PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION

COMMONWEALTH OF PENNSYLVANIA

SINGLE AUDIT REPORTING PACKAGE

YEAR ENDED June 30, 2015

SECTION I

Financial Statements for the Year Ended June 30, 2015

SECTION II

Single Audit Report for the Year Ended June 30, 2015

PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION

Pennsylvania's
STATE SYSTEM
of Higher Education

FINANCIAL STATEMENTS

JUNE 30, 2015

Pennsylvania's State System of Higher Education
Financial Statements
June 30, 2015

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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, 2015 and 2014, 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 opinion.

Board of Governors
Pennsylvania State System of Higher Education

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, 2015 and 2014, 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. 68 – *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* for the year ended June 30, 2015, which represents a change in accounting principle. As of July 1, 2014, 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 3-16, schedules of funding progress for OPEB on page 48, schedules of proportionate share of SERS/PSERS Net Pension Liability and SERS/PSERS schedules of contributions on page 49 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 28, 2015, 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

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
September 28, 2015

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 nearly 110,000 degree-seeking students enrolled, and thousands more who are enrolled in certificate and other career-development programs, 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 with more than 2,300 degree and certificate programs in more than 530 academic areas. 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

The universities also operate branch campuses in Oil City (Clarion), Freeport and Punxsutawney (Indiana), and Clearfield (Lock Haven), and offer classes and programs at several regional centers, including the Dixon University Center in Harrisburg and Center City in Philadelphia.

Following is an overview of the State System's financial activities for the year ended June 30, 2015, as compared to the year ended June 30, 2014.

FINANCIAL HIGHLIGHTS

In fiscal year 2014/15, the State System received $412.8 million in General Fund **appropriations** from the Commonwealth, the same amount as received in the last three fiscal years, and essentially the same level of funding the State System received in fiscal year 1997/98—17 years ago.

The State System received a $13.4 million Realty Transfer Tax allocation from the Commonwealth's **Key '93** (Keystone Recreation, Park and Conservation) Fund, a decrease of $0.2 million, or 1%, from fiscal year 2013/14. 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 $13.6 million and $14.4 million in fiscal years 2014/15 and 2013/14, 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 $37.4 million of the general appropriation for **performance funding** in fiscal year 2014/15, approximately 1% more than the $37.0 million allocated in fiscal year 2013/14. Performance funding allocated in fiscal year 2012/13 was $36.6 million.

Fall 2014 enrollment was 109,606, a decrease of 2,422 students, or 2.2%, from fall 2013. This is the fourth year in a row that the State System has experienced an **enrollment decline**. Fall 2011 was the first year enrollment had declined since 1999 following 14 years of record growth. Despite the recent decline, the State System's fall enrollment has increased 35% since fall 1983, which was the first year of operation as a System.

Year	Fall Enrollment	% Decrease from Prior Year
2014	109,606	2.2%
2013	112,028	2.1%
2012	114,471	3.2%
2011	118,224	1.0%

Of the 109,606 **students** in the fall 2014 enrollment, 92,788 (85%) were full-time and 16,818 (15%) were part-time students; 95,804 (87%) were undergraduate and 13,802 (13%) were graduate students. These percentages of full- and part-time, graduate and undergraduate, are approximately the same as in fall 2013.

In academic year 2013/14, the State System awarded 25,495 **degrees**, comprising 20,035 bachelor's degrees; 4,891 master's degrees; 185 doctoral degrees; and 384 associate's degrees. This compares to 25,632 degrees awarded in academic year 2012/13 and 26,203 degrees awarded in academic year 2011/12.

The Board approved an annual full-time **tuition rate increase** of $198 (3%) for undergraduate resident students in fiscal year 2014/15. This compares to an increase of $194 (3%) in fiscal year 2013/14. The State System's 2014/15 annual tuition rate of $6,820 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 2014/15 was $454 per credit, an increase of $12. Nonresident graduate tuition increased by $18 per credit to $681. Full-time, undergraduate tuition for nonresident students ranged from $10,230 to $17,050, 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 $54 increase to the **technology tuition fee (**$422 annually) for full-time resident undergraduate students and an $84 increase ($642 annually) for full-time nonresident undergraduate students. All funds raised by the technology tuition 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 4.1%. These increases, combined with the increase in tuition and reduction in enrollment, resulted in tuition and mandatory fee revenue (before discounts) of $1.08 billion, a 2.0% increase over fiscal year 2013/14. The average increase in mandatory student fees was 4.2% in fiscal year 2013/14 over the prior year.

Auxiliary revenue from **room and board fees** (excluding privatized housing revenue recorded by affiliates) was $262.2 million, a decrease of $4.6 million, or 1.7%, over fiscal year 2013/14. This compares to a fiscal year 2013/14 increase of 1.2% in room and board revenue over the prior fiscal year. The primary reason for the decrease in revenue is the replacement of university housing with privatized housing provided by affiliated organizations. The affiliated organizations are responsible for the associated expenses, capital expenditures, and debt service.

The State System's **average price of attendance** (tuition, mandatory fees, room, and board) of $18,868 in 2014/15 was $75 below the average among all four-year public universities in the United States and $2,072 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 $104.9 million in **capital assets** in fiscal year 2014/15, including $88.7 million to build or improve academic and auxiliary facilities across all 14 universities.

During fiscal year 2014/15, the State System issued Series AQ bonds, totaling $95.0 million, to current refund Series AC and advance refund Series AE revenue bonds. $54.7 million of bond principal and $39.3 million of interest were paid, and $99.7 million of bonds were refunded, bringing the total outstanding **bond debt** to $800.5 million at June 30, 2015.

The State System's outstanding bonds are assigned an **Aa3 rating** from Moody's Investors Service, Inc. In April 2015, Moody's reaffirmed the outlook for the rating as *negative*. In April 2015, Fitch Ratings downgraded the State System's rating from AA to AA- and revised the outlook from *negative* to *stable*.

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.

- *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 and certain items associated with the net pension liability and annual pension expense.

- *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), postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees), and pension benefits.

- *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 and certain items associated with the net pension liability and annual pension expense.

- *Net Position*, colloquially 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.

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.

Statement of Cash Flows

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

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

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

  Unrestricted net position reflects three unfunded liabilities. Because these liabilities are expected to be realized in the future, and because of their size, the universities fund them only as they become due.

  - The liability for **compensated absences** decreased by $0.1 million to $114.6 million for the year ended June 30, 2015. Universities fund this liability as cash payouts are made to employees for annual and vested sick leave balances upon termination or retirement.

  - The liability for **postretirement benefits** for employees who participate in the State System health care plan increased by $51.6 million to $1.06 billion for the year ended June 30, 2015. Universities fund this liability on a "pay-as-you-go" basis; i.e., they make biweekly contributions that are estimated to fund the actual claims made during the year.

  - The **net pension liability**, which was not required to be reported in previous years, is $798.7 million. Like the postretirement liability, universities fund this liability on a "pay-as-you-go" basis with annual contractually required contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).

    Because the net pension liability was recorded for the first time in fiscal year 2014/15, the beginning-year balance of unrestricted net position was decreased by $720.9 million to reflect the balance of the net pension liability at July 1, 2014.

Overall, net position decreased by $797.5 million in fiscal year 2014/15, including the $720.9 million net pension liability restatement. This compares to a decrease of $52.8 million in fiscal year 2013/14 from fiscal year 2012/13.

Following is a summary of the balance sheet at June 30, 2015, 2014, and 2013.

