in eight separate collective bargaining agreements. The compensation components of all existing agreements end by June 30, 2015, for which successor agreements are currently under negotiation; therefore, salary and wage

requirements beyond fiscal year 2014/15 are unknown at this time.

Strategic Plan

In January 2014, the Board approved a new strategic plan with the intention of enhancing and expanding student learning opportunities and ensuring that the Commonwealth receives the greatest possible return on its annual investment in the State System and its 14 universities.

The new long-range plan establishes a series of measurable goals for the State System as a whole, including increasing the number of degrees and certificates awarded annually by the universities; increasing the number of working adult and transfer students enrolled in the System; and boosting graduation rates among all groups of students, especially low-income and underrepresented minority students. The goals are expected to be met by 2020.

Titled **2020: Rising to the Challenge**, the plan was under development for nearly two years and replaces the State System's previous long-range plan, which was adopted nearly a decade ago. Recognizing the shifting higher education landscape, both in Pennsylvania and nationwide, the plan notes that in order to achieve long-term success, the State System will need to:

- Adapt to an ever-changing student population.
- Align academic programs with real workforce and personal growth needs.
- Provide greater flexibility in how, when, and where students learn.
- Ensure that competition and cooperation within the State System is strategic.
- Preserve and promote accessibility and affordability.
- Enhance accountability and transparency.

The plan calls for increasing from 5,600 to 7,500 the number of degrees or certificates awarded annually in science, technology, engineering and mathematics (STEM) and health-related disciplines. It also calls for increasing the total number of degrees and certificates awarded annually to 31,500.

Under the plan, the State System will aim to increase the number of undergraduate students over the age of 25 to at least 11,000 and the number of community college transfer students to at least 4,000. It also aims to increase to 53,000 the number of students enrolled in classes offered via

distance education, including online. About 9,000 nontraditional students—those over age 25—and 3,300 community college transfers are currently enrolled.

In conjunction with the strategic plan, the State System is **realigning programs and resources** to ensure relevance in programs, reduce costs through collaboration, and focus resources on what students want and what the Commonwealth needs.

- More students now are enrolling in new and existing programs in **science, technology, mathematics, business and finance, and allied health** than are enrolling in education and other public service programs, which were the State System's historic strengths.
- The State System continues to **align academic offerings** with workforce needs and student expectations to ensure an institution's degree offerings are relevant and up-to-date. In fiscal year 2013/14, 39 academic programs were placed in moratorium, 30 were reorganized, and 24 new programs were created—all to meet the evolving interests of students and the changing needs of the Commonwealth.
- Universities are realigning faculty and staff resources, as evidenced through **workforce reductions** via attrition and layoffs and the reassignment of vacancies to higher priority positions. Through a combination of retirements, voluntary separations, and furloughs, the State System had 540 (5%) fewer permanent employees in fall 2013 than in fall 2008, while serving approximately the same number of students.

Performance Funding

Calls for increased accountability among colleges and universities have come from various sources across the nation. The State System has more than a decade of experience in this area, having introduced performance funding in 2000/01 and having grown it into a national model. The State System continues to be one of the few public university systems in the nation to voluntarily implement this type of performance program.

State System universities have "earned" nearly **\$380 million** through performance since this program's inception. This initiative has resulted in increased graduation and retention rates, especially among underrepresented student groups; greater diversity among both the student population and all

employee groups—executives, faculty, and professional staff; and higher fundraising results for the universities despite a still sluggish economy.

The State System is committed to funding its performance program at a level equal to 2.4% of the Educational and General (E&G) budget. The Board allocated **\$37.39 million** in performance funding for fiscal year 2014/15, an increase of \$0.4 million over fiscal year 2013/14.

Pricing Flexibility Pilot Program

The State System's founding legislation and Board policies provide the framework in which the Board annually sets tuition and university councils of trustees set university fees. In 2014, the Board established a **Pricing Flexibility Pilot Program** to allow State System universities to develop more market-driven pricing practices and assume the financial and operational risks of doing so. This requires Board approval of particular exceptions to existing policy. To date, approval has been granted for a total of 18 pricing pilots at nine universities to be implemented over the next two years. Pricing pilots include differential pricing for high cost/high demand programs or courses, elimination of block tuition for 12–18 credits, reduced tuition for military, reduced tuition for off-campus sites, and variable out-of-state student pricing. This new practice is part of the Board's efforts to strike a better balance between State System coordination and more local decision making.

Allocation Formula

Effective fiscal year 2014/15 the Board of Governors approved a **new allocation formula** for the distribution of state appropriations to the universities. The new formula consists of a fixed-cost component for all universities and variable components for instruction, support services, and physical plant. These variable components are similar to the previous formula. Although still primarily enrollment driven, the new formula is designed to provide greater stability and predictability. Migration to the new formula will occur over three years.

Cheyney University

Cheyney University ended fiscal year 2013/14 with a \$4.2 million loss in Unrestricted funds and an Unrestricted Net Position deficit of \$6.7 million (excluding unfunded postretirement and compensated absences liabilities). Net tuition and fees dropped \$1.8 million. In some months cash flow at the University has been negative, requiring the University to borrow \$4.75 million from the State

System to meet payroll and other operating obligations; it is anticipated that the University will need to borrow another \$2 million for operations by December 31, 2014. The University projects an Unrestricted budget deficit of \$8 million for FY 2014/15.

A significant cause of this deterioration is the persistent failure of the University's financial aid office to timely and accurately process federal and state student financial aid, which are the primary sources of tuition revenue. In spring 2014, the State System sent a management team from the Office of the Chancellor to the University to restructure the financial aid division and implement new processes, and a financial aid consultant has been engaged to correct all previously processed awards. It is reasonably possible that when the consultant's work is completed, which is anticipated by November 2014, the University will be required to record a liability to the Federal Department of Education for improperly awarded student financial aid. An estimate of this potential liability cannot yet be calculated.

Another significant cause for the deterioration is the failure of management to match its academic course offerings to student demand, retrench and reorganize faculty to effectively deliver the necessary and desired courses, and mothball unoccupied facilities as enrollment has dropped from 1,740 students in 2007 to an estimated 1,020 students in fall 2014, a 41% decrease. Without these structural changes, the University cannot achieve additional cost savings.

The State System, through the Office of the Chancellor, is partnering with Cheyney governance and management to stabilize its financial condition and implement a comprehensive plan for operational effectiveness that includes timely and accurate financial aid processing, increasing student enrollment, restructuring course offerings, and right-sizing personnel and facilities.

Moody's Rating and Outlook

In April 2014, Moody's Investors Service, Inc. (Moody's), reaffirmed the State System's **bond rating** of Aa3, but revised the outlook from *stable* to *negative*. In its April 7, 2014, Summary Rating Rationale, Moody's stated:

The Aa3 reflects PASSHE's large scale as a system of 14 campuses located throughout the state of Pennsylvania (Aa2, stable) operating in a highly competitive environment,

strong unrestricted liquidity and still good cash flow to cover debt service. These strengths are offset by high leverage (including privatized student housing), constrained revenues, and a rigid expense structure due to the largely unionized faculty and staff. The negative outlook reflects earlier and larger than expected declines in enrollment leading to more pressured operations. Cash flow is expected to thin as revenues stagnate and retirement benefit costs and other expenses rise. Should enrollment declines continue to be larger than anticipated and performance deteriorate further despite management's various initiatives to address the system's challenges, the rating could be downgraded.

Moody's details as State System "**challenges**" the declining number of Commonwealth high school graduates, unionized faculty and staff, rising pension and health care benefit costs, \$2.26 billion of total debt (including privatized student housing debt issued for replacement of student residences), and three years of flat operating support from the Commonwealth with no proposed increase for the future.

Moody's details as State System **strengths** its position as one of the nation's largest systems, its consistently favorable operating cash flow at 2.4 times annual debt service coverage, current and expected substantial unrestricted liquidity, and modest near-term debt plans with rapidly amortizing outstanding debt that should improve its leverage profile.

Moody's predicts that an upgrade in the near-term is unlikely given the *negative* outlook, but that a return to a *stable* outlook could be driven by consistently stronger operating performance and cash flow generation, stabilized student demand, and growing net tuition per student. Conversely, a rating downgrade could result from stagnant or declining tuition, weaker operating cash flow from failure to retrench operations, deterioration of balance sheet liquidity, or further material increases in debt.

For further information about these financial statements, contact Pennsylvania's State System of Higher Education, Accounting Office, 2986 North Second Street, Harrisburg, PA 17110.

Pennsylvania's State System of Higher Education

Balance Sheet (dollars in thousands)

Assets and Deferred Outflows of Resources

	June 30, 2014	<i>Restated</i> June 30, 2013
Current Assets		
Cash and cash equivalents	\$ 48,528	\$ 35,887
Short-term investments	490,897	406,478
Accounts receivable, students, net of allowance for doubtful accounts of \$29,963 in 2014 and \$28,121 in 2013	42,776	45,915
Accounts receivable, other	19,608	12,820
Governmental grants and contracts receivable	25,806	27,263
Inventories	3,471	3,624
Prepaid expenses	10,394	8,400
Current portion of loans receivable, net	8,714	6,360
Due from component units	20,214	19,345
Other current assets	1,705	2,087
Total Current Assets	672,113	568,179
Noncurrent Assets		
Restricted cash and cash equivalents	25	25
Endowment investments	29,622	25,702
Other long-term investments	794,056	894,724
Loans receivable, net of allowance for doubtful accounts of \$0 in 2014 and \$5,791 in 2013	32,748	27,466
Due from component units	11,491	14,099
Capital Assets:		
Land	32,360	29,263
Buildings, including improvements	2,039,800	1,953,267
Improvements other than buildings	264,498	242,462
Equipment and furnishings	454,757	445,431
Library books	83,690	83,911
Construction in progress	70,206	103,782
	2,945,311	2,858,116
Less accumulated depreciation	(1,328,503)	(1,228,541)
Capital assets, net	1,616,808	1,629,575
Other noncurrent assets	1,362	1,424
Total Noncurrent Assets	2,486,112	2,593,015
Total Assets	3,158,225	3,161,194
Deferred Outflows of Resources		
Unamortized loss on refunding of debt	6,527	7,085
Total Assets and Deferred Outflows of Resources	\$ 3,164,752	\$ 3,168,279

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Balance Sheet (dollars in thousands)

Liabilities, Deferred Inflows of Resources, and Net Position

	June 30, 2014	<i>Restated</i> June 30, 2013
Current Liabilities		
Accounts payable and accrued expenses	\$ 147,001	\$ 145,133
Unearned revenue	50,990	53,140
Deposits	41,910	34,652
Current portion of workers' compensation liability	4,776	4,803
Current portion of compensated absences liability	11,355	11,585
Current portion of postretirement benefits liability	59,295	56,154
Current portion of capitalized lease obligations	3,226	3,345
Current portion of bonds payable	54,695	46,970
Due to component units	10,474	9,515
Other current liabilities	34,733	29,770
Total Current Liabilities	418,455	395,067
Noncurrent Liabilities		
Unearned revenue	4,916	3,383
Deposits	283	388
Workers' compensation liability	16,934	16,541
Compensated absences liability	103,355	98,324
Postretirement benefits liability	947,776	877,536
Capitalized lease obligations	50,565	53,537
Bonds payable	805,195	852,835
Other noncurrent liabilities	77,893	78,778
Total Noncurrent Liabilities	2,006,917	1,981,322
Total Liabilities	2,425,372	2,376,389
Deferred Inflows of Resources		
Unamortized gain on refunding of debt	332	91
Net Position		
Net investment in capital assets	684,396	647,700
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,662	9,868
Other	8,273	1,271
Expendable:		
Scholarships and fellowships	36,049	32,114
Research	1,574	644
Student loans	551	1,513
Capital projects	38,369	39,653
Other	7,835	7,420
Unrestricted	(48,661)	51,616
Total Net Position	739,048	791,799
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 3,164,752	\$ 3,168,279

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

**Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2014 and 2013**

(dollars in thousands)

	<u>2014</u>	<u>Restated 2013</u>
Operating Revenues		
Tuition and fees	\$ 1,029,150	\$ 1,015,386
Less scholarship discounts and allowances	<u>(219,840)</u>	<u>(211,187)</u>
Net tuition and fees	\$ 809,310	\$ 804,199
Governmental grants and contracts:		
Federal	38,268	42,161
State	109,812	104,167
Local	3,901	3,800
Nongovernmental grants and contracts	8,849	7,790
Sales and services	39,003	34,749
Auxiliary enterprises, net of discounts of \$928 in 2014 and \$890 in 2013	331,431	332,890
Other revenues	<u>14,089</u>	<u>9,777</u>
Total Operating Revenues	<u>1,354,663</u>	<u>1,339,533</u>
Operating Expenses		
Instruction	720,970	704,473
Research	5,115	5,419
Public service	37,457	34,233
Academic support	171,911	170,773
Student services	176,618	170,270
Institutional support	263,981	258,068
Operations and maintenance of plant	152,304	143,214
Depreciation	120,193	119,536
Student aid	75,592	74,488
Auxiliary enterprises	<u>251,781</u>	<u>243,320</u>
Total Operating Expenses	<u>1,975,922</u>	<u>1,923,794</u>
Operating Loss	<u>(621,259)</u>	<u>(584,261)</u>
Nonoperating Revenues (Expenses)		
State appropriations, general and restricted	412,751	412,751
Pell grants	143,572	140,585
Investment income, net of related investment expense of \$465 in 2014 and \$432 in 2013	26,226	20,409
Unrealized loss on investments	(3,179)	(5,131)
Gifts for other than capital purposes	17,791	15,124
Interest expense on capital asset-related debt	(36,862)	(37,936)
Loss on disposal of assets	(12,055)	(6,347)
Other nonoperating revenue	<u>1,504</u>	<u>1,334</u>
Net Nonoperating Revenues	<u>549,748</u>	<u>540,789</u>
Loss before other revenues	<u>(71,511)</u>	<u>(43,472)</u>
State appropriations, capital	14,385	14,835
Capital gifts and grants	4,375	14,708
Decrease in Net Position	<u>(52,751)</u>	<u>(13,929)</u>
Net position—beginning of year	791,799	812,727
Restatement for bond issuance costs as required by GASB 65	-	<u>(6,999)</u>
Net position—beginning of year, restated		805,728
Net position—end of year	<u>\$ 739,048</u>	<u>\$ 791,799</u>

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows For the Years Ended June 30, 2014 and 2013 *(dollars in thousands)*

	2014	2013
Cash Flows from Operating Activities		
Tuition and fees	\$ 808,988	\$ 804,269
Grants and contracts	161,103	184,169
Payments to suppliers for goods and services	(446,878)	(440,752)
Payments to employees	(1,256,943)	(1,219,854)
Loans issued to students	(8,532)	(5,474)
Loans collected from students	5,346	6,069
Student aid	(76,363)	(75,070)
Auxiliary enterprise charges	333,019	333,303
Sales and services	38,729	36,138
Other receipts (payments)	14,650	(15,329)
Net cash used in operating activities	(426,881)	(392,531)
Cash Flows from Noncapital Financing Activities		
State appropriations	412,751	412,751
Gifts and nonoperating grants for other than capital purposes	161,086	155,542
PLUS, Stafford, and other loans receipts (non-Perkins)	735,150	792,193
PLUS, Stafford, and other loans disbursements (non-Perkins)	(735,202)	(792,245)
Agency transactions, net	7,918	15,053
Other	1,504	1,334
Net cash provided by noncapital financing activities	583,207	584,628
Cash Flows from Capital Financing Activities		
Proceeds from capital debt and leases	105,656	-
Capital appropriations	14,233	13,897
Capital grants and gifts received	3,166	11,154
Proceeds from sales of capital assets	354	80
Purchases of capital assets	(115,470)	(114,235)
Principal paid on capital debt and leases	(141,732)	(50,952)
Interest paid on capital debt and leases	(44,387)	(45,156)
Net cash used in capital financing activities	(178,180)	(185,212)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	17,987,001	22,100,511
Interest on investments	26,090	20,718
Purchase of investments	(17,978,593)	(22,115,940)
Net cash provided by investing activities	34,498	5,289
Net Increase in Cash and Cash Equivalents	12,641	12,174
Cash and cash equivalents—beginning of year	35,912	23,738
Cash and cash equivalents—end of year	\$ 48,553	\$ 35,912