(in millions)

Balance Sheet

	June 30, 2015	Change from Prior Year	June 30, 2014	Change from Prior Year	*Restated* June 30, 2013	Change from Prior Year
Assets						
Cash and investments	$1,333.9	(2.1%)	$1,363.1	0.0%	$1,362.8	1.7%
Capital assets, net	1,589.2	(1.7%)	1,616.8	(0.8%)	1,629.6	0.4%
Other assets and deferred outflows	263.9	42.8%	184.8	5.1%	175.9	(5.6%)
Total assets and deferred outflows	$3,187.0	0.7%	$3,164.7	(0.1%)	$3,168.3	0.6%
Liabilities						
Workers' compensation	$22.6	4.1%	$21.7	1.9%	$21.3	7.6%
Compensated absences	114.6	(0.1%)	114.7	4.4%	109.9	1.6%
Postretirement benefits	1,058.7	5.1%	1,007.1	7.9%	933.7	8.0%
Net pension liability	798.7	N/A	N/A	N/A	N/A	N/A
Bonds payable	800.5	(6.9%)	859.9	(4.4%)	899.8	(4.4%)
Other liabilities and deferred inflows	450.4	6.7%	422.3	2.5%	411.8	0.4%
Total liabilities and deferred inflows	3,245.5	33.8%	2,425.7	2.1%	2,376.5	1.4%
Net Position						
Net investment in capital assets	700.3	2.3%	684.4	5.7%	647.7	5.4%
Restricted	98.1	(5.0%)	103.3	11.7%	92.5	7.3%
Unrestricted	(856.9)	(1,659.5%)	(48.7)	(194.4%)	51.6	(50.9%)
Total net position	(58.5)	(107.9%)	739.0	(6.7%)	791.8	(1.7%)
Total liabilities, deferred inflows, and net position	$3,187.0	0.7%	$3,164.7	(0.1%)	$3,168.3	0.6%

Revenues and Gains

Following is a summary of revenues and gains for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Revenues and Gains

	June 30, 2015	Change from Prior Year	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year
Operating revenues						
Tuition and fees, net	$816.6	0.9%	$809.3	0.6%	$804.2	2.3%
Grants and contracts	150.7	(6.3%)	160.8	1.8%	157.9	(9.8%)
Auxiliary enterprises, net	324.0	(2.2%)	331.4	(0.5%)	332.9	1.8%
Other	52.6	(0.9%)	53.2	19.6%	44.5	(21.5%)
Total operating revenues	1,343.9	(0.8%)	1,354.7	1.1%	1,339.5	(0.4%)
Nonoperating revenues and gains						
State appropriations	426.4	(0.2%)	427.1	(0.1%)	427.6	1.2%
Investment income, net	31.0	18.3%	26.2	28.4%	20.4	(16.7%)
Gifts, nonoperating grants, and other	167.9	-	167.4	(2.6%)	171.8	(1.5%)
Total nonoperating revenues and gains	625.3	0.8%	620.7	0.1%	619.8	(2.1%)
Total revenues and gains	$1,969.2	(0.3%)	$1,975.4	0.8%	$1,959.3	(1.0%)

Overall, fiscal year 2014/15 **operating revenues** decreased by 0.8% from the prior fiscal year. Nonoperating revenues increased by 0.8%, for an overall decrease in revenues and gains of 0.3%.

Tuition and fees are shown net of scholarship discounts and allowances and bad debt expense. 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 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. Bad debt expense is an estimate of the amount owed by students that will not be collected.

Despite the decline in enrollment, net tuition and fee revenue increased by $7.3 million, or 0.9%, over fiscal year 2013/14. This can be attributed to both the increase in the tuition and fee rates and to 19 new flexible tuition pricing programs implemented by the universities in fiscal years 2014/15 and 2013/14. These pilot programs are designed to address unique market conditions affecting each of the universities and will be evaluated over a two- or three-year period to determine their effectiveness as well as whether they should be duplicated at other universities.

Auxiliary enterprises revenue, which includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of student union and recreation centers, decreased by $7.4 million from fiscal year 2013/14. The main reason for the decrease is a $7.4 million decrease in housing revenue, caused primarily by the replacement of university housing with privatized housing provided by affiliated organizations. The affiliated organizations are responsible for the associated expenses, capital expenditures, and debt service.

State appropriations include capital appropriations that are received in the form of noncash furnishings and equipment for the Commonwealth-funded construction projects. Although the $412.8 million received as a general appropriation is the same as received in fiscal year 2013/14, the amount received as noncash capital appropriations decreased by $0.7 million from fiscal year 2013/14.

Investment income (net of related investment expenses) for fiscal year 2014/15 was $31.0 million. This represents an increase of $4.8 million from the prior year. The increase is due to $5.0 million of investment earnings in the reimbursement bond investment portfolio, which is dedicated to pay associated debt service. While interest rates slightly increased during the course of the fiscal year, the average monthly university operating capital was $17 million, or 1.3%, lower than in the previous fiscal year. Without the effect of the reimbursement bond investment portfolio, universities' investment income on operating capital decreased by $0.3 million.

Expenses and Losses

Following is a summary of expenses and losses for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Expenses and Losses

	June 30, 2015	Change from Prior Year	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year
Operating expenses						
Instruction	$735.6	2.0%	$721.0	2.3%	$704.5	3.1%
Research	5.7	11.8%	5.1	(5.6%)	5.4	(18.2%)
Public service	37.4	(0.3%)	37.5	9.6%	34.2	1.2%
Academic support	178.5	3.8%	171.9	0.6%	170.8	7.5%
Student services	180.3	2.1%	176.6	3.7%	170.3	2.4%
Institutional support	247.9	(6.1%)	264.0	2.3%	258.1	2.7%
Operations and maintenance of plant	153.1	0.5%	152.3	6.4%	143.2	4.4%
Depreciation	119.7	(0.4%)	120.2	0.6%	119.5	5.6%
Student aid	72.9	(3.6%)	75.6	1.5%	74.5	(2.7%)
Auxiliary enterprises	255.5	1.5%	251.8	3.5%	243.3	3.3%
Total operating expenses	1,986.6	0.5%	1,976.0	2.7%	1,923.8	3.3%
Other expenses and losses						
Interest expense on capital asset-related debt	36.6	(0.8%)	36.9	(2.6%)	37.9	(8.9%)
Loss on disposal of assets	9.6	20.7%	12.1	92.1%	6.3	173.9%
Unrealized loss on investment	13.1	309.4%	3.2	(37.3%)	5.1	-
Total other expenses and losses	59.3	13.6%	52.2	5.7%	49.3	(3.1%)
Total expenses and losses	$2,045.9	0.9%	$2,028.2	2.8%	$1,973.1	3.1%

Universities spent $735.6 million on **instruction**, or 37.0% of total operating expenses, in fiscal year 2014/15. This represents an increase of $14.6 million, or 2.0%, over fiscal year 2013/14.

Financial aid to students in the form of waivers and scholarships was $300.5 million in fiscal year 2014/15, an increase of $3.3 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 $225.6 million of financial aid as *discounts and allowances,* netted against tuition and fees, and $73.0 million as *student aid* expense in fiscal year 2014/15. $1.9 million of financial aid was reported in Auxiliary enterprises. Following is the breakdown of scholarship discounts and allowances and waivers in fiscal years 2014/15 and 2013/14.

(in millions)

Student Financial Aid

	2014/15	2013/14
Federal Pell grants	$145.6	$143.7
Other federal aid	5.0	5.3
State financial aid including PHEAA grants	91.5	95.4
Local government financial aid	1.5	1.7
Scholarships from endowments and restricted gifts and grants	16.4	15.5
Unrestricted scholarships and fellowships	10.6	13.9
Tuition and fee waivers	28.5	20.4
Housing and dining waivers	1.4	1.3
Total	$300.5	$297.2

Interest expense on capital asset-related debt was $36.6 million, a decrease of $0.3 million over fiscal year 2013/14.

Salaries and benefits totaled $1.4 billion in fiscal year 2014/15. Compared to fiscal year 2013/14, salary and wage expenses increased by $12.5 million, or 1.4%, while benefits expenses increased by $25.2 million, or 5.5%, for an overall increase of $37.7 million.

Following is a summary of salaries, wages, and benefits expenses for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Salaries, Wages, and Benefits

	June 30, 2015	Change from Prior Year	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year
Salaries and wages	$892.0	1.4%	$879.5	1.2%	$869.4	1.8%
Benefits						
Employee health care	121.9	3.4%	117.9	8.6%	108.6	3.6%
Health & Welfare Fund	8.4	(5.6%)	8.9	7.2%	8.3	(5.7%)
Postretirement health care	119.3	(18.4%)	146.2	6.0%	137.9	2.2%
SERS	83.5	92.0%	43.5	42.6%	30.5	48.1%
PSERS	6.7	71.8%	3.9	39.3%	2.8	55.6%
Alternative Retirement Plan (ARP)	44.6	1.6%	43.9	1.9%	43.1	2.6%
Other benefits	99.7	5.4%	94.6	(2.3%)	96.8	1.6%
Total benefits	484.1	5.5%	458.9	7.2%	428.0	4.9%
Total salaries, wages, and benefits	$1,376.1	2.8%	$1,338.4	3.2%	$1,297.4	2.8%

- Employer share of **employee health care costs**, including the Health & Welfare fund, increased $3.5 million over fiscal year 2013/14, for a total increase of 2.8%. This follows consecutive increases of 8.5% ($9.9 million) and 2.9% ($3.3 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years.

- Employer share of **postretirement health care** payments, or "pay-as-you-go" contributions, decreased $7.3 million, or 16.6%, over fiscal year 2013/14. This follows consecutive increases of 2.9% ($1.2 million) and 11.0% ($4.2 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years. Although both the cost of health care and the number of retirees are increasing, fiscal year 2014/15 costs decreased for the State System because of a decrease in medical claims from its retirees.

  Corresponding to this decrease, and due to a change in actuaries (resulting from a required competitive procurement process) and modification of certain actuarial estimates and assumptions to more precisely capture the specific experience of the State System, the annual postemployment benefits other than pensions (Other Postemployment Benefits or OPEB) decreased by 24.7% over fiscal year 2013/14, and the accrued actuarial liability decreased by 18.9% from the prior fiscal year to $1.195 billion. The net OPEB obligation, or the amount recorded on the balance sheet, increased, however, by 5.1% over fiscal year 2013/14 to $1.059 billion, primarily due to the annual amortization of the unfunded liability.

Following is a schedule of postretirement medical benefits annual payments, expense, and liability for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Postretirement Medical Benefits (referred to as Other Postemployment Benefits or OPEB)

	June 30, 2015	**Change from Prior Year**	**June 30, 2014**	**Change from Prior Year**	**June 30, 2013**	**Change from Prior Year**
Premiums paid ("pay-as-you-go")	$36.9	(16.6%)	$44.2	2.9%	$43.0	11.0%
Annual OPEB cost (actuarial expense reported)	$88.5	(24.7%)	$117.6	4.7%	$112.3	0.5%
Net OPEB obligation (liability reported on the balance sheet)	$1,058.7	5.1%	$1,007.1	7.9%	$933.7	8.0%
Accrued actuarial liability (total liability as estimated by actuaries)	$1,194.8	(18.9%)	$1,473.6	3.7%	$1,420.5	3.5%

- The State System implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2014/15. Statement No. 68 requires the State System to report on its balance sheet the difference between the State System's allocated 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. As a result, the annual SERS pension expense increased by 92.0%, or $40.0 million, while the annual PSERS pension expense increased by 71.8%, or $2.8 million in fiscal year 2014/15 over fiscal year 2013/14. The large increases are due to the change in accounting from recording only "pay-as-you-go" pension contributions to recording the amount calculated by the actuary that current employees earned in fiscal year 2014/15 as a pension benefit, based on years of service, age, and actuarial estimates of future service and employee longevity. Employer contributions account for $13.7 million of the increase in the fiscal year SERS expense and $1.3 million of the PSERS expense.

- **Employer contributions to SERS**, a defined benefits pension plan, increased $13.7 million over fiscal year 2013/14, for a total increase of 31.4%. This follows consecutive increases of 42.6% ($13.0 million) and 48.1% ($9.9 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years. The increases were instituted by SERS to fund its net pension liability, which was $14.9 billion at December 31, 2014, a decrease from the $17.9 billion actuarial accrued liability reported at December 31, 2013. The decrease in the liability is due to the change to the actuarial cost method required by GASB Statement No. 67, *Financial Reporting for Pension Plans*, which resulted in more favorable financial reporting valuation results. Had the December 31, 2013, liability been calculated under Statement No. 67, the net pension liability would have been $13.7 billion. Approximately 40% of the State System's employees are enrolled in SERS.

- **Employer contributions to PSERS**, a defined benefits pension plan, increased 32.9% over fiscal year 2013/14, for a total increase of $1.3 million. This follows consecutive increases of 39.3% ($1.1 million) and 55.6% ($1.0 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years. The increases were instituted by PSERS to fund its unfunded net pension liability, which was $39.6 billion at June 30, 2014, up from the $29.5 billion actuarial accrued liability reported at June 30, 2013. Unlike SERS, the change in the financial reporting valuation specifically attributed to the actuarial cost method required under GASB Statement No. 67 caused PSERS' liability to increase dramatically. Had the December 31, 2013, liability been calculated under Statement No. 67, the net pension liability would have been $40.9 billion. Since approximately only 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** (Alternative Retirement Plan), a defined contribution plan, increased 1.7% over fiscal year 2013/14, for a total increase of $0.7 million. This follows consecutive increases of 1.9% ($0.8 million) and 2.6% ($1.1 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years. The changes in annual contributions are attributed to fluctuating employee participation and salary increases.

  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.

Following is a summary of pension benefits annual contributions, expense, and liability for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Pension Benefits

	June 30, 2015	**Change from Prior Year**	**June 30, 2014**	**Change from Prior Year**	**June 30, 2013**	**Change from Prior Year**
Employer contributions						
SERS	$57.2	31.4%	$43.5	42.6%	$29.8	48.1%
PSERS	$5.2	32.9%	$3.9	39.3%	$2.7	55.6%
ARP	$44.6	1.7%	$43.9	1.9%	$43.1	2.6%
Pension expense						
SERS	$83.5	92.0%	$43.5	42.6%	$29.8	48.1%
PSERS	$6.7	71.8%	$3.9	39.3%	$2.7	55.6%
ARP	$44.6	1.7%	$43.9	1.9%	$43.1	2.6%
Net pension liability						
SERS	$728.1	7.4%	$677.9	-	Not calculated	-
PSERS	$70.7	0.0%	$71.0	-	Not calculated	-
ARP	$0.0	-	$0.0	-	$0.0	-

- The total cost for **all other employee benefits**, such as Social Security and workers' compensation, increased by a total of $5.1 million, or 5.4% more than fiscal year 2013/14, compared to a decrease of $2.2 million in fiscal year 2013/14, or 2.3%, from fiscal year 2012/13.

FUTURE ECONOMIC FACTORS

The **Commonwealth** ended fiscal year 2014/15 with General Fund collections that were $412.2 million, or 1.4%, more than estimated. The Commonwealth budget, which is highly dependent on a growing economy, faces continued challenges, such as increasing pension obligations, wages and benefits, debt service, and medical and entitlement costs. These mandated cost drivers are expected to consume virtually all revenue growth if there is no change in current revenue sources. In his 2015/16 budget recommendations, Governor Tom Wolf proposed significant tax changes in support of Commonwealth budget growth. This budget plan has not been embraced by the Legislature, who passed a budget on June 30, 2015, that was vetoed by the Governor. As of the date of these financial statements, the Commonwealth continues to be at a budget impasse.

Revenue

Since the Commonwealth budget has not yet been enacted, the State System's 2015/16 **General Fund appropriation** is unknown. The Commonwealth budget passed by the Legislature, but vetoed by the Governor, provided a 3% increase for the State System, while the Governor's recommended budget included an 11% increase for the System. Although the System's funding is unknown, it is anticipated that the System's appropriation will increase above the $412.8 million appropriated in each of the past four fiscal years. The funding level received in fiscal years 2014/15, 2013/14, 2012/13, and 2011/12 is approximately the same as the funding level received in fiscal year 1997/98.

Because of the budget impasse, the State System has not yet received its fiscal year 2015/16 allocation from **Key '93**; however, based on existing legislation, the State System expects to receive $14.2 million. The State System received $13.4 million from this revenue stream in fiscal year 2014/15. Key '93 funds are derived from the Realty Transfer Tax funds and are restricted for university deferred maintenance projects.

The Board approved a $240 (3.0%) **increase in tuition** for the 2015/16 academic year while pledging to continue to seek additional state funding to support the universities' operations. This sets the new rate for full-time, resident, undergraduate students—who comprise about 90% of all State System students—at $7,060, the lowest among all four-year colleges and universities in Pennsylvania. The tuition increase will provide about half of the additional funds the universities need to balance their budgets. Significant cost increases are expected this year in several areas, including health care and pension contributions, over which the universities essentially have no control. Most of the universities also are expecting their enrollments to decline slightly, as the number of high school graduates in the state continues to drop, resulting in reduced revenue.

Enrollment

With an undergraduate population comprising approximately 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. Following is the projected number of Pennsylvania **high school graduates** based on estimates from the Pennsylvania Department of Education.