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows For the Years Ended June 30, 2014 and 2013 *(dollars in thousands)*

	2014	2013
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (621,259)	\$ (584,261)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	120,193	119,536
Expenses paid by Commonwealth or donor	295	251
Changes in assets and liabilities:		
Receivables, net	3,354	33,123
Inventories	153	239
Other assets	(6,639)	(11,937)
Accounts payable	(2,803)	(10,302)
Unearned revenue	(522)	(1,751)
Student deposits	(125)	(2,259)
Compensated absences	4,802	1,703
Loans to students and employees	(3,187)	595
Other liabilities	78,857	62,532
Net cash used in operating activities	\$ (426,881)	\$ (392,531)
Noncash Capital Financing Activities		
Capital assets included in payables	\$ 2,818	\$ 3,169
Capital assets acquired through capital leases	\$ 304	\$ 10,345
Like-kind exchanges	\$ 106	\$ 1,451
Capital assets acquired by gift or appropriation	\$ 1,244	\$ 3,611

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

	June 30, 2014	<i>Restated</i> June 30, 2013
Assets		
Cash and cash equivalents	\$ 137,306	\$ 136,188
Accounts receivable	6,049	5,818
Contributions/pledges receivable	16,844	15,938
Due from universities	11,158	10,359
Inventories	7,078	8,030
Short-term investments	26,457	32,606
Investments	547,443	528,215
Capital assets:		
Land	31,074	29,770
Buildings	1,120,274	1,044,610
Building improvements	16,974	14,787
Improvements other than buildings	10,306	9,124
Equipment and furnishings	84,905	76,226
Construction in progress	160,792	91,177
	1,424,325	1,265,694
Less accumulated depreciation	(245,846)	(208,474)
Capital assets, net	1,178,479	1,057,220
Other assets	138,502	142,155
Total Assets	\$ 2,069,316	\$ 1,936,529
Liabilities		
Accounts payable and accrued expenses	\$ 40,394	\$ 37,780
Annuity liabilities	8,054	8,040
Due to universities	31,230	34,662
Deposits payable	22,127	19,553
Capitalized leases	30,612	31,562
Bonds payable	1,199,328	1,158,761
Notes payable	288,071	246,322
Other liabilities	91,735	102,525
Total Liabilities	1,711,551	1,639,205
Net Assets		
Unrestricted	15,510	(2,270)
Temporarily restricted	93,877	81,401
Permanently restricted	248,378	218,193
Total Net Assets	357,765	297,324
Total Liabilities and Net Assets	\$ 2,069,316	\$ 1,936,529

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Activities For the Years Ended June 30, 2014 and 2013

(dollars in thousands)

	2014	<i>Restated</i> 2013
Revenues and Gains		
Contributions	\$ 39,635	\$ 34,231
Sales and services	50,724	55,142
Student fees	34,840	33,818
Grants and contracts	10,799	9,845
Rental income	147,319	133,859
Investment income	14,150	11,390
Unrealized gains related to investment activity	35,059	54,174
Other revenues and gains	20,866	9,145
Total Revenues and Gains	353,392	341,604
Expenses and Losses		
Program services:		
Scholarships and grants	12,573	11,576
Student activities and programs	31,766	30,991
University stores	30,967	37,124
Housing	142,717	131,254
Other university support	16,372	23,146
Other programs	18,200	13,952
Management and general	29,087	29,359
Fundraising	8,465	8,395
Unrealized losses related to investment activity	2,804	323
Total Expenses and Losses	292,951	286,120
Change in Net Assets	60,441	55,484
Net assets—beginning of year	297,324	236,069
Restatement to add new component units		5,771
Net assets—beginning of year, restated		241,840
Net assets—end of year	\$ 357,765	\$ 297,324

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2014 and 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Pennsylvania's State System of Higher Education (State System) is a body corporate and politic, created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (Commonwealth) and is governed by a Board of Governors (Board), as provided for in Act 188. The State System comprises the 14 universities and the Office of the Chancellor.

Reporting Entity

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

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

its universities control the timing or amount of receipts from these organizations. In fiscal year 2013/14, the State System determined that an additional three of its affiliates met the criteria of being discretely presented component units and they are included in the accompanying component unit financial statements.

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including FASB Statement No. 117,

Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the component units' financial information presented herein.

Operating Revenues and Expenses

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

Net Position (previously Net Assets)

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

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

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

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

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

When both restricted and unrestricted funds are available for expenditure, the decision as to which funds are used first is left to the discretion of the universities.

Cash Equivalents and Investments

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

Accounts and Loans Receivable

Accounts and loans receivable consist of tuition and fees charged to current and former students and amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants, contracts, and other miscellaneous sources.

Accounts and loans receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the universities' historical losses and periodic review of individual accounts.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined principally on the weighted average method.

Capital Assets

Land and buildings at the 14 university campuses acquired or constructed prior to its creation on July 1, 1983, are owned by the Commonwealth and made available to the universities of the State System. Since the State System neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed using capital funds appropriated by the Commonwealth after

June 30, 1983, and made available to the universities.

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

Equipment and furnishings are stated at cost less accumulated depreciation. Library books are capitalized and depreciated. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The State System provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 10 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years. Library books are depreciated over 10 years. Amortization of assets under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2014 and 2013.

Unearned Revenue (previously *Deferred Revenue*) Unearned revenue includes amounts for tuition and fees, grants, corporate sponsorship payments, and certain auxiliary activities received prior to the end of the fiscal year but earned in a subsequent accounting period. The State System previously referred to "unearned revenue" as "deferred

revenue," but changed the terminology in accordance with new GASB requirements.

Compensated Absences

Employees' right to receive annual leave and sick leave payments upon termination or retirement for services already rendered is recorded as a liability.

Pension Plans

Employees of the State System enroll in one of three available retirement plans immediately upon employment. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan.

Deferred Outflows and Deferred Inflows of Resources

The balance sheet reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

Deferred Outflows of Resources, reported after *Total Assets*, is defined by GASB as a consumption of net position that applies to future periods. The expense is recognized in the applicable future period(s). The State System has one item that is required to be reported in this category: the deferred loss on bond defeasance, which results when the carrying value of a defeased bond is less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

Deferred Inflows of Resources, reported after *Total Liabilities*, is defined by GASB as an acquisition of net position that applies to future periods. The revenue is recognized in the applicable future period(s). The State System has one item that is required to be reported in this category: the deferred gain on bond defeasance, which results when the carrying value of a defeased bond is greater than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

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

Scholarships and Waivers

In accordance with a formula prescribed by the National Association of College and University

Business Officers (NACUBO), the State System allocates the cost of scholarships, waivers, and other student financial aid between *Scholarship discounts and allowances* (netted against tuition and fees) and *Student aid expense*. Scholarships and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

Income Taxes

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

Use of Estimates

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

Reclassifications

Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported change in net position.

New Accounting Standards

The State System has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that (a) reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that previously were reported as assets and liabilities; and (b) recognize, as revenues or expenses, certain items that previously were reported as assets and liabilities. As a result, bond issuance costs, which previously were netted against the associated bond discount or bond premium on the balance sheet and amortized over the life of the associated bond payable, now are expensed in the period incurred. The fiscal year 2012/13 bond issuance costs expense of \$850,000 is included in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the

2013 Decrease in Net Position. The June 30, 2012, balance of the deferred bond issuances costs of \$6,999,000 is included in the Statement of Revenues, Expenses, and Changes to Net Position as a restatement to the *2013 Net position—beginning of year*.

<i>(in thousands)</i>	
	2013
Decrease in Net Position, as previously stated	\$(14,779)
FY 2012/13 bond issuance costs	850
Decrease in Net Position, restated	<u>\$ (13,929)</u>
	2013
Net position—beginning of year, as previously stated	\$812,727
Unamortized balance of June 30, 2012, bond issuance costs	(6,999)
Net position—beginning of year, restated	<u>\$805,728</u>

Amounts representing the unamortized gain or loss on bond defeasance, which previously were netted and classified as other liabilities, are now reported as deferred outflows of resources (unamortized loss) or deferred inflows of resources (unamortized gain).

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 will require the State System to report its share of the pension liabilities that the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) must record beginning in fiscal year 2014/15. Although the State System has not received an estimate of its share of the pension liabilities from either organization, the liabilities are expected to be significant and have a detrimental effect on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Statement No. 70 specifies the information required to be disclosed by governments that extend nonexchange financial

guarantees. The State System has determined that Statements No. 69 and 70 have no effect on its financial statements.

(2) DEPOSITS AND INVESTMENTS

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

In keeping with its legal status as a system of public universities, the State System recognizes a fiduciary responsibility to invest all funds prudently and in accordance with ethical and prevailing legal standards. Investment decisions are intended to

minimize risk while maximizing asset value. Adequate liquidity is maintained so that assets can be held to maturity. High quality investments are preferred. Reasonable portfolio diversification is pursued to ensure that no single security or investment or class of securities or investments will have a disproportionate or significant impact on the total portfolio. Investments may be made in U.S. dollar-denominated debt of high quality U.S. and non-U.S. corporations. Investment performance is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed.

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

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

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

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

Moody's Rating: The State System uses ratings from Moody's Investors Service, Inc., to indicate the credit risk of investments, i.e., the risk that an issuer or other counterparty to an investment will not fulfill its obligations. An Aaa rating indicates the highest quality obligations with minimal credit risk. Ratings that begin with Aa indicate high quality obligations subject to very low credit risk; ratings that begin with A indicate upper-medium-grade obligations subject to low credit risk; and ratings that begin with Baa indicate medium-grade obligations, subject to moderate credit risk, that may possess certain speculative characteristics. Moody's appends the ratings with numerical modifiers 1, 2, and 3, with 1 indicating a higher ranking and 3 indicating a lower ranking within the category. For short-term obligations, a rating of P-1 indicates that issuers have a superior ability to repay short-term debt obligations, and a rating of P-2 indicates that issuers have a strong ability to repay short-term debt obligations.

Modified Duration: The State System denotes interest rate risk, or the risk that changes in interest rates will affect the fair value of an investment, using *modified duration*. *Duration* is a measurement in years of how long it takes for the price of a bond to be repaid by its internal cash flows. *Modified*

duration takes into account changing interest rates. The State System maintains a portfolio duration target of 1.8 years with an upper limit of 2.5 years for the intermediate-term component of the operating portion of the investment portfolio. The State System's duration targets are not applicable to its long-term investments.

On June 30, 2014 and 2013, the carrying amount of the State System's demand and time deposits and certificates of deposit for all funds was \$48,576,000 and \$35,935,000, respectively, compared to bank balances of \$48,688,000 and \$36,437,000, respectively. The difference is caused primarily by items in transit. Of the bank balances, \$3,334,000 and \$6,065,000, respectively, were covered by federal government depository insurance or collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve banks in the name of the banking institutions; \$629,000 and \$1,547,000, respectively, were uninsured and uncollateralized; and \$44,725,000 and \$28,825,000, respectively, were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

The carrying values (fair values) of deposits and investments for the State System's pooled funds in M&T Bank on June 30, 2014 and 2013, follow.

State System Pooled Deposits and Investments

June 30, 2014

(in thousands)

	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits			
Money market funds			\$36,981
Total deposits			<u>36,981</u>
Investments			
Repurchase agreements			13,749
Commercial paper	P1	0.11	181,411
U.S. government and agency obligations	Aaa	3.10	410,727
Asset-backed securities	Aaa	1.55	110,487
	A1	0.83	2,928
	P1	0.95	68,762
Collateralized mortgage obligations (CMOs)	Aaa	2.74	214,795
Corporate bonds and notes	Aaa	2.04	11,527
	Aa1	3.77	15,316
	Aa2	1.61	18,437
	Aa3	1.23	25,185
	A1	1.64	23,345
	A2	1.92	59,885
	A3	1.42	57,286
	Baa1	1.46	34,430
	Baa2	1.72	20,661
	Baa3	0.00	725
Total investments			<u>1,269,656</u>
Total deposits and investments			<u><u>\$1,306,637</u></u>

State System Pooled Deposits and Investments

June 30, 2013

(in thousands)

	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits			
Money market funds			\$19,105
Total deposits			<u>19,105</u>
Investments			
Repurchase agreements			14,260
Commercial paper	P1	0.06	138,604
U.S. government and agency obligations	Aaa	2.94	475,390
Asset-backed securities	Aaa	0.96	80,275
	P1	0.22	95,200
Collateralized mortgage obligations (CMOs)	Aaa	2.16	228,091
Corporate bonds and notes	Aaa	1.66	29,042
	Aa1	4.73	4,683
	Aa2	1.80	24,106
	Aa3	1.39	40,800
	A1	1.29	26,236
	A2	2.30	42,073
	A3	2.49	33,373
	Baa1	1.83	25,309
	Baa2	2.36	30,258
	Baa3	0.00	725
Total investments			<u>1,288,425</u>
Total deposits and investments			<u><u>\$1,307,530</u></u>

Of the investments noted above at June 30, 2014 and 2013, \$19,819,000 and \$17,071,000, respectively, were held by a trustee to be used for projects funded under the Pennsylvania Higher Educational Facilities Authority/State System of Higher Education bond issues (note 8). Investments are made subject to the restrictions of the bond

indenture and may be liquidated only for the payment of costs associated with the projects described in the bond indenture.

The carrying values (fair values) of local university deposits and investments on June 30, 2014 and 2013, follow.

University Local Deposits and Investments

June 30, 2014

(in thousands)

	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits			
Demand and time deposits			\$11,572
Certificates of deposit			23
Total deposits			11,595
Investments			
U.S. government and agency obligations	3.43		411
Bond mutual funds	4.68		5,936
Debt securities	5.03		80
Equity/balanced mutual funds			36,013
Common stock			2,456
Total investments			44,896
Total deposits and investments			\$56,491

University Local Deposits and Investments

June 30, 2013

(in thousands)

	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits			
Demand and time deposits			\$16,807
Certificates of deposit			23
Total deposits			16,830
Investments			
U.S. government and agency obligations	2.00		414
Bond mutual funds	5.45		5,266
Debt securities	4.77		54
Equity/balanced mutual funds			29,798
Common stock			2,924
Total investments			38,456
Total deposits and investments			\$55,286

Of the local investments noted above, the exposure to foreign currency risk is as follows.

(in thousands)

Investment	Currency	Fair Value	
		June 30, 2014	June 30, 2013
Deposit	British Pound	\$7	\$12

The universities are beneficiaries of trust funds held by others with an approximate fair value of \$4,091,000 and \$3,870,000 on June 30, 2014 and 2013, respectively. Since the universities have neither possession nor control of these trusts, the principal is not included in the accompanying balance sheet.

(3) LEASES

Total rent expense for the State System operating leases amounted to \$11,676,000 and \$8,292,000 for the years ended June 30, 2014 and 2013, respectively.

Capital assets acquired through leases that have been capitalized are as follows:

(in thousands)

	June 30, 2014	June 30, 2013
Cost:		
Construction in Progress	-	\$9,820
Buildings	\$76,405	65,599
Equipment	3,625	3,490
Total	\$80,030	\$78,909
Accumulated Depreciation:		
Buildings	\$29,471	\$25,216
Equipment	2,269	1,785
Total	\$31,740	\$27,001

Future minimum payments, by year and in the aggregate, under capital and noncancelable operating leases, with initial or remaining terms of one year or more, are as follows.

(in thousands)

	Operating Leases	Capital Leases
2015	\$6,252	\$5,706
2016	4,948	5,453
2017	3,511	5,325
2018	1,978	5,209
2019	1,307	5,157
Thereafter	60,409	47,880
Total minimum lease payments	\$78,405	74,730
Amount representing interest on capital leases		20,939
Present value of net minimum capital lease payments		\$53,791

Changes in the liability for capital leases in fiscal years 2014 and 2013 follow.

(in thousands)

Year	Beginning Balance	Capital Lease Additions	Capital Lease Payments	Ending Balance
2013	\$55,520	\$10,345	\$8,983	\$56,882
2014	\$56,882	\$304	\$3,395	\$53,791

(4) PENSION BENEFITS

The Public School Employees' Retirement System (PSERS) and the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) are governmental cost-sharing multiple-employer defined benefit plans. The Alternative Retirement Plan (ARP) is a defined contribution plan administered by the State System.

PSERS provides retirement and disability benefits, legislative mandated ad hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–9102) is the authority by which PSERS benefits provisions are established and may be amended. The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, the employer (State System), and the Commonwealth of Pennsylvania. Contribution rates for most active members are between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefits class was selected. New members hired after July 1, 2011, have a one-time election to choose a 10.3% contribution rate. The contribution rate for the State System is an actuarially determined rate. The rate was 8.465% of annual covered payroll at June 30, 2014. The State System's contributions to PSERS for the years ended June 30, 2014, 2013, and 2012, were \$3,940,000, \$2,752,000, and \$1,769,000, respectively, equal to the required contractual contribution. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the Publications page of the PSERS website, www.psers.state.pa.us, or by writing to Public School Employees' Retirement System, 5 North Fifth Street, Harrisburg, PA 17101-1905.

SERS provides retirement, death, and disability benefits, and legislative mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefits provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (State System). The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class is selected. Contribution rates for most active members are between 5.0% and 6.25% of their qualifying compensation. New members hired after January 1, 2011, have a one-time election to choose a 9.3% contribution rate. The State System contributed at actuarially determined rates of between 10.46% and 15.12% of active

members' annual covered payroll at June 30, 2014. The State System's contributions to SERS for the years ended June 30, 2014, 2013, and 2012, were \$43,548,000, \$30,490,000, and \$20,643,000, respectively, equal to the required contractual contribution. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the SERS website, www.sers.state.pa.us, or by writing to Commonwealth of Pennsylvania, State Employees' Retirement System, 30 North Third Street, Suite 150, Harrisburg, PA 17101.

Because the ARP is a defined contribution plan, benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System's contribution rate on June 30, 2014 and 2013, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2014 and 2013, were \$43,869,000 and \$43,080,000, respectively, from the State System; and \$23,802,000 and \$23,633,000, respectively, from active members.

(5) POSTRETIREMENT BENEFITS

State System employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined health care benefits plans, referred to here as the *System Plan* and the *Retired Employees Health Program*. These plans include hospital, medical/surgical, and major medical coverage, and provide a Medicare supplement for individuals over age 65.

System Plan

Plan Description

Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), Security Police and Fire Professionals of America (SPFPA), Pennsylvania Nurses Association (PNA), and nonrepresented employees participate in a single-employer defined benefits health care plan administered by the State System (System Plan). The System Plan provides eligible retirees and their

eligible dependents with health care benefits and tuition waivers at any of the 14 State System universities. Act 188 empowers the Board to establish and amend benefits provisions. The System Plan has no plan assets and no financial report is prepared.

Funding Policy

The contribution requirements of plan members and the State System are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the health care benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring university as they are granted. The State System paid premiums of \$44,201,000 and \$42,975,000 for the fiscal years ending June 30, 2014 and 2013, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2014.

- Eligible plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired on or after July 1, 2005, pay a percentage of their final annual gross salary at the time of retirement.
- Other eligible annuitants who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65 pay 10% of the plan premium in effect on the day of retirement. When these annuitants become eligible for Medicare, they pay 15% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.
- Other eligible annuitants who retire on or after July 1, 2008, pay 15% of the plan premium in effect on their retirement date. Future adjustments will apply if contributions increase for active employees.

Total contributions made by plan members were \$3,969,000 and \$3,607,000, or approximately 8.2% and 7.7% of the total premiums, for the fiscal years ending June 30, 2014 and 2013, respectively.

Annual OPEB Cost and Net OPEB Obligation

The State System's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid annually, is projected to cover normal cost plus the annual portion of the unfunded actuarial liability amortized over 30 years. The following shows the components of the State System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the State System's net OPEB obligation.

(in thousands)

	June 30, 2014	June 30, 2013
Annual required contribution	\$127,861	\$120,129
Interest on net OPEB obligation	39,257	36,737
Adjustment to ARC	(49,536)	(44,596)
Annual OPEB cost (expense)	117,582	112,270
Contributions made	(44,201)	(42,975)
Increase in net OPEB obligation	73,381	69,295
Net OPEB obligation at July 1	933,690	864,395
Net OPEB obligation at June 30	<u>\$1,007,071</u>	<u>\$933,690</u>

The State System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2014, and the two preceding years were as follows.

(in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$111,672	34.7%	\$864,395
June 30, 2013	\$112,270	38.3%	\$933,690
June 30, 2014	\$117,582	37.6%	\$1,007,071

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, the most recent actuarial valuation date, was as follows.

<i>(in thousands)</i>	
Actuarial accrued liability (AAL)	\$1,473,632
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	<u>\$1,473,632</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$583,755
UAAL as a percentage of covered payroll	252%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected rate to be

earned on the State System's operating portfolio, and annual health care cost trend rates of 7.8% for pre-Medicare and 6.8% for post-Medicare initially, reduced by decrements to an ultimate rate of 5.0% by 2025. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2013, was 22 years.

Retired Employees Health Program

Plan Description

Employee members of the American Federation of State, County and Municipal Employees (AFSCME), Pennsylvania Doctors Alliance (PDA), and Pennsylvania Social Services Union (PSSU) participate in the Retired Employees Health Program (REHP), which is sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The REHP provides eligible retirees and their eligible dependents with health care benefits. Benefits provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity.

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2013/14, the State System contributed \$305 for each current active employee per biweekly pay period. The State System made contributions of \$28,584,000, \$25,638,000, and \$23,228,000 for the fiscal years ending June 30, 2014, 2013, and 2012, respectively, equal to the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or

decreasing over time relative to the actuarial accrued liabilities for benefits.

(6) WORKERS' COMPENSATION

The State System is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, State System universities must pay up to \$100,000; for claims occurring on or after July 1, 1995, State System universities must pay up to \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the universities contributed \$1,875,000 and \$1,854,000 to the Reserve Fund during the years ended June 30, 2014 and 2013, respectively.

For the years ended June 30, 2014 and 2013, the aggregate liability for claims under the self-insurance limit was \$9,902,000 and \$10,650,000, respectively. The Reserve Fund assets of \$11,808,000 and \$10,694,000 are equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2014 and 2013, respectively. Changes in the workers' compensation claims liability in fiscal years 2014 and 2013 follow.

(in thousands)

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2013	\$19,763	\$5,921	\$4,340	\$21,344
2014	\$21,344	\$5,244	\$4,878	\$21,710

(7) COMPENSATED ABSENCES

Changes in the compensated absences liability in fiscal years 2014 and 2013 are as follows.

(in thousands)

Year	Beginning Balance	Current Changes in Estimates	Less Payouts	Ending Balance
2013	\$108,206	\$11,887	\$10,184	\$109,909
2014	\$109,909	\$11,536	\$6,735	\$114,710

(8) BONDS PAYABLE

Bonds payable on June 30, 2014 and 2013, consisted of several outstanding tax-exempt revenue bond series issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The bonds were issued to provide funds to undertake various capital projects at the universities or to advance refund certain previously issued bonds.

In May 2014, the net proceeds from the Series AP revenue bonds were used to current refund Series Z and AA bonds. This refunding was performed to reduce debt service by approximately \$6,448,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$5,833,000.

(9) RATING ACTIONS

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. In April 2014, Moody's revised the State System's outlook from *stable* to *negative*. The State System's outstanding bonds are assigned an AA rating from Fitch Ratings. In April 2014, Fitch also revised the State System's outlook from *stable* to *negative*.

Activity for the various bond series for the years ended June 30, 2014 and 2013, was as follows.

Bonds Payable
June 30, 2014 and 2013
(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2012	2013 Bonds Issued	2013 Bonds Redeemed/ Refunded	Balance June 30, 2013	2014 Bonds Issued	2014 Bonds Redeemed/ Refunded	Balance June 30, 2014	Current Portion
Series Z issued March 2004, final maturity June 2024	\$71,760	4.04%	\$41,230	-	\$1,930	\$39,300	-	\$39,300	-	-
Series AA issued July 2004, final maturity June 2024	28,750	4.65%	17,450	-	1,665	15,785	-	15,785	-	-
Series AC issued July 2005, final maturity June 2025	52,650	4.88%	36,580	-	2,675	33,905	-	2,810	\$31,095	\$2,945
Series AE issued July 2006, final maturity June 2036	103,290	4.97%	83,670	-	3,835	79,835	-	4,030	75,805	4,240
Series AF issued July 2007, final maturity June 2037	68,230	5.00%	58,825	-	2,105	56,720	-	2,195	54,525	2,305
Series AG issued March 2008, final maturity June 2024	101,335	4.87%	81,900	-	4,395	77,505	-	7,000	70,505	10,875
Series AH issued July 2008, final maturity June 2038	140,760	4.69%	126,855	-	3,830	123,025	-	4,020	119,005	4,220
Series AI issued August 2008, final maturity June 2025	32,115	4.15%	25,235	-	1,725	23,510	-	1,785	21,725	1,845
Series AJ issued July 2009, final maturity June 2039	123,985	4.89%	114,025	-	4,225	109,800	-	4,515	105,285	4,835
Series AK issued Sept. 2009, final maturity June 2024	47,310	3.88%	39,525	-	3,580	35,945	-	3,705	32,240	3,795
Series AL issued July 2010, final maturity June 2035	135,410	5.00%	123,585	-	7,705	115,880	-	25,815	90,065	7,710
Series AM issued July 2011, final maturity June 2036	119,085	4.67%	116,025	-	3,865	112,160	-	3,990	108,170	4,200
Series AN issued March 2012, final maturity June 2023	76,810	5.00%	76,810	-	375	76,435	-	1,070	75,365	4,000
Series AO issued July 2013, final maturity June 2038	30,915	4.25%	-	-	-	-	\$30,915	920	29,995	1,040
Series AP issued May 2014, final maturity June 2024	46,110	4.20%	-	-	-	-	46,110	-	46,110	2,685
Total	\$1,178,515	-	\$941,715	-	\$41,910	\$899,805	\$77,025	\$116,940	\$859,890	\$54,695

Principal and interest requirements to maturity are as follows.

<i>(in thousands)</i>			
	Principal	Interest	Total
2015	\$54,695	\$41,053	\$95,748
2016	61,025	38,303	99,328
2017	62,560	35,408	97,968
2018	61,475	32,381	93,856
2019	64,985	29,437	94,422
2020–2024	301,900	102,137	404,037
2025–2029	152,420	44,189	196,609
2030–2034	77,515	15,368	92,883
2035–2039	23,315	2,267	29,582
Total	\$859,890	\$340,543	\$1,200,433

(10) CAPITAL ASSETS

The classifications of capital assets and related depreciation at June 30, 2014 and 2013, follow.

(in thousands)

	Balance June 30, 2012	2012/13 Additions	2012/13 Retirements/ Adjustments	Balance June 30, 2013	2013/14 Additions	2013/14 Retirements/ Adjustments	Balance June 30, 2014
Land	\$27,606	\$1,657	-	\$29,263	\$2,954	\$143	\$32,360
Construction in progress	92,627	65,413	(\$54,258)	103,782	56,997	(90,573)	70,206
Total capital assets not being depreciated	120,233	67,070	(54,258)	133,045	59,951	(90,430)	102,566
Buildings, including improvements	1,888,922	39,741	24,604	1,953,267	31,516	55,017	2,039,800
Improvements other than buildings	232,226	6,516	3,720	242,462	8,159	13,877	264,498
Equipment and furnishings	425,040	24,688	(4,297)	445,431	19,135	(9,809)	454,757
Library books	83,960	1,331	(1,380)	83,911	1,181	(1,402)	83,690
Total capital assets being depreciated	2,630,148	72,276	22,647	2,725,071	59,991	57,683	2,842,745
Less accumulated depreciation							
Buildings and improvements	(637,152)	(76,504)	10,046	(703,610)	(79,062)	5,417	(777,255)
Land improvements	(103,520)	(9,194)	435	(112,279)	(9,721)	416	(121,584)
Equipment and furnishings	(313,735)	(31,589)	6,238	(339,086)	(29,276)	12,996	(355,366)
Library books	(72,587)	(2,249)	1,270	(73,566)	(2,134)	1,402	(74,298)
Total accumulated depreciation	(1,126,994)	(119,536)	17,989	(1,228,541)	(120,193)	20,231	(1,328,503)
Total capital assets being depreciated, net	1,503,154	(47,260)	40,636	1,496,530	(60,202)	77,914	1,514,242
Capital assets, net	\$1,623,387	\$19,810	(\$13,622)	\$1,629,575	(\$251)	(\$12,516)	\$1,616,808

(11) CONTINGENCIES AND COMMITMENTS

Contingencies

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

The State System receives support from federal and Commonwealth grant programs, primarily for student financial assistance. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2014, the State System estimates that adjustments, if any, as a result of such audits would not have a

material adverse effect on the accompanying financial statements.

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

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2014 and 2013, were approximately \$75,162,000 and \$58,155,000, respectively.

REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2014 and 2013
(Unaudited)

Schedule of Funding Progress for the System Plan (OPEB)
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$0	\$1,373,049	\$1,373,049	0%	\$570,839	241%
July 1, 2012	\$0	\$1,420,502	\$1,420,502	0%	\$566,753	251%
July 1, 2013	\$0	\$1,473,632	\$1,473,632	0%	\$583,755	252%

Schedule of Funding Progress for the REHP (OPEB)
(in thousands)

The information below relates to the Commonwealth's REHP as a whole, i.e., it is inclusive of all participating Commonwealth agencies and instrumentalities. Nearly all Commonwealth agencies and instrumentalities participate in the REHP.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$70,740	\$12,907,790	\$12,837,050	.55%	\$3,839,000	334%
July 1, 2012	\$71,630	\$12,843,700	\$12,772,070	.56%	\$4,130,000	309%
July 1, 2013	\$82,060	\$13,234,040	\$13,151,980	.62%	\$4,264,000	308%



**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**

Board of Governors
Pennsylvania State System of Higher Education
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 business-type activities and the aggregate discretely presented component units, of the Pennsylvania State System of Higher Education ("the State System"), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State System's basic financial statements, and have issued our report thereon dated September 26, 2014. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, which represent 100 percent of the total assets and 100 percent of the total revenues of the discretely presented component units, as described in our report on the State System's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State System's internal control over financial reporting (internal control) to determine the 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 State System's internal control. Accordingly, we do not express an opinion on the effectiveness of the State System'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State System'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 determination of financial statement amounts. 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 result 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

Harrisburg, Pennsylvania
September 26, 2014

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA**

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2014

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SINGLE AUDIT REPORT
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL
PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Pennsylvania State System of Higher Education's ("the State System") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State System's major federal programs for the year ended June 30, 2014. The State System's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. The State System's basic financial statements include the operations of discretely presented component units. Federal awards received by the discretely presented component units are not included in the State System's Schedule of Expenditures of Federal Awards for the year ended June 30, 2014. Our audit, described below, did not include the operations of the discretely presented component units because they did not receive federal awards or they engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State System's compliance.