Projected Pennsylvania High School Graduates

Fiscal Year	Number of Graduates	% Increase (Decrease)
2014/15	124,625	(2.4%)
2015/16	123,817	(0.6%)
2016/17	124,415	0.5%
2017/18	126,337	1.5%
2018/19	125,559	(0.6%)
2019/20	122,956	(2.1%)
2020/21	124,508	1.3%
2021/22	125,850	1.1%
2022/23	124,481	(1.1%)

Pension Costs

In May 2015, the Legislature introduced a bill to reduce pension benefits for future public school employees and most future state workers by offering new employees a defined contribution, rather than a defined benefit, plan. Governor Wolf vetoed the bill and in September 2015 proposed a pension plan that would offer new employees a hybrid defined benefit/defined contribution plan. As of the date of these statements, no legislation has been enacted to change existing pension plans.

In fiscal year 2015/16, SERS continued its increases in employer **pension contribution rates** that are anticipated to persist through fiscal year 2016/17 and remain high for the foreseeable future. The most predominant employer-paid SERS rates for State System employees rose nearly 25% in 2015/16, after increases of 32% in 2014/15 and more than 44% in 2013/14; the rates are anticipated to increase by 18% in 2016/17. A similar pattern is occurring with PSERS. The contribution rate for the ARP, a defined contribution plan, remains unchanged.

In its June 30, 2014, Comprehensive Annual Financial Report (CAFR), PSERS states:

> *Even with the recent increase in the employer contribution rates, an additional cash infusion and/or still higher employer contribution rates are necessary to pay down the "principal" of the existing debt in the [PSERS] System. Although there has been much discussion of additional pension reform as a solution to the funding issue, the impact of further benefit reductions for new members will only have a marginal impact on projected employer contribution rates. The primary question that needs to be addressed is how to pay for the higher employer contributions rates needed to reach the funding levels recommended by PSERS' actuary and begin to pay off the existing debt.*

On a positive note, SERS states in its December 31, 2014, CAFR:

> *Despite the increasing outflows, SERS funded ratio is projected to continually improve as employees hired before January 2011 retire and post-January 2011 hires begin to fill employee ranks in greater proportion. In fact, if employers maintain the payment schedule provided in Act 2010-120, projections show that contribution rates will peak within the next two fiscal years and begin a slow, steady decline while, at the same time continuing to improve the health of the SERS Fund.*

There is no employer liability associated with the ARP.

SERS

- Based on the actuarial methods used for financial reporting purposes (as required by GASB Statement No. 67), as of December 31, 2014, the SERS net pension liability was $14.9 billion, compared to $13.7 billion at December 31, 2013. SERS plan fiduciary net position as a percentage of the total pension liability was approximately 64.8% at December 31, 2014, compared to 66.7% at December 31, 2013.
- In 2014, more than 6,200 new retirees were added to the annuity payroll, with an average annual benefit of approximately $25,200. More than 4,000 retirees, who had average annual benefits of about $14,700, were removed from the rolls.
- In 2014, SERS assets produced investment returns of 6.4%, down from 13.6% in 2013.
- At December 31, 2014, State System employees represented 4.8% of active SERS members.

PSERS

- Based on the actuarial methods used for financial reporting purposes (as required by GASB Statement No. 67), as of June 30, 2014, the PSERS net pension liability was $39.6 billion, compared to $40.9 billion at June 30, 2013. PSERS plan fiduciary net position as a percentage of the total pension liability was approximately 57.2% at June 30, 2014, compared to 54.5% at June 30, 2013.
- In fiscal year 2013/14, PSERS assets produced investment returns of 14.91%.
- State System employees represent approximately 0.4% of reported member salaries covered under PSERS.

Compensation Costs

In September 2015, the Board approved new collective bargaining agreements with five of its labor unions, which combined represent about 4,725 professional staff working in areas including admissions, financial aid, residence life and career services; university health center nurses; social workers and counselors; campus police and security; and clerical and maintenance staff. The one-year agreements provide an annual service increment equivalent to either 2.25% or 2.5% of the represented employees' annual salaries. The agreement with the nurses' unions also provides a $650 payment to all permanent employees who had attained one or more specialization certifications by July 1.

The agreements with the State College and University Professional Association (SCUPA); the Pennsylvania Social Services Union (PSSU); and the American Federation of State, County and Municipal Employees (AFSCME) freeze both the employee and employer contribution rates to the Pennsylvania Employee Benefit Trust Fund (PEBTF), the health care plan administered by the Commonwealth, resulting in savings that will partially offset the cost of the salary increases. Nurses are covered under a separate health care plan administered by the State System; the health care benefits they receive and level of premium cost sharing are the same as those provided to the System's nonrepresented employees.

Negotiations with the Association of Pennsylvania State College and University Faculties (APSCUF), which represents university faculty and athletic coaches separately, remain unresolved, and both of these bargaining units are continuing to work under the terms of their most recent contracts.

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" over **$417 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 **$38.49 million** in performance funding for fiscal year 2015/16, an increase of $1.1 million over fiscal year 2014/15.

Pricing Flexibility Pilot Program

The State System's founding legislation and Board policies provide the framework under 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 23 pricing pilots, 19 of the pilots have been implemented, and three are scheduled to be implemented in fall 2016.

The 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. The intent of the pricing pilots is to increase enrollment, graduation, and revenue, as well as to generate more funding for need-based financial aid. In addition, this new practice is part of the Board's efforts to strike a better balance between State System coordination and more local decision-making.

Cheyney University

Cheyney University ended fiscal year 2014/15 with a $5.5 million loss in unrestricted funds and an Unrestricted Net Position deficit of $12.0 million at June 30, 2015 (excluding unfunded pension, postretirement, and compensated absences liabilities). This follows a $4.2 million loss in unrestricted funds in fiscal year 2013/14 and an Unrestricted Net Position deficit of $6.7 million at June 30, 2014 (excluding unfunded pension, postretirement, and compensated absences liabilities). Net tuition and fees dropped $0.9 million in fiscal year 2014/15, and the allowance for doubtful accounts, which is an estimate of amounts owed by students that will not be collected, increased by $2.0 million. At June 30, 2015, the University's balances of cash and investments was $2.1 million; however, restricted cash balances should be $4.3 million, while unrestricted cash is negative $2.2 million. This is despite the fact that the University has borrowed $8.5 million from the State System pooled investment account as of June 30, 2015. The University has since borrowed another $4.5 million from the State System, bringing the balance of loans owed to the State System to $13 million as of the date of these financial statements.

The University is projecting a $7.4 million loss in unrestricted funds in fiscal year 2015/16, which would bring the Unrestricted Net Position to a deficit of $19.4 million (excluding unfunded pension, postretirement, and compensated absences liabilities). Cheyney's fall 2015 enrollment is down to 700 students, a 31% decrease from the 1,020 students enrolled in fall 2014.

In August 2015, a year-long process of reconciliation and analysis of Cheyney's federal financial aid for fiscal years 2011/12, 2012/13, and 2013/14, covering almost 4,400 student records, was completed by a consultant hired by the Office of the Chancellor. The study found deficiencies in the University's policies and procedures, communications, academic progress, student accounts, student records, financial records, and student information management systems, resulting in overall findings of noncompliance with federal regulations for the administration and delivery of federal student aid totaling $29.6 million. The State System has been engaged with the U.S. Department of Education (DOE) throughout this review and has voluntarily reported the results to the DOE. Although the State System has not received a response from the DOE, it is expected that this self-report will serve as a catalyst for resolution toward final reconciliation and determination of any amount of federal funds that may have to be returned.

The consultant is now serving Cheyney by administering its federal financial aid programs for 2014/15, 2015/16, and 2016/17, as coordinated by the Office of the Chancellor with the support of Cheyney's President and Council of Trustees. The System also is assisting with reimplementation of Cheyney's student and financial aid information systems. Processes are in place to ensure that the University's administrative policies and procedures, information systems, and data are properly aligned and integrated to support not only the award and distribution of financial aid, but also student progress to graduation. The State System believes that these efforts will ensure that Cheyney University's federal student aid programs are administered in compliance with federal regulations.