Opinion on Each Major Federal Program

In our opinion, the State System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 through 2014-007. Our opinion on each major federal program is not modified with respect to these matters.

The State System's responses to the noncompliance findings identified in our audit are described in the accompanying Appendix A – Management's Responses to Current Year Findings. The State System's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State System's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 through 2014-007 that we consider to be significant deficiencies.

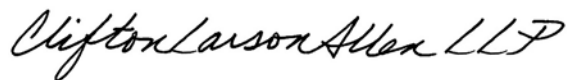
Report on Internal Control Over Compliance (Continued)

The State System’s responses to the internal control over compliance findings identified in our audit are described in the accompanying Appendix A – Management’s Responses to Current Year Findings. The State System’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the State System, a component unit of the Commonwealth of Pennsylvania as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State System’s basic financial statements. We issued our report thereon dated September 26, 2014, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the discretely presented component units, which represent 100% percent, 100% percent, and 100% percent, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
March 24, 2015

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Education Clusters</u>		
Student Financial Assistance Cluster:		
Federal Supplemental Education Opportunity Grants	84.007	\$ 3,396,618
Federal Work-Study Program	84.033	5,046,568
Perkins Loans Cancellations	84.037	2,214,288
Federal Perkins Loans Outstanding	84.038	40,505,473
Federal Pell Grant Program	84.063	143,396,806
Federal Direct Student Loans	84.268	732,349,854
Teacher Education Assistance for College and Higher Education Grants	84.379	444,469
Federal Nursing Loans Outstanding	93.364	<u>456,632</u>
Total Student Financial Assistance Cluster		927,810,708
TRIO Cluster		4,999,462
<u>Other</u>		
Total Research and Development Cluster		3,531,849
Total Other Federal Awards		<u>20,935,980</u>
Total Expenditures of Federal Awards		<u>\$ 957,277,999</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
TRIO CLUSTER
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Education</u>				
TRIO - Student Support Services	P042A101265-12	84.042A	Bloomsburg	\$ 1,699
TRIO - Student Support Services	P042A101265-13	84.042A	Bloomsburg	249,145
TRIO - Student Support Services	P042A100147-12	84.042A	California	16,382
TRIO - Student Support Services	P042A100147-13	84.042A	California	253,093
TRIO - Student Support Services	P042A100469-10	84.042A	Clarion	268,329
TRIO - Student Support Services	P042A100594-13	84.042A	ESU	72,436
TRIO - Student Support Services	P042A100594-14	84.042A	ESU	178,008
TRIO - Student Support Services	P042A101003-11	84.042A	Kutztown	30,385
TRIO - Student Support Services	P042A101003-12	84.042A	Kutztown	16,257
TRIO - Student Support Services	P042A101003-13	84.042A	Kutztown	234,766
TRIO - Student Support Services	P042A100997-11	84.042A	Lock Haven	296,882
TRIO - Student Support Services	PO42A100342	84.042A	Mansfield	271,590
TRIO - Student Support Services	PO42A100378	84.042A	West Chester	253,225
Total TRIO - Student Support Services				<u>2,142,197</u>
TRIO - Talent Search	P044A110159	84.044	Clarion	<u>367,167</u>
TRIO - Upward Bound	P047A080324-11	84.047A	Bloomsburg	8,565
TRIO - Upward Bound	P047A080324-12	84.047A	Bloomsburg	136,792
TRIO - Upward Bound	P047A130363	84.047A	Bloomsburg	236,028
TRIO - Upward Bound	P047A121736	84.047A	California	57,122
TRIO - Upward Bound	P047A120320	84.047A	California	75,303
TRIO - Upward Bound	P047A121736-13	84.047A	California	282,400
TRIO - Upward Bound	P047A120320-13	84.047A	California	187,463
TRIO - Upward Bound	P047A070541-10	84.047A	Clarion	379,844
TRIO - Upward Bound	P047A121574	84.047A	ESU	7,991
TRIO - Upward Bound	P047A121574-13	84.047A	ESU	357,631
TRIO - Upward Bound	P047A121574-14	84.047A	ESU	2,210
TRIO - Upward Bound	P047M120160	84.047M	IUP	248,728
TRIO - Upward Bound	P047A070763-11	84.047	Lock Haven	<u>304,774</u>
Total TRIO - Upward Bound				<u>2,284,851</u>
TRIO - McNair Post-Baccalaureate Achievement	P217A120039	84.217A	IUP	<u>205,247</u>
Total TRIO - McNair Post-Baccalaureate Achievement				<u>205,247</u>
Total TRIO Cluster				<u><u>\$ 4,999,462</u></u>

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**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
RESEARCH AND DEVELOPMENT CLUSTER
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Agriculture</u>				
Pass-Through IUP Research Institute:				
Soil and Water Conservation	68-7482-12-502	10.902	Indiana	25,132
Soil and Water Conservation	68-2D37-13-674	10.902	Indiana	<u>5,084</u>
Total U.S. Department of Agriculture				<u>30,216</u>
<u>U.S. Department of Commerce</u>				
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program				
	NA10NMF4270215	11.427	West Chester	<u>5,394</u>
Total U.S. Department of Commerce				<u>5,394</u>
<u>U.S. Department of the Interior</u>				
Pass-Through Pennsylvania Department of Conservation and Natural Resources				
National Cooperative Geologic Mapping	G12AC20270	15.810	Bloomsburg	1,436
National Cooperative Geologic Mapping	G13AC00233	15.810	Bloomsburg	26,352
Pass-Through IUP Research Institute:				
Migratory Bird Monitoring, Assessment and Conservation	#940A	15.655	Indiana	25,580
Natural Resource Stewardship	P11AC40836	15.944	East Stroudsburg	6,384
Natural Resource Stewardship	H4560040069	15.944	East Stroudsburg	2,480
Natural Resource Stewardship	DEWA-2013--SCI-0011	15.944	East Stroudsburg	<u>936</u>
Total Natural Resource Stewardship				<u>9,800</u>
Total U.S. Department of the Interior				<u>63,168</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
RESEARCH AND DEVELOPMENT CLUSTER
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>National Aeronautics and Space Administration</u>				
Pass-Through Science Systems & Applications, Inc:				
Science	21101-12-022	43.001	Millersville	16,206
Science	21101-12-022	43.001	Millersville	9,218
Science	21101-12-022	43.001	Millersville	156,067
Science	21101.CL2.CY4.A02J	43.001	Millersville	12,734
Pass-Through Smithsonian Astrophysical Observatory:				
Science	GO2-13017X	43.001	West Chester	44,179
Science	AR3-14001A	43.001	West Chester	<u>31,737</u>
Total Science				<u>270,141</u>
Total National Aeronautics and Space Administration				<u>270,141</u>
<u>National Science Foundation</u>				
Mathematical and Physical Sciences	PHY-0970012	47.049	Kutztown	19,625
Mathematical and Physical Sciences	PHY-1313871	47.049	Kutztown	4,579
Mathematical and Physical Sciences	DMR-1206231	47.049	West Chester	70,176
Mathematical and Physical Sciences	DMR-1107667	47.049	Clarion	<u>417,985</u>
Total Mathematical and Physical Sciences				<u>512,365</u>
Geosciences	EAR-1324869	47.050	Bloomsburg	13,665
Geosciences	EAR-1220317	47.050	Indiana	7,679
Geosciences	OCE-1030430	47.050	Kutztown	7,240
Geosciences	AGS-1259020	47.050	Millersville	261,309
Geosciences	EAR-1037709	47.050	Millersville	4,195
Geosciences	GEO-1034925	47.050	West Chester	5,349
Pass-Through Trustees of the University of Pennsylvania				
Geosciences	1325333	47.050	Indiana	<u>47,068</u>
Total Geosciences				<u>346,505</u>

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**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
RESEARCH AND DEVELOPMENT CLUSTER
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Computer & Information Science & Engineering	CNS-1042508	47.070	East Stroudsburg	51,175
Computer & Information Science & Engineering	IIS-0835411	47.070	Millersville	4,909
Computer & Information Science & Engineering	IIS-0968368	47.070	Millersville	30,613
Computer & Information Science & Engineering	IIS-1016900	47.070	Millersville	3,896
Computer & Information Science & Engineering	IIS-0932712	47.070	West Chester	10,304
Total Computer and Information Science and Engineering				<u>100,897</u>
Biological Sciences	DEB-1036505	47.074	Millersville	10,254
Biological Sciences	709537	47.074	Shippensburg	12,415
Total Biological Sciences				<u>22,669</u>
Social, Behavioral, and Economic Sciences	BCS-1231350	47.075	Slippery Rock	<u>3,537</u>
Education and Human Resources	HRD-1137523	47.076	Cheyney	273,686
Education and Human Resources	DUE-0966206	47.076	Indiana	63,103
Education and Human Resources	DUE-1241663	47.076	Indiana	197,774
Education and Human Resources	DUE-1259860	47.076	Indiana	146,711
Education and Human Resources	DUE-1154006	47.076	Kutztown	114,601
Education and Human Resources	DUE-0806660	47.076	Lock Haven	48,987
Education and Human Resources	DUE-1058829	47.076	Lock Haven	135,271
Education and Human Resources	DUE-1136359	47.076	Millersville	286,847
Education and Human Resources	DUE-0618678	47.076	Millersville	32,191
Education and Human Resources	DUE-0122954	47.076	Millersville	58,053
Education and Human Resources	1107082	47.076	Shippensburg	183,043
Education and Human Resources	1140299	47.076	Shippensburg	41,807
Education and Human Resources	1154203	47.076	Shippensburg	44,645
Education and Human Resources	1245937	47.076	Shippensburg	49,361
Education and Human Resources	941777	47.076	Shippensburg	10,355
Education and Human Resources	DUE-1245013	47.076	West Chester	<u>9,360</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
RESEARCH AND DEVELOPMENT CLUSTER
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through Sinclair Community College Education and Human Resources	DUE-1245496	47.076	Bloomsburg	38,916
Pass-Through Ed Lab Group Education and Human Resources	HRD-0631789	47.076	California	253
Education and Human Resources	GSE-1153882	47.076	California	688
Pass-Through Jefferson Community and Technical College Education and Human Resources	KCT-PS-572	47.076	California	22,876
Pass-Through Bates College, Lewiston, ME Education and Human Resources	DUE-1118600/2051-2037-02 ESUP	47.076	East Stroudsburg	5,673
Pass-Through University of Central Florida, Education and Human Resources	61036038	47.076	Indiana	1,336
Education and Human Resources	61036046	47.076	Indiana	1,373
Pass-Through Hofstra University/Husky Research Co Education and Human Resources	DRL-0821965	47.076	Bloomsburg	20,739
Pass-Through Drexel University, Education and Human Resources	HDR-0903924	47.076	Cheyney	9,275
Pass-Through Duquesne University, Education and Human Resources	DUE-1226175	47.076	Lock Haven	5,541
Total Education and Human Resources				<u>1,802,465</u>
Trans-NSF Recovery Act Research Support - ARRA	AST-0908098	47.082	Bloomsburg	18,555
Trans-NSF Recovery Act Research Support - ARRA	BCS-0924369	47.082	Slippery Rock	<u>14,027</u>
Total Trans-NSF Recovery Act Research Support				<u>32,582</u>
Total National Science Foundation				<u>2,821,020</u>
<u>Environmental Protection Agency</u>				
Pass Through Board of Trustees of Western Michigan University Science to Achieve Results (STAR) Research Program	83540901	66.509	West Chester	<u>12,665</u>
Total Environmental Protection Agency				<u>12,665</u>

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**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
RESEARCH AND DEVELOPMENT CLUSTER
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>				
Mental Health Research Career/Scientist Development Awards	1K23MH082257	93.281	West Chester	24,335
Child Health and Human Development Extramural Research	1R15HD061796	93.865	West Chester	6,221
Pass-Through PA Department of Health, Environmental Public Health and Emergency Response	410059335	93.070	East Stroudsburg	21,007
Assistance Programs for Chronic Disease Prevention and Control	410059335	93.945	East Stroudsburg	<u>68,951</u>
Total U.S. Department of Health and Human Services				<u>120,514</u>
<u>U.S. Department of Defense</u>				
Pass-Through University of Virginia, Basic and Applied Scientific Research	N00014-08-1-0642	12.300	West Chester	135,643
Pass-Through Lehigh University, Basic and Applied Scientific Research	542549-78004	12.300	Kutztown	<u>13,025</u>
Total Basic and Applied Scientific Research				<u>148,668</u>
Information Security Grant Program	H98230-12-1-0458	12.902	East Stroudsburg	<u>48,295</u>
Mathematical Sciences Grants Program	H98230-11-1-0190	12.901	West Chester	573
Mathematical Sciences Grants Program	H98230-13-1-0207	12.901	West Chester	<u>11,195</u>
Total Mathematical Sciences Grants Program				<u>11,768</u>
Total U.S. Department of Defense				<u>208,731</u>
Total Research and Development Cluster				<u>\$ 3,531,849</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Agriculture</u>				
Child and Adult Care Food Program	300214900	10.558	Shippensburg	<u>47,570</u>
Pass-Through PA Dept of Education:				
Summer Food Service Program for Children	AUN: 300191200	10.559	Bloomsburg	8,150
Summer Food Service Program for Children	AUN: 300191175	10.559	Bloomsburg	21,089
Summer Food Service Program for Children	Not available	10.559	California	10,864
Summer Food Service Program for Children	Not available	10.559	California	11,196
Summer Food Service Program for Children	4-06-16-140-1	10.559	Clarion	3,661
Summer Food Service Program for Children	Not available	10.559	Lock Haven	<u>2,486</u>
Total Summer Food Service Program for Children				<u>57,446</u>
Pass-Through SBDC, Rural Business Enterprise Grants	44-016-251474927	10.769	Clarion	13,750
National Fish and Wildlife Foundation	0603.12.033212	10.683	Lock Haven	5,000
Pass-Through U.S. Forest Service, Forestry Research	Not available	10.652	Clarion	<u>30,065</u>
Total U.S. Department of Agriculture				<u>153,831</u>
<u>U.S. Department of Commerce</u>				
Pass-Through National Geographic Society, NOAA Mission-Related Education Awards	NA12SEC0080021.05	11.008	Shippensburg	99,404
Pass-Through University of Pennsylvania, Economic Development-Technical Assistance	561120-C	11.303	Lock Haven	37,657
Pass-Through University of Pennsylvania, Economic Adjustment Assistance	01-79-14227	11.307	Kutztown	105,804
Economic Adjustment Assistance	01-79-14227	11.307	Shippensburg	<u>43,308</u>
Total Economic Adjustment Assistance				<u>149,112</u>
Measurement and Engineering Research and Standards	70NANB14H163	11.609	Millersville	<u>5,447</u>
Total U.S. Department of Commerce				<u>291,620</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Defense</u>				
Procurement Technical Assistance For Business Firms	SP-4800-12-2-1234	12.002	California	28,240
Procurement Technical Assistance For Business Firms	SP-4800-12-2-1334	12.002	California	160,843
Procurement Technical Assistance For Business Firms	SP-4800-11-2-1235	12.002	Indiana	60,329
Procurement Technical Assistance For Business Firms	SP-4800-11-2-1335	12.002	Indiana	134,077
Pass-Through University of Pennsylvania PA SBDC: Procurement Technical Assistance For Business Firms	SP4800-11-2-1136	12.002	Kutztown	4,421
Procurement Technical Assistance For Business Firms	SP4800-12-2-1336	12.002	Kutztown	<u>65,597</u>
Total Procurement Technical Assistance for Business Firms				<u>453,507</u>
Pass-Through National Security Agency Mathematical Sciences Grants Program	H98230-11-1-0229	12.901	Shippensburg	<u>(217)</u>
Total U.S. Department of Defense				<u>453,290</u>
<u>U.S. Department of Housing and Urban Development</u>				
Pass-Through PA Dept of Health, Housing Opportunities for Persons with AIDS	4100048081	14.241	Clarion	<u>162,215</u>
Pass-Through City of Reading, Community Development Block Grants	B-14-MC-42-0013	14.218	Kutztown	<u>38,538</u>
Total U.S. Department of Housing and Urban Development				<u>200,753</u>
<u>U.S. Department of the Interior</u>				
Pass Through Commonwealth of Pennsylvania Fish and Boat Commission: State Wildlife Grants	Not available	15.634	California	15,000
State Wildlife Grants	T2-10-R1	15.634	California	<u>15,984</u>
Total State Wildlife Grants				<u>30,984</u>

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**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through Montana State University, National Land Remote Sensing - Education Outreach and Research	08HQGR0157	15.815	California	15,464
Pass-Through America View, National Land Remote Sensing - Education Outreach and Research	08HQGR0157	15.815	California	<u>5,339</u>
Total National Land Remote Sensing - Education				<u>20,803</u>
Total U.S. Department of the Interior				<u>51,787</u>
<u>U.S. Department of Justice</u>				
Pass-Through IUP Research Institute, Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	2009-WA-AX-0013	16.525	Indiana	2,346
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	2009-WA-AX-0030	16.525	Slippery Rock	<u>10,493</u>
Total Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus				<u>12,839</u>
Pass-Through PA Commission on Crime and Delinquency, Juvenile Justice and Delinquency Prevention - Allocation to States	22105	16.540	Shippensburg	166,211
Juvenile Justice and Delinquency Prevention - Allocation to States	24946	16.540	Shippensburg	162,055
Pass-Through Office of Violence Against Women, Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	2011-WA-AX-0018	16.590	East Stroudsburg	35,661
Pass-Through IUP Research Institute, Edward Byrne Memorial Justice Assistance Grant Program	2011-2013JG-06-25005	16.738	Indiana	19,319
Pass-Through Juvenile Court Judges' Commission, Edward Byrne Memorial Justice Assistance Grant Program	281352	16.738	Shippensburg	1,422

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**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
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OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through PA Commission on Crime and Delinquency,				
Edward Byrne Memorial Justice Assistance Grant Program	23281	16.738	Shippensburg	85,758
Edward Byrne Memorial Justice Assistance Grant Program	24971	16.738	Shippensburg	<u>45,879</u>
Total Edward Byrne Memorial Justice Assistance Grant Program				<u>152,378</u>
Pass-Through Juvenile Court Judges' Commission, Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program - ARRA				
	281352	16.803	Shippensburg	142,660
Total U.S. Department of Justice				<u>671,804</u>
<u>U.S. Department of Labor</u>				
Trade Adjustment Assistance	TAA-0098-08/9	17.245	Indiana	4,744
Trade Adjustment Assistance	TAA-0098-11/1	17.245	Indiana	6,314
Trade Adjustment Assistance	TAA-0098-11/1	17.245	Indiana	3,725
Pass-Through PA Dept of Labor:				
Trade Adjustment Assistance	Not available	17.245	Mansfield	31,249
Trade Adjustment Assistance	Not available	17.245	Mansfield	817
Pass-Through NY Dept of Labor:				
Trade Adjustment Assistance	Not available	17.245	Mansfield	<u>11,250</u>
Total Trade Adjustment Assistance				<u>58,099</u>
Pass-Through Central PA Workforce Development Corporation, H-1B Job Training Grants				
	Not available	17.268	Mansfield	<u>7,044</u>
Consultation Agreements	CS-22423-CS2	17.504	Indiana	485,592
Consultation Agreements	CS-24783-CS4	17.504	Indiana	<u>1,303,142</u>
Total Consultation Agreements				<u>1,788,734</u>
Pass-Through PA Dept of Environmental Protection, Mine Health and Safety Education and Training				
	4000017318	17.602	Indiana	<u>(1,220)</u>
Total U.S. Department of Labor				<u>1,852,657</u>

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**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Transportation</u>				
Pass-Through PA Department of Transportation, Highway Planning and Construction	MOU360625	20.205	Cheyney	40,960
Highway Planning and Construction	MOU 360630	20.205	Cheyney	3,994
Highway Planning and Construction	MOU360626	20.205	Cheyney	264,707
Highway Planning and Construction	MOU360611-D	20.205	Cheyney	128,886
Highway Planning and Construction	MOU360621	20.205	Cheyney	79,333
Highway Planning and Construction	MOU360621-A	20.205	Cheyney	43,169
Highway Planning and Construction	Not available	20.205	Shippensburg	<u>262,368</u>
Total Highway Planning and Construction				<u>823,417</u>
State and Community Highway Safety	471085 CP 13-01	20.600	Indiana	27,990
State and Community Highway Safety	470191 CTSP-2014	20.600	Indiana	<u>82,642</u>
Total State and Community Highway Safety				<u>110,632</u>
Total U.S. Department of Transportation				<u>934,049</u>
<u>General Services Administration</u>				
Pass-Through Pennsylvania Department of General Services, Donation of Federal Surplus Personal Property	S51539	39.003	Millersville	<u>485</u>
Total General Services Administration				<u>485</u>
<u>National Aeronautics & Space Administration</u>				
Pass-Through Pennsylvania State University, Science	NGT5-40064	43.001	Clarion	11
Pass-Through University of Maryland, Science	Z670701	43.001	Shippensburg	<u>12,609</u>
Total National Aeronautics & Space Administration				<u>12,620</u>
<u>National Endowment for the Humanities</u>				
Promotion of the Arts Grants to Organizations and Individuals	13-3800-7004	45.024	West Chester	<u>16,438</u>
Pass-through ArtsCONNECT- NEA, Promotion of the Arts Partnership Agreements	25440	45.025	Millersville	<u>1,630</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Promotion of the Humanities - Professional Development	AQ-51021-14	45.163	West Chester	10,061
Total National Endowment for the Humanities				28,129
<u>Institute of Museum & Library Services</u>				
Laura Bush 21st Century Librarian Program	RE-01-10-0011-10	45.313	Mansfield	297,607
Total Institute of Museum & Library Services				325,736
<u>U.S. Small Business Administration</u>				
Pass-Through, The University of Pennsylvania :				
Small Business Development Centers	SBAHQ-13-B-0036	59.037	Kutztown	161,793
Small Business Development Centers	SBAHQ-14-B-0055	59.037	Kutztown	210,880
Small Business Development Centers	SBAHQ-14-B-0055	59.037	Kutztown	2,011
Pass-Through the University of Pennsylvania:				
Small Business Development Centers	0-603001-Z-0040-30	59.037	Clarion	308,032
Small Business Development Centers	SBAHQ-13-B-0036	59.037	Indiana	54,986
Small Business Development Centers	SBAHQ-14-B-0055	59.037	Indiana	43,684
Small Business Development Centers	5-60617-M	59.037	Lock Haven	44,232
Small Business Development Centers	Not available	59.037	Lock Haven	42,428
Small Business Development Centers	Not available	59.037	Lock Haven	2,617
Small Business Development Centers	SBAHQ-13-B-0036	59.037	Shippensburg	84,211
Small Business Development Centers	SBAHQ-14-B-0055	59.037	Shippensburg	10,625
Total Small Business Development Centers				965,499
Total U.S. Small Business Administration				965,499
<u>Environmental Protection Agency</u>				
Solid Waste Management Assistance Grants	96325601	66.808	West Chester	1,959
Total Environmental Protection Agency				1,959
<u>Department of Energy</u>				
Office of Science Financial Assistance Program	DE-SC0002013	81.049	Chester	38,795

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Renewable Energy Research and Development	DE-EE0004499	81.807	West Chester	14,949
Total Department of Energy				<u>53,744</u>
<u>U.S. Department of Education</u>				
Pass-Through PA Dept of Education:				
Migrant Education - State Grant Program	017-12-0105	84.011	Millersville	668,230
Migrant Education - State Grant Program	017-130105	84.011	Millersville	<u>1,310,003</u>
Total Migrant Education - State Grant Program				<u>1,978,233</u>
Higher Education - Institutional Aid	P031B070075	84.031	Cheyney	2,374,469
Higher Education - Institutional Aid	P031B085075	84.031	Cheyney	6,280
Higher Education - Institutional Aid	P031B100095	84.031	Cheyney	<u>671,539</u>
Total Higher Education - Institutional Aid				<u>3,052,288</u>
Pass-Through PA Dept of Education:				
Career and Technical Education - Basic				
Grants to States	381-10-0051	84.048	Clarion	70,011
Grants to States	119-13-3001	84.048	Indiana	33,990
Grants to States	119-13-4001	84.048	Indiana	<u>1,168,011</u>
Total Career and Technical Education - Basic Grants to States				<u>1,272,012</u>
Fund for the Improvement of				
Postsecondary Education	P116Z100098	84.116	Cheyney	308,391
Pass-Through Georgia State University,				
Fund for the Improvement of				
Postsecondary Education	P116110036	84.116J	Indiana	<u>21,648</u>
Total Fund for the Improvement of Postsecondary Education				<u>330,039</u>
Pass-Through PA Department of Revenue				
Twenty-First Century Community Learning Centers	H128J100050	84.128J	California	<u>7,500</u>
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K090312-10	84.325K	Bloomsburg	1,322

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K090312-11	84.325K	Bloomsburg	4,313
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K090312-12	84.325K	Bloomsburg	105,257
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K080320-11	84.325K	Slippery Rock	9,050
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K120303	84.325K	Slippery Rock	129,174
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H327A110069-12	84.325T	California	<u>110,563</u>
Total Special Education - Personnel Development to Improve Services and Results for Children with Disabilities				<u>359,679</u>
Pass-Through University of Missouri				
Special Education - Technology and Media Services for Individuals with Disabilities	H327A110069	84.327A	California	<u>17,125</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Bloomsburg	2,740
Pass-Through Pennsylvania Higher Education Assistance Agency:				
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Indiana	3,425
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Shippensburg	8,220
Pass-Through School District of Lancaster, Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Millersville	96,537
Gaining Early Awareness and Readiness for Undergraduate Programs	P334S080005	84.334S	Office of the Chancellor	<u>3,032,962</u>
Total Gaining Early Awareness and Readiness for Undergraduate Programs				<u>3,143,884</u>
Childcare Access Means Parents in School	P335A090102	84.335A	California	16,146
Childcare Access Means Parents in School	P335A100026	84.335A	Indiana	141,521
Childcare Access Means Parents in School	P335A090058	84.335A	Slippery Rock	24,087
Childcare Access Means Parents in School	P335A130077	84.335A	Slippery Rock	<u>2,077</u>
Total Child Care Access Means Parents in School				<u>183,831</u>
English Language Acquisition Grants	T365Z120055	84.365Z	California	<u>331,743</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through National Writing Project:				
Improving Teacher Quality State Grants	09-PA12-SEED2012	84.367D	Edinboro	18,139
Improving Teacher Quality State Grants	05-PA11-SEED2012	84.367D	East Stroudsburg	8,501
Improving Teacher Quality State Grants	05-PA11-SEED2013	84.367D	East Stroudsburg	2,000
Improving Teacher Quality State Grants	Not available	84.367	Mansfield	9,147
Improving Teacher Quality State Grants	92-PA05-SEED2012	85.367	Mansfield	7,864
Pass-Through PA Department of Education:				
Improving Teacher Quality State Grants	071-130011	84.367B	Bloomsburg	466,407
Pass-Through University of Pittsburgh,				
Improving Teacher Quality State Grants	Not available	84.367	Mansfield	<u>32,712</u>
Total Improving Teacher Quality State Grants				<u>544,770</u>
Pass-Through Ohio State University,				
Investing in Innovation (i3) Fund - ARRA	60033091	84.411	Shippensburg	<u>412,839</u>
Total U.S. Department of Education				<u>11,633,943</u>
 <u>U.S. Department of Health and Human Services</u>				
Nurse Anesthetist Traineeships	A22HP26015-01-00	93.124	Bloomsburg	<u>15,848</u>
Pass-Through Morehouse School of Medicine				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	T1023447	93.243	Cheyney	8,807
Pass-Through Armstrong Indiana Clarion Drug and Alcohol Commission				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	Not available	93.243	Indiana	<u>5,521</u>
Total Substance Abuse and Mental Health Services Projects of Regional and National Significance				<u>14,328</u>
Pass-Through Center for Disease Control,				
Occupational Safety and Health Program	2TO20H008622-05	93.262	Millersville	8,979
Occupational Safety and Health Program	2TO20H008622-05	93.262	Millersville	<u>35,171</u>
Total Occupational Safety and Health Program				<u>44,150</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance				
	Not available	93.283	Lock Haven	<u>57,781</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Advanced Nursing Education Traineeships	A10HP25176-02-01	93.358	Bloomsburg	<u>315,933</u>
Pass-Through PHEAA, Chafee Education and Training Vouchers Program (ETV)	Not available	93.599	Shippensburg	<u>18,000</u>
Head Start	03CH310640	93.600	Shippensburg	7,600
Head Start	03CH310641	93.600	Shippensburg	754,255
Head Start	03CH310642	93.600	Shippensburg	<u>99,134</u>
Total Head Start				<u>860,989</u>
Chafee Foster Care Independence Program	410047664	93.674	Bloomsburg	30,000
Pass-Through PHEAA, Chafee Foster Care Independence Program	Not available	93.674	Lock Haven	<u>20,000</u>
Total Chafee Foster Care Independence Program				<u>50,000</u>
Pass-Through University of Pittsburgh, Biomedical Research and Research Training	RGM103368A	93.859	Slippery Rock	<u>18,634</u>
Pass-Through the Commonwealth Medical College, Grants for Training in Primary Care Medicine and Dentistry	1T85HP24464-01-00	93.884	East Stroudsburg	23,365
Grants for Training in Primary Care Medicine and Dentistry	1T85HP24464-02-00	93.884	East Stroudsburg	<u>76,490</u>
Total Grants for Training in Primary Care Medicine and Dentistry				<u>99,855</u>
Pass-Through PA Department of Health, HIV Care Formula Grants	4100048817	93.917	Clarion	633,553
Pass-Through Health Resource Services, Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	H76HA00756	93.918	Clarion	<u>374,343</u>
Pass-Through Health Resource Services, Special Projects of National Significance	H97HA19769	93.928	Clarion	<u>115,828</u>
Total U.S. Department of Health and Human Services				<u>2,619,242</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Homeland Security</u>				
Pass-Through PA Emergency Management Agency (PEMA):				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-4030-DR- PA-000-U287K-00	97.036	Office of the Chancellor	<u>11,345</u>
Pass-Through PA Emergency Management Agency (PEMA):				
Pre-Disaster Mitigation	PDMC-PL-03 PA-2012	97.047	Office of the Chancellor	393,649
Pass-Through PA Emergency Management Agency (PEMA):				
Homeland Security Grant Program	4100056014	97.067	Office of the Chancellor	<u>54,761</u>
Total U.S. Department of Homeland Security				<u>459,755</u>
<u>Other</u>				
Teaching Primary Sources Program	GAO7C0061	99.999	California	214,729
Pass-Through The Pennsylvania State University:				
PA Space Grant Consortium	NNX10AK74H	99.999	California	5,146
NASA Awards	NNX10AK74H	99.999	West Chester	8,668
Pass-Through Arts Midwest				
National Endowment for the Arts	FY14-19391	99.999	West Chester	13,300
Forest Service Northern Research Station	11-JV-11-11242306-095	99.999	West Chester	3,583
Forest Service Northern Research Station	13-JV-11242304-033	99.999	West Chester	7,780
Total Other				<u>253,206</u>
TOTAL				<u><u>20,935,980</u></u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

(1) BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") represents a summary of federal awards expended by the Pennsylvania State System of Higher Education, Commonwealth of Pennsylvania ("the State System"), and its member universities, for the year ended June 30, 2014. For purposes of the Schedule, federal awards include all U.S. government financial assistance, procurement relationships between the State System and its member universities and the federal government, and subawards made under federally sponsored agreements that are received from nonfederal organizations.