The State System, through the Office of the Chancellor, continues to partner with Cheyney's governance and management in an attempt 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 2015, Moody's Investors Service, Inc. (Moody's), reaffirmed the State System's **bond rating of Aa3** and *negative* outlook. In its April 17, 2015, Summary Rating Rationale, Moody's stated:

> *The assignment and affirmation of the Aa3 reflects PASSHE's very strong liquidity and good cash flow of around $200 million that affords the system time to work through enrollment, revenue and expense pressures including rising OPEB and pension contributions. The rating also incorporates PASSHE's large scale as a public university system of 14 campuses located throughout Commonwealth of Pennsylvania (Aa3, stable), strong system management and governance and significant debt principal repayments scheduled over the next 18 months. These strengths are offset by high leverage (including privatized student housing), constrained revenues, rising retirement costs, and a rigid expense structure due to the largely unionized faculty and staff. It also factors declining system enrollment and significant financial challenges at Cheyney University as well as remediation related to improperly awarded student financial aid.*

Moody's details as State System **challenges** the growing OPEB (postretirement health care) liability of $1.0 billion; enrollment and tuition revenue pressures from high competition and a declining number of Pennsylvania high school graduates; significant expense challenges from unionized faculty and staff; high balance sheet leverage, with $2.3 billion of debt (including campuses' privatized student housing debt); and distressed operations at Cheyney University, with an anticipated liability to the U.S. Department of Education for improperly awarded financial aid.

Moody's details as State System **strengths** its substantial unrestricted liquidity; a positive cash flow; modest near-term debt plans with rapidly amortizing debt; market standing as one of the nation's largest systems; and effective management, with strong fiscal oversight of State System and university operations, liquidity, capital projects, and debt issuance.

Moody's predicts that a ratings upgrade could result from consistently stronger operating performance and cash flow generation, stabilized student demand and growing net tuition per student, and a restructuring of postretirement benefits for a significant reduction in the OPEB liability. Conversely, a ratings downgrade could result from further increases in the OPEB liability and pension contributions without offsetting reductions in other expenditures, adverse changes in Commonwealth appropriations or collective bargaining agreements, deterioration of liquidity, and a material debt increase.

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

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Pennsylvania's State System of Higher Education

Balance Sheet

(dollars in thousands)

Assets and Deferred Outflows of Resources

	June 30, 2015	June 30, 2014
Current Assets		
Cash and cash equivalents	$ 20,314	$ 48,528
Short-term investments	534,596	490,897
Accounts receivable, students, net of allowance for doubtful accounts of $30,578 in 2015 and $29,963 in 2014	44,397	42,776
Accounts receivable, other	24,742	19,608
Governmental grants and contracts receivable	23,121	25,806
Inventories	3,569	3,471
Prepaid expenses	11,723	10,394
Current portion of loans receivable, net	8,681	8,714
Due from component units	26,393	20,214
Other current assets	2,366	1,705
Total Current Assets	699,902	672,113
Noncurrent Assets		
Restricted cash and cash equivalents	131	25
Endowment investments	30,270	29,622
Other long-term investments	748,621	794,056
Loans receivable, net	33,505	32,748
Due from component units	10,324	11,491
Capital Assets:		
Land	32,360	32,360
Buildings, including improvements	2,056,185	2,039,800
Improvements other than buildings	274,779	264,498
Equipment and furnishings	454,128	454,757
Library books	81,940	83,690
Construction in progress	99,144	70,206
	2,998,536	2,945,311
Less accumulated depreciation	(1,409,352)	(1,328,503)
Capital assets, net	1,589,184	1,616,808
Other noncurrent assets	1,497	1,362
Total Noncurrent Assets	2,413,532	2,486,112
Total Assets	3,113,434	3,158,225
Deferred Outflows of Resources	73,556	6,527
Total Assets and Deferred Outflows of Resources	$ 3,186,990	$ 3,164,752

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, 2015	June 30, 2014
Current Liabilities		
Accounts payable and accrued expenses	$ 154,790	$ 147,001
Unearned revenue	50,309	50,990
Deposits	45,974	41,910
Current portion of workers' compensation liability	4,686	4,776
Current portion of compensated absences liability	10,670	11,355
Current portion of capitalized lease obligations	3,364	3,226
Current portion of bonds payable	55,890	54,695
Due to component units	10,562	10,474
Other current liabilities	39,235	34,733
Total Current Liabilities	375,480	359,160
Noncurrent Liabilities		
Unearned revenue	4,173	4,916
Deposits	-	283
Workers' compensation liability, net of current portion	17,864	16,934
Compensated absences liability, net of current portion	103,970	103,355
Capitalized lease obligations, net of current portion	48,228	50,565
Bonds payable, net of current portion	744,565	805,195
Postretirement benefits liability	1,058,749	1,007,071
Net pension liability	798,744	-
Other noncurrent liabilities	78,409	77,893
Total Noncurrent Liabilities	2,854,702	2,066,212
Total Liabilities	3,230,182	2,425,372
Deferred Inflows of Resources	15,311	332
Net Position		
Net investment in capital assets	700,280	684,396
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	32,832	10,662
Other	8,461	8,273
Expendable:		
Scholarships and fellowships	16,537	36,049
Research	1,330	1,574
Student loans	23	551
Capital projects	27,247	38,369
Other	11,643	7,835
Unrestricted	(856,856)	(48,661)
Total Net Position	(58,503)	739,048
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 3,186,990	$ 3,164,752

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, 2015 and 2014
(dollars in thousands)

	2015		2014	
Operating Revenues				
Tuition and fees	$ 1,050,135		$ 1,029,150	
Less discounts and allowances	(233,562)		(219,840)	
Net tuition and fees		$ 816,573		$ 809,310
Governmental grants and contracts:				
Federal		34,393		38,268
State		104,967		109,812
Local		4,094		3,901
Nongovernmental grants and contracts		7,208		8,849
Sales and services		41,885		39,003
Auxiliary enterprises, net of discounts of $1,749 in 2015 and $928 in 2014		324,007		331,431
Other revenues, net		10,736		14,089
Total Operating Revenues		1,343,863		1,354,663
Operating Expenses				
Instruction		735,576		720,970
Research		5,742		5,115
Public service		37,413		37,457
Academic support		178,481		171,911
Student services		180,271		176,618
Institutional support		247,942		263,981
Operations and maintenance of plant		153,136		152,304
Depreciation		119,652		120,193
Student aid		72,948		75,592
Auxiliary enterprises		255,512		251,781
Total Operating Expenses		1,986,673		1,975,922
Operating Loss		(642,810)		(621,259)
Nonoperating Revenues (Expenses)				
State appropriations, general and restricted		412,751		412,751
Pell grants		145,658		143,572
Investment income, net of related investment expense of $467 in 2015 and $465 in 2014		31,010		26,226
Unrealized loss on investments		(13,055)		(3,179)
Gifts for other than capital purposes		16,557		17,791
Interest expense on capital asset-related debt		(36,577)		(36,862)
Loss on disposal of assets		(9,622)		(12,055)
Other nonoperating revenue		1,555		1,504
Net Nonoperating Revenues		548,277		549,748
Loss before other revenues		(94,533)		(71,511)
State appropriations, capital		13,610		14,385
Capital gifts and grants		4,145		4,375
Additions to permanent endowments		105		-
Decrease in Net Position		(76,673)		(52,751)
Net position—beginning of year		739,048		791,799
Restatement for July 1, 2014, pension liability and related expense		(720,878)		-
Net position—beginning of year, restated		18,170		791,799
Net position—end of year		$ (58,503)		$ 739,048

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014

(dollars in thousands)

	2015	2014
Cash Flows from Operating Activities		
Tuition and fees	$ 816,148	$ 808,988
Grants and contracts	151,234	161,103
Payments to suppliers for goods and services	(422,825)	(446,878)
Payments to employees	(1,288,967)	(1,256,943)
Loans issued to students	(7,763)	(8,532)
Loans collected from students	7,034	5,346
Student aid	(74,020)	(76,363)
Auxiliary enterprise charges	322,451	333,019
Sales and services	41,694	38,729
Other receipts (payments)	4,709	14,650
Net cash used in operating activities	(450,305)	(426,881)
Cash Flows from Noncapital Financing Activities		
State appropriations	412,751	412,751
Gifts and nonoperating grants for other than capital purposes	162,424	161,086
PLUS, Stafford, and other loans receipts (non-Perkins)	893,464	735,150
PLUS, Stafford, and other loans disbursements (non-Perkins)	(893,505)	(735,202)
Agency transactions, net	1,843	7,918
Other	1,555	1,504
Net cash provided by noncapital financing activities	578,532	583,207
Cash Flows from Capital Financing Activities		
Proceeds from capital debt and leases	106,909	105,656
Capital appropriations	13,607	14,233
Capital grants and gifts received	3,369	3,166
Proceeds from sales of capital assets	194	354
Purchases of capital assets	(96,657)	(115,470)
Principal paid on capital debt and leases	(157,849)	(141,732)
Interest paid on capital debt and leases	(45,429)	(44,387)
Net cash used in capital financing activities	(175,856)	(178,180)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	17,772,937	17,987,001
Interest on investments	30,866	26,090
Purchase of investments	(17,784,282)	(17,978,593)
Net cash provided by investing activities	19,521	34,498
Net Increase in Cash and Cash Equivalents	(28,108)	12,641
Cash and cash equivalents—beginning of year	48,553	35,912
Cash and cash equivalents—end of year	$ 20,445	$ 48,553