The Schedule classifies the expenditures of federal awards into four categories: Student Financial Assistance Cluster, TRIO Cluster, Research and Development Cluster, and Other Federal Awards. Within each category, federal awards have been classified as either direct (awards received directly from a federal agency) or pass through (subawards received from nonfederal organizations that were made under federally sponsored agreements). The State System recognizes expenditures of federal program funds on the accrual basis of accounting. Federal award expenditures shown on the Schedule in parenthesis represent adjustments to disbursements made in prior years.

(2) RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

(3) STUDENT FINANCIAL ASSISTANCE

The following table shows certain information concerning student financial assistance programs detailed by University for the year ended June 30, 2014:

<u>University</u>	<u>Federal Pell</u>	<u>Federal Supplemental Educational Opportunity Grant</u>	<u>Federal Work Study</u>	<u>Federal Perkins Cancellations</u>	<u>Teacher Education Assistance For College And Higher Education Grant</u>
Bloomsburg	\$ 12,197,656	\$ 205,333	\$ 666,549	\$ 14,629	\$ -
California	10,683,913	281,442	406,034	-	35,316
Cheyney	4,061,945	446,500	129,820	-	-
Clarion	8,622,876	120,000	249,524	7,957	27,145
East					
Stroudsburg	8,628,809	179,255	275,874	26,566	-
Edinboro	11,247,724	228,600	236,687	-	192,033
Indiana	19,550,754	736,991	1,426,757	-	-
Kutztown	12,019,862	180,263	263,613	31,116	-
Lock Haven	8,359,123	234,302	206,095	1,500	39,441
Mansfield	5,252,345	92,150	143,584	-	14,371
Millersville	10,256,293	158,656	199,753	7,833	-
Shippensburg	8,290,565	140,644	191,315	17,126	15,448
Slippery Rock	10,054,317	183,746	318,203	18,890	25,358
West Chester	14,170,624	208,736	332,760	2,088,671	95,357
	<u>\$ 143,396,806</u>	<u>\$ 3,396,618</u>	<u>\$ 5,046,568</u>	<u>\$ 2,214,288</u>	<u>\$ 444,469</u>

The above amounts awarded to students include certain administrative allowances.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

(3) STUDENT FINANCIAL ASSISTANCE (CONTINUED)

The State System participates in the following student loan programs: Federal Perkins Loan Program (CFDA No. 84.038); Nursing Student Loan Program (CFDA NO. 93.364); Federal Direct Loan Program (CFDA No. 84.268), which includes the Federal Stafford Loan Program, the Federal Supplemental Loan for Students Program (“SLS”), and the Federal Parent Loans for Undergraduate Students Program (“PLUS”). Loans awarded under these programs for the year ended June 30, 2014 are as follows:

<u>University</u>	<u>Federal Perkins Loans Awarded</u>	<u>Nursing Student Loans Awarded</u>	<u>Federal Direct Loans Awarded</u>
Bloomsburg	\$ 78,000	\$ -	\$ 63,136,552
California	296,000	-	56,607,721
Cheyney	-	-	8,790,760
Clarion	75,172	-	41,443,899
East			
Stroudsburg	352,650	-	40,841,156
Edinboro	336,234	18,800	52,687,535
Indiana	1,372,293	-	103,744,327
Kutztown	932,624	-	61,785,217
Lock Haven	170,200	-	39,539,378
Mansfield	361,695	-	20,498,984
Millersville	181,576	-	50,159,806
Shippensburg	475,082	-	45,096,850
Slippery Rock	896,382	-	57,857,057
West Chester	2,748,499	61,300	90,160,612
	<u>\$ 8,276,407</u>	<u>\$ 80,100</u>	<u>\$ 732,349,854</u>

Federal Perkins Loans and Nursing Student Loans awarded are included as part of Federal Perkins Loans and Nursing Student Loans outstanding on the schedule of expenditures of federal awards.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

(3) STUDENT FINANCIAL ASSISTANCE (CONTINUED)

Outstanding loans and administrative allowances under the programs administered by the State System for the year ended June 30, 2014 are as follows:

<u>University</u>	<u>Federal Perkins Loans Outstanding</u>	<u>Nursing Student Loans Outstanding</u>
Bloomsburg	\$ 1,755,485	\$ -
California	2,627,768	-
Cheyney	-	-
Clarion	593,512	-
East Stroudsburg	2,235,070	-
Edinboro	2,109,971	180,208
Indiana	8,026,401	-
Kutztown	3,335,904	-
Lock Haven	1,328,922	-
Mansfield	1,757,999	-
Millersville	1,457,545	-
Shippensburg	2,648,741	-
Slippery Rock	4,178,925	-
West Chester	8,449,230	276,424
	<u>\$ 40,505,473</u>	<u>\$ 456,632</u>

(4) MAJOR PROGRAMS

Major programs are identified on the schedule of findings and questioned costs and totaled approximately \$940,854,100, which is over 98% of total expenditures of federal awards for the year ended June 30, 2014. This amount includes loans administered under the Federal Direct Loan Program during the year ended June 30, 2014 and loans outstanding as of June 30, 2014 under the Federal Perkins Loan Program and the Nursing Student Loan Program.

(5) AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS

American Recovery and Reinvestment Act funds are identified separately on the schedule of federal awards.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X no

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes _____ no

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X yes _____ no

Identification of major programs:

Program	CFDA #
Student Financial Assistance Cluster	Various
TRIO Cluster	Various
Research and Development Cluster	Various
Gaining Early Awareness and Readiness	84.334
Improving Teacher Quality State Grant	84.367
Highway Planning and Construction	20.205

Dollar threshold used to distinguish between type A and type B programs: \$884,019

Auditee qualified as low-risk auditee? X yes _____ no

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

II. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

CURRENT YEAR

2014-001 – Student Financial Assistance Cluster – Activities Allowed or Unallowed – Cash Management – Eligibility – Matching, Earmarking – Reporting – Special Tests and Provisions:

Cheyney University

CFDA:

84.007 – Federal Supplemental Education Opportunity Grants

84.033 – Federal Work Study Program

84.038 – Federal Perkins Loans

84.063 – Federal Pell Grant Program

84.268 – Federal Direct Student Loans

Condition and Context:

During the 2014 fiscal year, Cheyney University (Cheyney) was not in compliance with the federal regulations related to activities allowed or unallowed, cash management, eligibility, matching, reporting and special tests and provisions for its Student Financial Assistance programs. Cheyney has had numerous compliance findings related to the Student Financial Assistance Cluster over a span of multiple years, many of which have been repeat audit findings. Conditions worsened during the 2013 and 2014 fiscal years with additional employee turnover.

As a result, the Pennsylvania State System of Higher Education (the State System) hired a consulting firm to begin a self-review, at the individual student level of detail, of Cheyney's compliance with the Student Financial Assistance Cluster regulations. The preliminary results of this review indicated that there were significant compliance issues at Cheyney and a detailed analysis by each individual student who was awarded Student Financial Assistance would be required to be performed. This self-review is being performed for a three year period encompassing the Fiscal Award Years 2014, 2013 and 2012. In conjunction with this self-review, Cheyney and the State System have been working directly with the U.S Department of Education to self-report the impact of Cheyney's non-compliance and work together towards a long-term solution. In addition, we understand that the State System has engaged a third-party contractor to perform the Student Financial Aid function at Cheyney for the immediate future.

Criteria:

34 CFR Sections 673, 674, 675, 676, 685, 690.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

**III.FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)**

CURRENT YEAR (CONTINUED)

Questioned Costs:

Cheyney reported the following amounts on the 2014 Schedule of Expenditures of Federal Awards:

Federal Supplemental Education Opportunity Grants	\$ 446,500
Federal Work Study Program	129,820
Federal Pell Grant Program	4,061,945
Federal Direct Student Loans	<u>8,790,760</u>
Total	<u>\$13,429,025</u>

Due to the uncertain validity of Cheyney's Student Financial Assistance awards for fiscal year 2014, all reported amounts are considered to be questioned costs.

Cause:

The control environment at Cheyney was not adequate to ensure that recurring compliance issues were corrected and proper internal controls were put into place to ensure compliance with the Student Financial Assistance Cluster regulations. The control environment component of internal controls sets the tone of an organization influencing the control consciousness of its employees. It is the foundation for all other components of internal control, providing discipline and structure. Characteristics of control environment include senior management that is responsible for receiving all reports and communications from the auditor, ensuring that audit findings and recommendations are adequately addressed by management, monitoring management's responsiveness to prior questioned costs and control recommendations, and requiring management's respect for and adherence to program compliance requirements.

Possible Asserted Effect:

The potential effects of Cheyney's noncompliance with many of the provisions of the various programs within the Student Financial Assistance Cluster include but are not limited to:

- Reduction in or loss of federal funding for Cheyney
- Ineligible students may have received awards or loans
- Students may have been awarded incorrect aid or loan amounts based on the various eligibility requirements
- Reports filed with the Department of Education may contain inaccurate data
- Returns of Title IV Student Financial Assistance funds for students who withdrew were not calculated accurately nor were funds returned on a timely basis
- Inaccurate verification of student data may have resulted in invalid awards of student aid or loans

Auditors' Recommendation:

We recommend that Cheyney University reinforce their control structure and control environment to ensure there is an appropriate tone at the top of the organization, to monitor proper follow-up on audit and consultants findings, and review all activity level controls to ensure compliance with the various requirements of the Student Financial Assistance Cluster.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)

CURRENT YEAR (CONTINUED)

**2014-002 – Student Financial Assistance Cluster – Special Tests and Provisions – Common
Origination and Disbursement (COD) Reporting:**

Lock Haven University

CFDA:

84.063 – Federal Pell Grant Program

Condition and Context:

During our testing of the reporting to the Common Origination and Disbursement (COD) system we noted that for 7 of the 37 disbursements tested were not reported in COD within the required 15 days of the disbursement

Criteria:

Federal regulations require that the University report the amount and date disbursement to the COD system within 15 days of the disbursement into the student account.

Questioned Costs:

None

Cause:

The University's policies and procedures in place were not updated to reflect the new 15 day requirement for reporting.

Possible Asserted Effect:

The University is not timely updating the COD system.

Auditors' Recommendation:

We recommend that the University implement procedures to accurately report disbursements within 15 days of the disbursement to COD.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

**III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)**

CURRENT YEAR (CONTINUED)

**2014-003 – Student Financial Assistance Cluster – Special Tests and Provisions – Return of
Title IV (R2T4):**

East Stroudsburg University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

It was noted during our testing of R2T4 calculations that the University is not excluding the correct amount of days for scheduled breaks of five days or more in either the 2013 fall or 2014 spring terms. Thus, all calculations performed for both the 2013 fall and 2014 spring terms were determined to be inaccurate. Additionally it was noted that the University was using an inaccurate semester end date in its calculations for the 2014 spring term based on the University's academic calendar.

Criteria:

In accordance with 34 CFR 668.22(a)(1), when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date.

Questioned Costs:

Not determined.

Cause:

The University does not have policies and procedures in place to ensure calculations are properly performed.

Possible Asserted Effect:

The University is not completing accurate R2T4 calculations as defined by the regulations.

Auditor's Recommendation:

We recommend the University review the R2T4 requirements and implement procedures to ensure the R2T4 calculations are using the correct amount of term days and are accurately completed.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

**III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)**

CURRENT YEAR (CONTINUED)

**2014-004 – Student Financial Assistance Cluster – Special Tests and Provisions – Return of
Title IV (R2T4):**

Edinboro University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

It was noted during our testing of R2T4 calculations that the University is not excluding the correct amount of days for scheduled breaks of five days or more during the 2013 fall term. Thus, all calculations performed for the 2013 fall term were determined to be inaccurate.

Criteria:

In accordance with 34 CFR 668.22(a)(1), when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date.

Questioned Costs:

Not determined.

Cause:

The University does not have policies and procedures in place to ensure calculations are properly performed.

Possible Asserted Effect:

The University is not completing accurate R2T4 calculations as defined by the regulations.

Auditor's Recommendation:

We recommend the University review the R2T4 requirements and implement procedures to ensure the R2T4 calculations are using the correct amount of term days and are accurately completed.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

**III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)**

CURRENT YEAR (CONTINUED)

**2014-005 – Student Financial Assistance Cluster – Special Tests and Provisions – Return of
Title IV (R2T4):**

West Chester University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

It was noted during our testing of R2T4 calculations that the University is correctly calculating the funds to be returned but is not properly adjusting student awards based on these calculations. Thus, the University is not returning the proper amounts to the Department of Education.

Criteria:

In accordance with 34 CFR 668.22(a)(1), when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date.

Questioned Costs:

Not determined.

Cause:

The University does not have policies and procedures in place to ensure student awards are properly adjusted based on calculations performed.

Possible Asserted Effect:

The University is not returning the proper amounts to the Department based on the calculations performed.

Auditor's Recommendation:

We recommend the University review the R2T4 requirements and implement procedures to ensure award adjustments as determined by the R2T4 calculations are being properly adjusted to the student's account and the correct amounts are being returned to the Department.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

**III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)**

CURRENT YEAR (CONTINUED)

**2014-006 – Student Financial Assistance Cluster – Special Tests and Provisions – Return of
Title IV (R2T4):**

Clarion University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

It was noted during our testing of R2T4 calculations that the University is performing calculations by hand which resulted in noted mathematical errors. Additionally, the University is rounding calculation percentages to the nearest whole number instead of extending to four decimal places as prescribed in the Student Financial Aid Handbook. It was also noted that the University is not excluding the correct amount of days for scheduled breaks of five days or more during the 2014 spring term. Thus, all calculations performed for the 2014 spring term were determined to be inaccurate.

Criteria:

In accordance with 34 CFR 668.22(a)(1), when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date.

Questioned Costs:

Not determined.

Cause:

The University does not have policies and procedures in place to ensure student awards are properly adjusted based on calculations performed.

Possible Asserted Effect:

The University is not returning the proper amounts to the Department based on the calculations performed.

Auditor's Recommendation:

We recommend the University review the R2T4 requirements and implement procedures to ensure award adjustments as determined by the R2T4 calculations are being properly adjusted to the student's account and the correct amounts are being returned to the Department.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)

CURRENT YEAR (CONTINUED)

2014-007 – Student Financial Assistance Cluster – Special Tests and Provisions – Federal Work Study Off-Campus Employer Agreements:

Lock Haven University

CFDA:

84.033 – Federal Work Study Program

Condition and Context:

We noted the University is employing students under the federal work study program with off-campus employers but they were not able to provide written agreements in accordance with federal regulations with these employers.

Criteria:

In accordance with 34 CFR 675.20(b), institutions are required to enter into written agreements with off-campus employers which set forth the FWS work conditions and indicates whether the institution or the off-campus employer shall pay the students employed.

Questioned Costs:

None

Cause:

The written agreements obtained by the University do not fulfill federal requirements for off-campus employers of FWS recipients.

Possible Asserted Effect:

The responsibilities of the off-campus employer and the University may not be clearly defined.

Auditors' Recommendation:

We recommend the University develop a written agreement for off-campus employers of FWS recipients in accordance with federal requirements and ensure they obtain a signed agreement before students begin working with the off-campus employers.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2013-001 – Student Financial Assistance Cluster – Special Tests and Provisions – Return of Title IV (R2T4):

Cheyney University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

Cheyney University had three of five R2T4 calculations tested that had incorrect R2T4 calculations. One student had actually reached over 60% of the term and earned 100% of the aid but no loans were disbursed to the student because of the incorrect R2T4 calculation. One student had incorrect institutional charges used in the calculation and one had used an incorrect withdrawal date. Lastly, we noted one student that withdrew in our eligibility testing but no R2T4 calculation was performed for this student.

Auditor’s Recommendation:

We recommended the University review the R2T4 requirements and implement procedures to ensure the R2T4 calculations are complete, accurate and performed timely.

Views of Responsible Officials and Planned Corrective Action:

Cheyney University will review the R2T4 requirements and its internal policies and procedures surrounding the timely processing and return of federal funds. The Financial Aid Office staff will use FAA Access to CPS Online to accurately calculate the appropriate amount of federal funds to be returned. In addition, the Financial Aid Office will implement an internal process (worksheet) to accurately collect the data that is to be entered into FAA Access.

At the end of each semester, the Financial Aid Office will request a list of all withdrawn students from the Registrar and cross check our records to ensure that all R2T4 recalculations of federal aid have been performed.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-002: – Student Financial Assistance Cluster – Special Tests and Provisions – National Student Loan Data System (NSLDS) Reporting:

Cheyney University

CFDA:

84.007 – Federal Supplemental Education Opportunity Grants

84.033 – Federal Work Study Program

84.038 – Federal Perkins Loans

84.063 – Federal Pell Grant Program

84.268 – Federal Direct Student Loans

84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

During our testing of the reporting to NSLDS at Cheyney University, we noted four of 25 students tested were not correctly reported to NSLDS.

Auditor’s Recommendation:

We recommended the University review their reporting procedures to ensure that students’ statuses are accurately and timely reported to NSLDS as required by regulations.

Views of Responsible Officials and Planned Corrective Action:

The University will review its process for reporting students' enrollment status to NSLDS. The University will collaborate with other campus offices to ensure that accurate enrollment information is being reported for all students within a timely manner.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-003 – Student Financial Assistance Cluster – Special Tests and Provisions –

Verification:

Kutztown University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

During our testing of verification, we noted one out of 25 students whose verification was not accurately completed. The student's brother's information was verified rather than the actual student and the father's information was not verified in the student's file.

Auditors' Recommendation:

We recommended that the University review its process for timely and accurately completing verification procedures on students selected for verification.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Services Office did in fact erroneously use the student's brother's information to verify the student in question. We discovered the information prior to the audit and decided that we would not make corrections to the file, since he was selected in your sample population.

The Financial Aid Services Office is fully aware and in compliance for completing verification properly. We have since requested the appropriate documentation to maintain within the student file. We have also reviewed and revised our process to insure that the correct documentation is attributed to the right student. Our in-office communication flow is being re-worked to maintain our timeliness and accuracy in completing verification.

Status:

No issues noted at Kutztown University in 2014.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-004 – Student Financial Assistance Cluster – Special Tests and Provisions – Common Origination and Disbursement (COD) Reporting:

Cheyney University

CFDA:

84.063 – Federal Pell Grant Program

84.268 – Federal Direct Student Loans

Condition and Context:

During our testing of the reporting to the Common Origination and Disbursement (COD) system we noted that for 6 of the 104 disbursements tested, the amounts reported in COD did not agree to the amount credited to the student account. In addition, that for 25 of the 104 disbursements tested, the date of the disbursement in COD did not agree to the disbursement date in the student account.

We also noted that seven of the 104 disbursements tested were not reported in COD within the required 30 days of the disbursement.

Auditors' Recommendation:

We recommended that the University implement procedures to accurately report disbursements within 30 days of the disbursement to COD.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Office will reconcile their records with COD and the Bursar every thirty days. A FAA will request reconciliation files from COD to be imported into PowerFAIDS. A custom reconciliation report will be used to identify any dollar amount discrepancies between PowerFAIDS and COD. Those awards will then be reconciled with the Bursar. Monthly reconciliation will ensure that disbursement dates and amounts are accurately reported to COD within the required thirty day time frame.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-005 – Student Financial Assistance Cluster – Special Tests and Provisions – Fiscal Operations Report and Application to Participate (FISAP) Reporting:

Cheyney University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

Certain amounts reported in the Fiscal Operations Report and Application to Participate (FISAP) were not supported by appropriate documentation provided by the University, as follows:

- Part III, Section A - The institutional capital contribution and the adjustment line.
- Part IV, Section C - The total amount reported as funds to FSEOG recipients.
- Part V, Section C - The total amount of earned compensation for FWS programs.
- Part VI, Section A - The amounts reported for FSEOG and FWS.

Auditors' Recommendation:

We recommended the University implement a review process to ensure the FISAP data is accurately reported and supported by documentation.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Office will reconcile all Title IV funds, including campus-based programs, at the end of each semester and again at the end of the award year in order to ensure that figures being used in the FISAP report are accurate and that supporting documentation can be provided to substantiate the use of those figures. Evidence of monthly and annual reconciliation will be kept on hand as reference for the data provided on the FISAP.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-006 – Student Financial Assistance Cluster – Special Tests and Provisions – Credit Balance Refunds:

Cheyney University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

We identified one student out of the 25 tested that had not received a credit balance refund within a timely period. The University did not receive approval from the student to hold funds and did not pay out the credit balance in the allowed timeframe.

Auditors' Recommendation:

We recommended the University revise policies and procedures to ensure all student credit balances are monitored and paid within a timely period or written authorization is obtained and kept on file for all credit balances retained by the University.

Views of Responsible Officials and Planned Corrective Action:

Cheyney University concurs with the finding and the University will implement the necessary controls to ensure timely payment of credit balances. The University is in the process of reviewing its student information system for system improvements as well as reviewing our personnel to ensure that we have adequate staffing and system processes to ensure compliance in the future.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-007 – Student Financial Assistance Cluster – Special Tests and Provisions – Notification of Loan Disbursements:

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

The University did not notify students when loan funds are disbursed into their account for any of the 23 students tested.

Auditors' Recommendation:

We recommended the University implement procedures to properly notify the student that the loan funds are being disbursed into their account and include information notifying the student what procedures they need to follow if they wish to cancel the loan.

Views of Responsible Officials and Planned Corrective Action:

For the 2013-2014 Award Year, the Financial Aid Office implemented the use of Common Origination and Disbursement (COD) Loan Disclosure Notification service. Notification is sent to borrowers electronically notifying the borrower of the anticipated disbursement date, disbursement amount and the ability to cancel the disbursement if the student or parent wishes. The Financial Aid Office will verify that disclosure notification has been sent to the borrower at the time of the first monthly reconciliation after the disbursement has taken place. The use of COD's disclosure notification service will continue for the coming award years.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-008 – Student Financial Assistance Cluster – Special Tests and Provisions – Loan Disbursements:

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

We noted one student out of 25 tested whose loan funds were credited to the student's account after the semester due to a data input error.

Auditors' Recommendation:

We recommended the University implement procedures to reconcile student accounts to the COD and G5 systems so that discrepancies can be identified and corrected timely.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Office will reconcile their records with COD and the Bursar every thirty days. A FAA will request reconciliation files from COD to be imported into PowerFAIDS. A custom reconciliation report will be used to identify any dollar amount discrepancies between PowerFAIDS and COD. Those awards will then be reconciled with the Bursar. Monthly reconciliation will ensure that disbursement dates and amounts are accurately reported to COD within the required thirty day time frame. In addition, the Financial Aid Office will closely monitor the institution's CFL (current funding level) via COD to ensure that the University is not drawing funds from GS that have not been substantiated.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-009 – Student Financial Assistance Cluster – Special Tests and Provisions – Loan Disbursements:

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

We noted one student who was awarded \$6,000 of unsubsidized loans which were accepted and originated but the student only received \$4,932 in their account.

Auditors' Recommendation:

We recommended the University implement procedures to ensure that they timely and accurately disburse funds to the student account.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Office will reconcile their records with COD and the Bursar every thirty days. A FAA will request reconciliation files, in addition to reconciliation files that are delivered monthly, from COD to be imported into PowerFAIDS. A custom reconciliation report will be used to Identify any dollar amount discrepancies between PowerFAIDS and COD for the Pell grant program. Those awards will then be reconciled with the Bursar. Monthly reconciliation will ensure that disbursement dates and amounts are accurately reported to COD within the required thirty day time frame.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-010 – Student Financial Assistance Cluster – Special Tests and Provisions – Direct Loan Reconciliations:

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

We noted the University was not completing reconciliations on a monthly basis for the direct loan programs.

Auditors' Recommendation:

We recommended the University implement procedures to timely reconcile the direct loan programs.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Office will install the Department of Education's Direct Loan Tools to aid in monthly reconciliation of Direct Loan programs. Using this tool, the Financial Aid Office will import monthly SAS reports for Direct Loans to reconcile with COD. Following reconciliation of PowerFAIDS and COD, fund will be reconciled with the office of the Bursar.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-011 – Student Financial Assistance Cluster – Special Tests and Provisions – Federal Work Study Off-Campus Employer Agreements:

Cheyney University

CFDA:

84.033 – Federal Work Study Program

Condition and Context:

We noted the University is employing students under the federal work study program with off-campus employers but they were not able to provide written agreements with these employers.

Auditors' Recommendation:

We recommended the University develop a written agreement for off-campus employers and ensure they obtain a signed agreement before students begin working with the off-campus employers.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Office will develop a written agreement for off-campus employers to clearly define the responsibilities of the off-campus employer. Students will not be permitted to begin working until the agreement has been signed by both the employer and the student. The agreement will be kept in the student's file in the financial aid office.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-012 – Student Financial Assistance Cluster – Special Tests and Provisions – Satisfactory Academic Progress Policy:

Cheyney University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

We noted the University's satisfactory academic progress (SAP) policy does not address all the required criteria as explained in the FSA Handbook. The policy does not explain how the GPA and pace of completion are affected by course incompletes, withdrawals, repetitions, and by transfer credits from other schools. It also does not address how students can restore their eligibility for FSA funds.

Auditors' Recommendation:

We recommended the University review the minimum requirements for the SAP policy and revise its policy to ensure all of the required criteria are included.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Office will revise its SAP Policy to ensure that students are aware of the impacts of incompletes, withdrawals, repetitions and transfer credits from other schools on GPA and pace of completion. In addition, the SAP Policy will be expanded to include the process for a student to appeal their SAP status and restore their eligibility for Federal Student Aid.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-013 – Student Financial Assistance Cluster – Special Tests and Provisions – Return of Title IV (R2T4):

Slippery Rock University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

Slippery Rock University had one out of 18 students tested that had the correct calculation performed for the R2T4 but the refund was not returned.

Auditor’s Recommendation:

We recommended the University review the R2T4 requirements and implement procedures to ensure the R2T4 returns are completed timely.

Views of Responsible Officials and Planned Corrective Action:

Slippery Rock has reviewed the R2T4 requirements and has implemented procedures to ensure the R2T4 returns are completed timely. The procedures include improved communication plans and regular report reviews to ensure timely return of funds.

Status:

No issues noted at Slippery Rock University in 2014.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-014 – Student Financial Assistance Cluster – Special Tests and Provisions – Exit Counseling:

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

During our testing of exit counseling at Cheyney University six students were not provided exit counseling.

Auditor’s Recommendation:

We recommended the University review their procedures to ensure all students are provided the exit counseling within 30 days of learning that the borrower has withdrawn and ensure that the process is properly documented.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Office will notify students of the requirement to complete Exit Counseling at the time that they withdraw or within 30 days of the student's graduation from the institution via email. The Financial Aid Office will keep a copy of the electronic notification in the student's file for future reference. The Financial Aid Office will also cross check Exit Counseling reports provided by COD to ensure that students are completing the Exit Counseling process.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-015 – Student Financial Assistance Cluster – Special Tests and Provisions – Stafford

Loan Limits:

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

During our testing of annual Stafford Loan limits at Cheyney University, we noted nine students who were awarded at the independent levels even though they were dependent students. The University was not able to provide documentation that the students' parent was denied a Plus Loan. then they are eligible for.

Auditor's Recommendation:

We recommended the University review their procedures to ensure that students are awarded within their annual and aggregate loan limits. If a student's parent is denied a Plus loan, the documentation should be maintained in the file to support the higher loan limits.

Views of Responsible Officials and Planned Corrective Action:

The Financial Aid Office will review PLUS loan denials at the time of packaging the student. If the Parent has not applied for a PLUS loan, the student will be awarded an unsubsidized loan according to their grade level. If the parent has been denied the PLUS loan, the additional unsubsidized loan will be awarded to the student with the loan being marked as "additional unsub" for COD notification purposes. Aggregate loan limits will be reviewed at the time of packaging utilizing NSLDS information provided on the student's ISIR. If the ISIR indicates that the student is near the aggregate limit, the Financial Aid Office will print the student's loan history from NSLDS to confirm eligibility and retain the loan history in the student's file. Aggregate loan limits will be reviewed again at the time of disbursement of direct loan funds to the student's account. Grade level limits for both dependent and independent students will be substantiated by reviewing the student's academic transcript at the time of awarding to ensure that accurate loan amounts are awarded.

Status:

Condition found at Cheyney University in 2014. See finding 2014-001.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-016 – Student Financial Assistance Cluster – Special Tests and Provisions – Return of Title IV (R2T4):

Millersville University

CFDA:

84.007 – Federal Supplemental Education Opportunity Grants
84.033 – Federal Work Study Program
84.038 – Federal Perkins Loans
84.063 – Federal Pell Grant Program
84.268 – Federal Direct Student Loans
84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

Millersville University had two of the 25 students tested had the incorrect number of break days in the calculation. The University used five days in the break but the actual number of days was nine.

Auditor's Recommendation:

We recommended the University review the R2T4 requirements and implement procedures to ensure the R2T4 calculations are complete and accurate.

Views of Responsible Officials and Planned Corrective Action:

Refund calculations at Millersville University are completed using the Banner system. Banner is updated every year by the vendor to meet Federal TIV requirements. Upon review of the system, it was discovered that the dates for the period in question were not updated. The dates used for the refund calculation are located in the Registrar's Office section of the system. These dates are not used for any purpose in Registration. They are only used for the refund calculation. The staff member responsible for updating the system had moved to a different office and did not change the date prior to her move. The Registrar now has the responsibility for updating the system and has input the appropriate dates. Future updates will be made when the new aid year software release is loaded into the system each year. The appropriate policies and procedures to calculate R2T4 are in place and have been since the Banner system was implemented in 1997. The cause of the error was due to a staff change.

Status:

Condition still existed at Millersville University in 2014. CLA reviewed screenshots from Millersville's Banner System for the term start/end and excluded break days used to perform the R2T4 calculations during the Fall 13 and Spring 14 terms. CLA compared the dates input in Banner to the University's academic calendar and noted that the incorrect Spring 14 term start date and excluded days for the spring break were input incorrectly. As such, all calculations performed by the Banner system for the Spring 14 term were deemed to be inaccurate.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-017 – Student Financial Assistance Cluster – Special Tests and Provisions – Return of Title IV (R2T4):

Kutztown University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

Kutztown University had one student out of 15 tested that withdrew within the University's refund policy and no R2T4 calculation was completed.

Auditor's Recommendation:

We recommended the University review the R2T4 requirements and implement procedures to ensure the R2T4 calculations are complete and accurate.

Views of Responsible Officials and Planned Corrective Action:

The State System has mandated that all universities adhere to a recent change in the Drop/Add policy that allows students to add and drop until the end of the scheduled timeframe and be allowed to withdraw as well as with a 100% refund of all charges within that week. This student withdrew from the university in accordance with that policy and therefore, no charges nor aid were applied or disbursed to the student's account. We are well informed on the R2T4 regulations, but in this case, it was not applicable. The information was made available by the Bursar to the audit team. No corrective action is needed; however, we will review our policy to insure that we are operating within the guidelines of the regulations.

Status:

No issues noted at Kutztown University in 2014.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2013-018: – Student Financial Assistance Cluster – Special Tests and Provisions – National Student Loan Data System (NSLDS) Reporting:

Kutztown University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

During our testing of the reporting to NSLDS at Kutztown University, we noted one instance where the original submission to NSLDS was not reported within the required 30 days of receiving the roster.