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014
(dollars in thousands)

	2015	2014
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (642,810)	$ (621,259)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	119,652	120,193
Expenses paid by Commonwealth or donor	(560)	295
Effect of changes in operating assets and liabilities:		
Receivables, net	898	3,354
Inventories	(98)	153
Other assets	(12,746)	(6,639)
Accounts payable	135	(2,803)
Unearned revenue	(1,332)	(522)
Student deposits	(173)	(125)
Compensated absences	(82)	4,802
Loans to students and employees	(728)	(3,187)
Other liabilities	87,539	78,857
Net cash used in operating activities	$ (450,305)	$ (426,881)
Noncash Capital Financing Activities		
Capital assets included in payables	$ 5,902	$ 2,818
Capital assets acquired through capital leases	$ 1,161	$ 304
Like-kind exchanges	$ 15	$ 106
Capital assets acquired by gift or appropriation	$ 1,190	$ 1,244

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

	June 30, 2015	June 30, 2014
Assets		
Cash and cash equivalents	$ 142,205	$ 137,107
Accounts receivable	6,926	6,049
Contributions/pledges receivable	16,568	16,844
Due from universities	10,711	11,158
Prepaid expenses	3,207	1,873
Inventories	8,701	7,850
Short-term investments	70,229	68,439
Investments	481,682	505,661
Capital assets:		
Land	31,724	31,074
Buildings	1,282,000	1,120,274
Building improvements	19,407	16,974
Improvements other than buildings	10,370	10,306
Equipment and furnishings	93,429	84,905
Construction in progress	99,614	160,792
	1,536,544	1,424,325
Less accumulated depreciation	(287,068)	(245,846)
Capital assets, net	1,249,476	1,178,479
Other assets	132,723	135,857
Total Assets	$ 2,122,428	$ 2,069,317
Liabilities		
Accounts payable and accrued expenses	$ 31,120	$ 34,167
Deferred revenue	10,221	9,283
Interest payable	10,402	12,184
Annuity liabilities	7,787	8,054
Due to universities	36,417	31,230
Deposits payable	22,140	21,800
Interest rate swap agreements	60,596	53,658
Capitalized leases	29,151	30,612
Bonds payable	1,232,289	1,199,328
Notes payable	296,239	288,071
Other liabilities	20,152	23,165
Total Liabilities	1,756,514	1,711,552
Net Assets		
Unrestricted	11,855	12,044
Temporarily restricted	97,859	97,343
Permanently restricted	256,200	248,378
Total Net Assets	365,914	357,765
Total Liabilities and Net Assets	$ 2,122,428	$ 2,069,317

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Activities
For the Years Ended June 30, 2015 and 2014

(dollars in thousands)

	2015	2014
Revenues and Gains		
Contributions	$ 39,374	$ 39,635
Sales and services	47,839	50,724
Student fees	34,356	34,840
Grants and contracts	11,591	10,799
Rental income	169,980	147,322
Investment income, gains, and losses	7,723	47,867
Other revenues and gains	16,239	20,865
Total Revenues and Gains	327,102	352,052
Expenses and Losses		
Program services:		
Scholarships and grants	14,407	12,573
Student activities and programs	31,985	31,766
University stores	30,687	30,967
Housing	162,946	142,717
Other university support	16,324	16,372
Other programs	16,595	18,200
Management and general	29,175	29,076
Fundraising	9,908	8,475
Other expenses and losses	6,926	1,465
Total Expenses and Losses	318,953	291,611
Change in Net Assets	8,149	60,441
Net assets—beginning of year	357,765	297,324
Net assets—end of year	$ 365,914	$ 357,765

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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 (GAAP), 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.

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

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

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

- Deferred gain or loss on bond defeasance, which results when the carrying value of a defeased bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.
- For defined benefit pension plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the State System's proportion of expenses and liabilities to the pension as a whole, differences between the State System's pension contributions and its proportionate share of contributions, and State System pension contributions subsequent to the pension valuation measurement date.

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

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

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

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

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

When both restricted and unrestricted funds are available for expenditure, the 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 on a composite basis in the year of purchase. 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, 2015 and 2014.

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

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

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 *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 the previously reported net position or changes therein.

New Accounting Standards

The State System has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 require the State System to report its share of the defined benefit pension liabilities and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS). The July 1, 2014, balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources is reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the *2015 Net position—beginning of year*. SERS and PSERS were not able to provide sufficient information to restate the June 30, 2014, financial statements.

(in thousands)	**2015**
Net position—beginning of year, as previously stated	$739,048
July 1, 2014, balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources	(720,878)
Net position—beginning of year, restated	$18,170

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements and is effective for financial statements for reporting periods beginning after June 15, 2015. The State System has determined that Statement No. 72 will have no effect on its financial statements other than to change the disclosure information for its investments.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* This statement establishes requirements for defined contribution pensions and defined benefit pensions that are not within the scope of Statement No. 68 and amends certain provisions of Statements No. 67 and 68. Statement No. 73 is effective for fiscal years beginning after June 15, 2016. The State System has determined that Statement No. 73 will have no effect on its financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. These statements will require the State System to record its postretirement health care liability in its entirety: at June 30, 2015, the State System's accrued postretirement health care liability, as calculated by the actuaries, was $1,194,849,000, but under current GASB requirements, the amount recorded on the balance sheet as a liability was $1,058,749,000. The State System expects that the amount recorded on the balance sheet as a postretirement health care liability will increase when Statement No. 75 is implemented, but the amount cannot be calculated until a new actuarial valuation is performed under the new standards. Furthermore, Statement No. 75 will require that the State System record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the State System does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the State System will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, the Commonwealth has advised the State System that its share of the liability at June 30, 2015, is $73,032,000. The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016; the provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* Statement No. 76 modifies the GAAP hierarchy, which are the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP. The provisions in Statement No. 76 are effective for reporting periods beginning after June 15, 2015. The State System has determined that Statement No. 76 will have no effect on its financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for reporting periods beginning after December 15, 2015. The State System has determined that Statement No. 77 will 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 U.S. Treasury and be in the State System's or its agent's custody.
Commercial Paper	P-1 and P-2 notes only, with no more than 5% and 3%, respectively, of the market value of the fund invested in any single issuer. Total may not exceed 20% of the market value of the fund.
Municipal Bonds	Bonds must carry long-term debt rating of A or better. Total may not exceed 20% of the market value of the fund.
Corporate Bonds	15% must carry long-term debt rating of A or better; 5% may be rated Baa2 or better. Total may not exceed 20% of the market value of the fund.
Collateralized Mortgage Obligations (CMOs)	Must be rated Aaa and guaranteed by the U.S. government. Total may not exceed 20% of the market value of the fund.
Asset-Backed Securities	Must be Aaa rated. Total may not exceed 20% of the market value of the fund, with no more than 5% invested in any single issuer.
System Investment Fund Loans (university loans and bridge notes)	Total may not exceed 20% of the market value of the fund, and loan terms may not exceed 5 years.

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

Moody's Rating: The State System uses ratings from Moody's Investors Service, Inc., to indicate the credit risk of investments; i.e., the risk that an issuer or other counterparty to an investment will not fulfill its obligations. An *Aaa* rating indicates the highest quality obligations with minimal credit risk. Ratings that begin with *Aa* indicate high quality obligations subject to very low credit risk; ratings that begin with *A* indicate upper-medium-grade obligations subject to low credit risk; and ratings that begin with *Baa* indicate medium-grade obligations, subject to moderate credit risk, 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, 2015 and 2014, the carrying amount of the State System's demand and time deposits and certificates of deposit for all funds was $20,458,000 and $48,576,000, respectively, compared to bank balances of $19,970,000 and $48,688,000, respectively. The difference is caused primarily by items in transit. Of the bank balances, $3,200,000 and $3,334,000, 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; $660,000 and $629,000, respectively, were uninsured and uncollateralized; and $16,110,000 and $44,725,000, 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, 2015 and 2014, follow.

State System Pooled Deposits and Investments
June 30, 2015
(in thousands)

	Moody's Rating (if applicable)	**Modified Duration** (if applicable)	**Fair Value**
Deposits			
Demand and time deposits			$114
Money market funds			7,968
Total deposits			8,082
Investments			
Commercial paper	Aaa	0.06	7,602
	P1	0.31	150,938
Government money market mutual fund	Aaa	0.00	62,832
U.S. government and agency obligations	Aaa	2.62	440,072
Asset-backed securities	Aaa	0.76	88,060
	Aa1	1.71	6,225
	P1	0.40	17,426
Collateralized mortgage obligations (CMOs)	Aaa	4.10	251,458
Corporate bonds and notes	Aaa	1.12	11,300
	Aa1	2.73	7,690
	Aa2	0.63	18,395
	Aa3	1.10	8,803
	A1	1.33	34,951
	A2	1.51	64,851
	A3	1.39	39,524
	Baa1	1.14	33,932
	Baa2	1.03	22,203
	Baa3	0.00	725
Total investments			1,266,987
Total deposits and investments			$1,275,069

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			36,981
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			1,269,656
Total deposits and investments			$1,306,637

Of the investments noted above at June 30, 2015 and 2014, $4,569,000 and $19,819,000, 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). Such investments are made subject to the restrictions of the bond indenture and may be liquidated only for the payment of costs associated with the projects described in the bond indenture.

The carrying values (fair values) of local university deposits and investments on June 30, 2015 and 2014, follow.

University Local Deposits and Investments
June 30, 2015
(in thousands)

	Moody's Rating (if applicable)	**Modified Duration** (if applicable)	**Fair Value**
Deposits			
Demand and time deposits			$12,362
Certificates of deposit			14
Total deposits			12,376
Investments			
U.S. government and agency obligations		0.55	72
Bond mutual funds		4.73	5,904
Debt securities		4.17	81
Equity/balanced mutual funds			37,812
Common stock			2,618
Total investments			46,487
Total deposits and investments			$58,863

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

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

(in thousands)

		Fair Value	
Investment	**Currency**	June 30, 2015	June 30, 2014
Deposit	British Pound	$6	$7

The universities are beneficiaries of trust funds held by others with an approximate fair value of $3,795,000 and $4,091,000 on June 30, 2015 and 2014, 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 $16,371,000 and $11,676,000 for the years ended June 30, 2015 and 2014, respectively.

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

(in thousands)

	June 30, 2015	**June 30, 2014**
Cost:		
Buildings	$76,416	$76,405
Equipment	3,520	3,625
Total	$79,936	$80,030
Accumulated Depreciation:		
Buildings	$33,748	$29,471
Equipment	1,805	2,269
Total	$35,553	$31,740

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**
2016	$7,030	$5,708
2017	5,130	5,590
2018	3,508	5,475
2019	2,738	5,404
2020	2,007	5,105
Thereafter	60,915	42,840
Total minimum lease payments	$81,328	70,122
Amount representing interest on capital leases		18,530
Present value of net minimum capital lease payments		$51,592

Changes in the liability for capital leases in fiscal years 2015 and 2014 follow.

(in thousands)

Year	**Beginning Balance**	**Capital Lease Additions**	**Capital Lease Payments**	**Ending Balance**
2014	$56,882	$304	$3,395	$53,791
2015	$53,791	$1,161	$3,360	$51,592

(4) Pension Benefits

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

Following is the total of the State System's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and the pension expense and expenditures for the fiscal year ended June 30, 2015.

(in thousands)	**SERS**	**PSERS**	**ARP**	**Total**
Net pension liabilities	$728,094	$70,650	N/A	$798,744
Deferred outflows of resources	$57,018	$7,190	N/A	$64,208
Deferred inflows of resources	$9,049	$5,051	N/A	$14,100
Pension expense	$83,545	$6,663	$44,619	$134,827
Contributions made (pay-as-you-go)	$57,234	$5,236	$44,619	$107,089
Contributions recognized by pension plans	$57,837	$5,236	N/A	$63,073

Contributions are due to and recognized by SERS based on the pay date. Contributions are due to and recognized by PSERS on the accrual basis; i.e., when the benefit is earned by the employee.

SERS

Plan Description

SERS is a governmental cost-sharing multiple-employer defined benefit plan that provides retirement, death, and disability benefits to employees of Pennsylvania state government and certain independent agencies. SERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. Membership in SERS is mandatory for most state employees. Members and employees of the General Assembly, certain elected or appointed officials in the executive branch, department heads, and certain employees in the field of education are not required, but are given the option, to participate. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the SERS website at www.sers.state.pa.us.

Benefits Provided

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

Employees who were hired prior to January 1, 2011, and retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit; members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service. Act 120 of 2010 (Act 120) preserved all benefits in place for members, but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2% of members' final average salary instead of the previous 2.5%. The new vesting period changed from 5 to 10 years of credited service, and the option to withdraw lump-sum accumulated deductions was eliminated. The new normal retirement age is 65 for most employees and 55 for members of the General Assembly and certain employees classified in hazardous duty positions.

Each class of benefits is based on a multiple of the base accrual rate of 2%, which is called the multiplier. Most members of SERS, and all state employees hired after June 30, 2001, and prior to January 1, 2011 (except state police officers and certain members of the judiciary and legislators), are Class AA members. The multiplier for Class AA is 1.25, which translates into an annual benefit of 2.5% of the member's highest three-year average salary multiplied by years of service. The general annual benefit for Class A members is 2% of the member's highest three-year average salary multiplied by years of service. Act 120 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011. The general annual benefit for Class A-3 members is 2% of the member's highest three-year average salary multiplied by years of service, while the Class A-4 benefit accrual rate is 2.5%. State police, judges, Magisterial District Judges, and legislators are in separate classes with varying benefits.

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

Contributions
The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. Act 120, however, imposed rate increase collars (limits on annual rate increases) on employer contributions. The collar for fiscal year 2013/14 was 4.5% and will remain at that rate until no longer needed.

The State System contributed at actuarially determined rates of between 13.77% and 19.92% of active members' annual covered payroll at June 30, 2015. The State System's contributions to SERS for the years ended June 30, 2015, 2014, and 2013, were $57,234,000, $43,548,000, and $30,490,000, respectively, equal to the required contractual contribution.

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.

Assumptions
The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2014 and 2013, using the following actuarial assumptions, applied to all periods included in the measurement.

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.75%.
- Investment return of 7.50%, net of expenses and including inflation.
- Salary increases based on an effective average of 6.1%, with a range of 4.30% to 11.05%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- Ad hoc cost of living adjustments (COLAs).

Some of the methods and assumptions mentioned above are based on the *17th Investigation of Actuarial Experience*, which was published in January 2011 and analyzed experience from 2006 through 2010. The actuary made recommendations with respect to the actuarial assumptions and methods based on their analysis. The next experience study will cover the years 2011 through 2015 and is expected to be released in early 2016.

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2014, are summarized below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alternative investments	15.00%	8.50%
Global public equity	40.00%	5.40%
Real assets	17.00%	4.95%
Diversifying assets	10.00%	5.00%
Fixed income	15.00%	1.50%
Liquidity reserve	3.00%	0.00%
	100.00%	

The discount rate used to measure the total SERS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and nonactive SERS members. Therefore, the long-term expected rate of return on SERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the SERS net pension liability calculated using the discount rate of 7.50%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

Sensitivity of the State System's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate
(in thousands)

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2014	$931,943	$728,094	$552,817
2013	$879,910	$677,940	$504,326

Fiduciary Net Position
The fiduciary net positions of SERS, as well as additions to and deductions from SERS fiduciary net positions, have been determined on the same basis as they are reported in the SERS financial statements, which can be found at www.sers.state.pa.us.The plan schedules of SERS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the SERS financial statements. Management of SERS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2015, the amount recognized as the State System's proportionate share of the SERS net pension liability was $728,094,000. SERS measured the net pension liability as of December 31, 2014.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2014 amounts, this methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2015/16 from the December 31, 2014, funding valuation to the expected funding payroll. For the allocation of the 2013 amounts, this methodology applies the contribution rates for fiscal year 2014/15 from the December 31, 2013, funding valuation to the expected funding payroll. At December 31, 2014, the State System's proportion was 4.901%, a decrease of .061% from its proportion calculated as of December 31, 2013.

For the year ended June 30, 2015, the State System recognized SERS pension expense of $83,545,000. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the SERS pension are as follows.