Auditor’s Recommendation:

We recommended the University review their reporting procedures to ensure that students’ statuses are accurately and timely reported to NSLDS as required by regulations.

Views of Responsible Officials and Planned Corrective Action:

The University did not follow the policies and procedures in place to properly report enrollment statuses to NSLDS. The Office of the Registrar is aware of the necessity of timely reporting associated with NSLDS. Transmissions are sent; however, if an error or corrections has to be made, the processing of the file is delayed until the action has been corrected. These instances can occur frequently and does not indicate that our submissions are not submitted within the prescribed timeframe. We will pay closer attention to our filing dates and continue to follow our submission schedule to avoid delays.

Status:

No issues noted at Kutztown University in 2014.

APPENDIX A



Cheyney University of Pennsylvania
1837 University Circle
P.O. Box 200
Cheyney, PA 19319-0200
Office (610)-399-2220
Fax (610) 399-2415

Cheyney University Corrective Action Plan

March 26, 2015

Cheyney University respectfully submits the following corrective action plan to the schedule of findings and questioned costs for the year ended June 30, 2014.

Auditors:

CliftonLarsonAllen LLP
610 West Germantown Pike
Suite 400
Plymouth Meeting, PA 19462

Finding 2014-001 – Student Financial Assistance Cluster – Activities Allowed or Unallowed – Cash Management – Eligibility – Matching, Earmarking – Reporting – Special Tests and Provisions:
Cheyney University

CFDA:

84.007 – Federal Supplemental Education Opportunity Grants
84.033 – Federal Work Study Program
84.038 – Federal Perkins Loans
84.063 – Federal Pell Grant Program
84.268 – Federal Direct Student Loans

Auditor's Recommendation:

Control structure and control environment be reinforced to ensure that there is an appropriate tone at the top of the organization, to monitor proper follow-up on audit and consultants' findings, and review controls to ensure compliance with the requirements of the Student Financial Assistance Cluster.

Actions planned in response to finding:

The State System's central office, the Office of the Chancellor received notification that Cheyney University had not reconciled federal financial aid funds for fiscal award years 2014, 2013 and 2012. After discussion with the United States Department of Education (DoED) in July of 2014, the Office of the Chancellor hired the firm, Financial Aid Services in August 2014 to perform a file review of all student financial aid records for the outstanding award years in order to reconcile the funds. The file review is expected to be completed by March 31, 2015. The Office of the Chancellor and Financial Aid Services will prepare a self-disclosure report of the findings for submission to the DoED by April 30, 2015.



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Office (610)-399-2220
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During the summer of 2014 the responsibility for the financial aid operation at Cheyney University was assigned to the Assistant Vice Chancellor, Ms. Georgia Prell who has over twenty-five years of financial aid experience. Financial Aid Services (FAS) was contracted to administer the federal financial aid programs to ensure compliance with all federal regulations and to provide professional financial aid leadership at Cheyney University. Ongoing, the administration of all federal and state financial aid programs is being outsourced to FAS. Additionally, FAS will provide an Executive Director of Financial Aid who will be present on the Cheyney campus and responsible for day-to-day operations.

The lack of a properly configured financial aid system with no integration into the student information system (admissions, records, student accounts) contributed to the failure of the financial aid function. A software firm has been hired to assess Cheyney's student systems (PowerCampus and PowerFAIDS) in order to reconfigure the system in order to optimize the functionality.

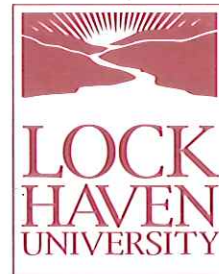
In February 2015 the Office of the Chancellor hired a consultant to conduct an assessment of Cheyney's business office operations. The consultant noted strengths in financial accounting and reporting but identified deficient leadership, inadequate staff training, and the absence of integrated IT functions as weaknesses that contributed to the failures in the student financial aid systems. The Office of the Chancellor will assist Cheyney University in implementing the necessary actions to correct these weaknesses.

In November 2014 Dr. Frank G. Pogue was selected as interim president of Cheyney University, replacing Dr. Phyllis Worthy Dawkins, who had stepped in as acting president following the July 2014 retirement of President Michelle R. Howard-Vital. Dr. Pogue fully agrees with the auditors that an appropriate tone at the top of the organization is vital to ensuring adherence to federal program compliance requirements. Dr. Pogue is restructuring staff resources to ensure that proper controls are in place to correct and prevent the weaknesses identified by the auditors and consultants and to ensure that federal compliance is continually monitored.

Cheyney University and the Office of the Chancellor have been in ongoing discussions with the U.S. Department of Education over this past year in regards to the above.

Responsible Party:

Frank G. Pogue, Interim President
610-399-2220



**2014-002 – Student Financial Assistance Cluster – Special Tests and Provisions –
Common Origination and Disbursement (COD) Reporting:**
Lock Haven University

CFDA:

84.063 – Federal Pell Grant Program

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: We concur with the audit finding.

Actions planned in response to finding: As for the six September 2013 Pell Grant disbursements not reported to COD within 15 days of disbursement, the financial aid department was in transition as the director of financial aid was no longer at the school and had not conveyed the policy change from 30 to 15 days to the financial aid processing staff. The new interim financial aid director did not start until September 16, 2013. The six students had Pell Grant disbursements applied to their account cards on August 22, 2013, and the records were not accepted by COD until September 10, 2013. The disbursements were four days past the 15-day requirement. The one other Pell Grant disbursement not accepted by COD within 15 days of disbursement during the spring 2014 term was the result of a student information system (SIS) issue that was not identified in a timely manner. During a Pell Grant reconciliation, it was found that the SIS skipped the record when the spring 2014 batch was submitted.

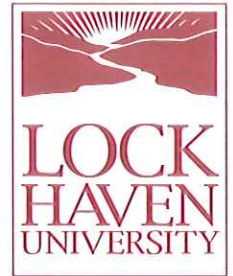
None of the seven disbursements had an adverse impact on any of the students and did not result in the students having received more or less than their eligible award amounts. The students received their disbursements at the beginning of the term. It was the institution that carried the disbursements on its books without receiving payment from COD until the disbursements were accepted by COD.

A corrective action plan was already instituted prior to the A-133 auditor's findings. The corrective action plan took place in early March 2014 when the new financial aid director discovered the SIS issue, and also found that processing staff were not aware of the policy change from 30 to 15 days.

Responsible party: Bob Fryer, Director of Financial Aid, (570) 484-2452

Planned completion date for corrective action plan: The corrective action plan was instituted in March 2014.

Plan to monitor completion of corrective action plan: Although Volume 4, Chapter 5, page 92 of the *2014-15 Federal Student Aid Handbook* states there is no regulatory requirement for reconciling your school's Pell Grant Program operations on a monthly basis, the financial aid office has ensured frequent Pell Grant reconciliations are



performed. The director of financial aid works closely with the Pell Grant processor in ensuring disbursements are submitted and accepted within the regulatory timeframes. If any disbursement issue cannot be resolved within the required timeframe, the disbursement will be reversed from the student's account card until the issue is resolved and the disbursement record is accepted by COD.

The director of financial aid also monitors the net accepted Pell Grant disbursement figure in COD on a frequent (2 or 3 times per week) basis. This figure is then compared to the year-to-date (YTD) posted Pell Grant disbursements in the SIS. The financial aid director also goes into each new batch and compares the accepted records to those posted in the SIS. If the financial aid director encounters any rejected records while reviewing the batch, he works with the Pell Grant processor in correcting the issue in a timely manner. As a result, reconciliations are essentially done on a weekly basis. In general, all funds are now closely monitored. This includes federal and nonfederal aid.

2014-007 – Student Financial Assistance Cluster – Special Tests and Provisions – Federal Work Study Off-Campus Employer Agreements:

Lock Haven University

CFDA:

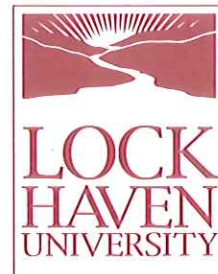
84.033 – Federal Work Study Program

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: We concur with this finding.

Actions planned in response to finding: Based on the A-133 auditor's initial finding report, the school's director of community service, director of financial aid, and assistant director of financial aid have discussed the off-campus employer agreement requirement. In the process, these individuals have adopted an open line of communication between the Community Service and Financial Aid offices. This finding was due in large part to turnover and lack of consistent communication between the two offices.

To rectify this issue, the offices have decided to adopt the Model Off-Campus Agreement as outlined in Volume 6, Chapter 2, page 77 of the *2014-15 Federal Student Aid Handbook*. In addition to the agreement, the existing Position Description form will be updated to include the total number of students to be employed, hourly rates of pay, and the average number of hours per week each student will work. The form will need to be signed by the school's Director of Community Service and a responsible hiring party from the off-campus employer. In addition, the financial aid office will ensure



there's a signed agreement on file before the student will be permitted to begin off-campus employment. This will be done by obtaining and housing copies of the executed off-campus employer agreements. The originals will be housed in the Community Service Office.

Responsible party: Bob Fryer, Director of Financial Aid, (570) 484-2452

Planned completion date for corrective action plan: There is a meeting setup between the director of community service, director of financial aid, and assistant director of financial aid for the week of March 16, 2015. It will then be determined as to how quickly the offices can adopt the Model Off-Campus Agreement and update the Position Description form to include all required items. The plan will be to get the forms created and updated by the end of March 2015.

Plan to monitor completion of corrective action plan: The completion of the corrective action plan will be overseen by the director of financial aid. This is also the responsible party as indicated above. Once the forms are created and updated, the director of financial aid will work closely with the director of community service in ensuring the agreements are put into place for any existing and new students.

Bob Fryer
Printed Name


Signature

Director of Financial Aid
Position Title

March 11, 2015
Date



2014-003 – Student Financial Assistance Cluster – Special Tests and Provisions – Return of Title IV (R2T4):
East Stroudsburg University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: We agree that no 5-day break period was defined for the fall 2013 term. For the fall 2013 term, the Thanksgiving Break should have been included as having at least 5 days (November 27 through December 1, 2013). We also agree that spring break should be extended to include Saturday and Sunday as classes resume on the following Monday.

Actions planned in response to finding:

According to our Return to Title IV Policy (see attached), "if a student leaves the institution prior to completing 60% of a payment period to term, the financial aid office recalculates eligibility for the Title IV funds." The institution has a Manual RT24 Table (see attached) which was correctly drafted. However, this did not correspond to what was programmed in our Banner Student Information System. A review of all withdrawals for fall 2013 showed that 33 students would have been affected where more aid than necessary was returned by the institution.

Adjust spring break to include 2 additional days.

Responsible party: Phyllis Swinson, Sr. Associate Director of Financial Aid, 570-422-2828

Planned completion date for corrective action plan: While both Thanksgiving and Spring Breaks have been accounted for in our Manual R2T4 Tables, it will also be programmed into our Banner Student Information System for the new academic year. The effect of not doing so prior to the audit finding, led to the institution returning more (e.g. 0.95% for a fall 2013 withdrawal) aid funds than we should have.

Plan to monitor completion of corrective action plan: A COGNOS report will also be designed to assist with monitoring withdrawals and effects of Title IV refunding. Both Financial Aid and the Registrar's Office will coordinate the term set-up in our Banner Student Information System. Another check of this corrective action will be performed at the end of fall 2015.

Submitted:


Donna R. Bulzoni
Director of Financial Affairs

2014-004 – Student Financial Assistance Cluster – Special Tests and Provisions –
Return of Title IV (R2T4):
Edinboro University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Actions planned in response to finding: We have thoroughly reviewed the procedure currently in place for R2T4 calculations and have made the following changes. The financial aid office will use the U.S. Department of Education's R2T4 form to complete the necessary calculations. By using the Federal form we can better ensure that the results are accurate. The financial aid office will have acute control over the dates that are input for the R2T4 calculations. Further, the Director of Financial Aid will meet with the Financial Aid Counselor who is responsible for performing R2T4's on a regular basis to ensure they are being completed correctly and that the Federal form is still being used.

Responsible party: Alyssa Dobson, Director of Financial Aid, (814)732-1965

Planned completion date for corrective action plan: This was put into place immediately upon discovery of the issue.

Plan to monitor completion of corrective action plan: The director of financial aid will periodically check the R2T4s that are completed by the financial aid counselor and maintain the policy to use the Federal form for performing the calculations.

Signature: 

Date: 3/18/15



Financial Aid Office | 25 University Avenue | Kershner Student Services Center
West Chester, PA 19383 | 610-436-2627 | fax: 610-436-2574 | finaid@wcupa.edu

**2014-005 – Student Financial Assistance Cluster – Special Tests and Provisions –
Return of Title IV (R2T4):**

West Chester University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Actions planned in response to finding: The University reviewed the R2T4 requirements and implemented procedures to ensure award adjustments are properly processed. All R2T4 adjustments are now verified by an Assistant Director to ensure that student awards are properly adjusted based on calculations performed.

Responsible party: Dana C. Parker, Financial Aid Director, (610) 436-2627

Planned completion date for corrective action plan: August 11, 2014

Plan to monitor completion of corrective action plan: Verified that all identified R2T4 adjustments were corrected on the students' accounts and on the Department's records.

A handwritten signature in cursive script that reads "Dana C. Parker".

Dana C. Parker
Financial Aid Director



Office of
Student Financial Services

Clarion University of Pennsylvania
840 Wood Street
Clarion, Pennsylvania 16214-1232
Phone: 800-672-7171 or 814-393-2315
Fax: 814-393-2520
Text Telephone (TTY/TDD): 814-393-1601

**2014-006 – Student Financial Assistance Cluster – Special Tests and Provisions –
Return of Title IV (R2T4):**

Clarion University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Actions planned in response to finding: Student Financial Services staff have reviewed all 2013-14 withdrawals and corrected R2T4 calculations for these students using the US Department of Education's "Return of Title IV Funds on the Web" program. We have also pulled and corrected all 2014-15 calculations performed prior to this audit finding.

Responsible party: Ragan W. Griffin, Director of Student Financial Services, 814-393-2315

Planned completion date for corrective action plan: Completed February, 2015.

Plan to monitor completion of corrective action plan: Completed February, 2015.

Ragan W. Griffin
Director of Student Financial Services
Clarion University Of Pennsylvania
Clarion, PA 16214
1-800-672-7171, opt#2

Office of Accounting
Phone: 717-872-3377
Fax: 717-871-5461

**2013-016 – Student Financial Assistance Cluster – Special Tests and Provisions –
Return of Title IV (R2T4):**

Millersville University

CFDA:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Actions planned in response to finding: As an additional control measure, several staff members in the accounting office have been granted view access to the Banner form in which the dates are input. At the beginning of each semester, an accounting office staff member will review the form to double check the dates entered match the published academic calendar.

Responsible parties:


Debra Ordway, Controller, 717-872-3480

Dwight Horsey, Assistant Vice President Enrollment Management / Director of Financial Aid, 717-871-5802

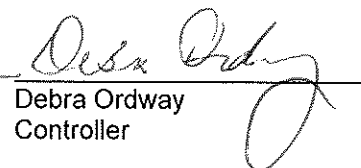
Alison Hutchinson, Interim Registrar, 717-871-5005

Planned completion date for corrective action plan: March 13, 2015

Plan to monitor completion of corrective action plan: At the beginning of each semester, the controller or her designee will view the break dates set up in Banner to verify they match the published academic calendar. An email will be sent to the Director of Financial Aid and the Registrar to confirm the dates match or to report a discrepancy.


Dwight Horsey
Assistant Vice President
Enrollment Management/
Director of Financial Aid


Alison Hutchinson
Interim Registrar


Debra Ordway
Controller

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