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$3,953	-
Net difference between projected and actual investment earnings	21,036	-
Changes in proportions	-	$6,867
Difference between employer contributions and proportionate share of total contributions	-	2,182
Contributions after the measurement date	32,028	-
	$57,017	$9,049

The State System will recognize the $32,028,000 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the SERS net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in SERS pension expense as follows.

(in thousands)

Fiscal Year Ended	Amortization
June 30, 2016	$4,151
June 30, 2017	$4,151
June 30, 2018	$4,151
June 30, 2019	$4,151
June 30, 2020	($664)

PSERS

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–9102) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established and may be amended. The Code requires contributions by active members, the employer (State System), and the Commonwealth of Pennsylvania. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. 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 PSERS website at www.psers.state.pa.us.

Benefits Provided

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

Depending upon membership class, benefits are generally 2% or 2.5% of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. Members who joined prior to July 1, 2011, vest after completion of five years of service and may elect early retirement benefits. Class T-E and Class T-F members vest after completion of 10 years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

Member Contributions

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

Employer Contributions
The State System's contractually required contribution rate for PSERS for fiscal year ended June 30, 2015, was 20.5% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 10.25% of covered payroll. The State System's contribution to PSERS for the year ending June 30, 2015, was $5,213,000. The State System's contributions to PSERS for the years ended June 30, 2014 and 2013, were $3,940,000 and $2,752,000, respectively, equal to the required contractual contribution.

Actuarial Assumptions
The total PSERS pension liability as of June 30, 2014, was determined by rolling forward PSERS' total pension liability as of the June 30, 2013, actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 3%.
- Investment return of 7.50%, including inflation.
- Salary increases based on an effective average of 5.5%, which reflects an allowance for inflation, real wage growth of 1.0%, and merit or seniority increases of 1.05%.
- Mortality rates based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females; for disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2013, valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Trustees at its March 11, 2011, meeting and were effective beginning with the June 30, 2011, actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	19.0%	5.0%
Private markets (equity)	21.0%	6.5%
Private real estate	13.0%	4.7%
Global fixed income	8.0%	2.0%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.2%
High-yield bonds	6.0%	1.7%
Cash	3.0%	0.9%
Absolute return	10.0%	4.8%
Risk parity	5.0%	3.9%
MLPs/Infrastructure	3.0%	5.3%
Commodities	6.0%	3.3%
Financing (LIBOR)	(9.0%)	1.1%
	100.0%	

The discount rate used to measure the total PSERS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.50%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

Sensitivity of the State System's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate
(in thousands)

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$88,128	$70,650	$55,731

Fiduciary Net Position
For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, the fiduciary net position of PSERS and additions to or deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported in the PSERS's financial statements. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Detailed information about PSERS' fiduciary net position is available in the PSERS Comprehensive Annual Financial Report, which can be found at www.psers.state.pa.us.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2015, the amount recognized as the State System's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows.

(in thousands)	
Total PSERS net pension liability associated with the State System	$141,300,000
Commonwealth's proportionate share of the PSERS net pension liability associated with the State System	70,650,000
State System's proportionate share of the PSERS net pension liability	$70,650,000

PSERS measured the net pension liability as of June 30, 2014. The total PSERS pension liability used to calculate the net pension liability was determined by rolling forward the total pension liability calculated as of June 30, 2013, to June 30, 2014. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2014, the State System's proportion was .1785%, an increase of .0051% from its proportion calculated as of June 30, 2013.

For the year ended June 30, 2015, the State System recognized PSERS' pension expense of $6,663,000. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the PSERS pension are as follows.

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	-	$5,051
Changes in proportions	$1,682	-
Difference between employer contributions and proportionate share of total contributions	295	-
Contributions after the measurement date	5,213	-
	$7,190	$5,051

The State System will recognize the $5,213,000 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the PSERS net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as PSERS pension expense as follows.

(in thousands)

Fiscal Year Ended	Amortization
June 30, 2016	($786)
June 30, 2017	($786)
June 30, 2018	($786)
June 30, 2019	($786)
June 30, 2020	$70

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2015 and 2014, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2015 and 2014, were $44,619,000 and $43,869,000, respectively, from the State System; and $23,903,000 and $23,802,000, respectively, from active members. No liability is recognized for the ARP.

(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 $36,869,000 and $44,201,000 for the fiscal years ending June 30, 2015 and 2014, 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, 2015.

- 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 $4,272,000 and $3,969,000, or approximately 10.4% and 8.2% of the total premiums, for the fiscal years ending June 30, 2015 and 2014, 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, 2015**	**June 30, 2014**
Annual required contribution	$102,000	$127,861
Interest on net OPEB obligation	42,800	39,257
Adjustment to ARC	(56,253)	(49,536)
Annual OPEB cost (expense)	88,547	117,582
Contributions made	(36,869)	(44,201)
Increase in net OPEB obligation	51,678	73,381
Net OPEB obligation at July 1	1,007,071	933,690
Net OPEB obligation at June 30	$1,058,749	$1,007,071

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, 2015, 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, 2013	$112,270	38.3%	$933,690
June 30, 2014	$117,582	37.6%	$1,007,071
June 30, 2015	$88,547	41.6%	$1,058,749

Funded Status and Funding Progress
The funded status of the plan as of July 1, 2014, the most recent actuarial valuation date, was as follows.

(in thousands)	
Actuarial accrued liability (AAL)	$1,194,849
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$1,194,849
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$589,917
UAAL as a percentage of covered payroll	203%

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, 2014, actuarial valuation, the projected unit credit method was used with a 4.25% investment rate of return, which is the rate expected to be earned on the State System's operating portfolio. The health care cost trend rate used was 6.5% in 2014, 6.0% in 2015, and 5.5% in 2016 through 2020, with rates gradually decreasing from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2014, was 21 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 2014/15, the State System contributed $334 for each current active employee per biweekly pay period. The State System made contributions of $30,765,000, $28,584,000, and $25,638,000 for the fiscal years ending June 30, 2015, 2014, and 2013, 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 $1,405,000 and $1,875,000 to the Reserve Fund during the years ended June 30, 2015 and 2014, respectively.

For the years ended June 30, 2015 and 2014, the aggregate liability for claims under the self-insurance limit was $9,825,000 and $9,902,000, respectively. The Reserve Fund assets of $12,724,000 and $11,808,000 are equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2015 and 2014, respectively. Changes in the workers' compensation claims liability in fiscal years 2015 and 2014 follow.

(in thousands)

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2014	$21,344	$5,244	$4,878	$21,710
2015	$21,710	$5,177	$4,337	$22,550

(7) Compensated Absences

Changes in the compensated absences liability in fiscal years 2015 and 2014 are as follows.

(in thousands)

Year	Beginning Balance	Current Changes in Estimates	Less Payouts	Ending Balance
2014	$109,909	$11,536	$6,735	$114,710
2015	$114,710	$11,272	$11,342	$114,640

(8) BONDS PAYABLE

Bonds payable on June 30, 2015 and 2014, 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.

Activity for the various bond series for the years ended June 30, 2015 and 2014, was as follows.

Bonds Payable
June 30, 2015 and 2014
(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2013	2014 Bonds Issued	2014 Bonds Redeemed/ Refunded	Balance June 30, 2014	2015 Bonds Issued	2015 Bonds Redeemed/ Refunded	Balance June 30, 2015	Current Portion
Series Z issued March 2004, final maturity June 2024	$71,760	4.04%	$39,300	-	$39,300	-	-	-	-	-
Series AA issued July 2004, final maturity June 2024	28,750	4.65%	15,785	-	15,785	-	-	-	-	-
Series AC issued July 2005, final maturity June 2025	52,650	4.87%	33,905	-	2,810	$31,095	-	$31,095	-	-
Series AE issued July 2006, final maturity June 2036	103,290	4.95%	79,835	-	4,030	75,805	-	75,805	-	-
Series AF issued July 2007, final maturity June 2037	68,230	5.00%	56,720	-	2,195	54,525	-	2,305	$52,220	$2,420
Series AG issued March 2008, final maturity June 2024	101,335	4.85%	77,505	-	7,000	70,505	-	10,875	59,630	11,485
Series AH issued July 2008, final maturity June 2038	140,760	4.67%	123,025	-	4,020	119,005	-	4,220	114,785	4,435
Series AI issued August 2008, final maturity June 2025	32,115	4.19%	23,510	-	1,785	21,725	-	1,845	19,880	1,910
Series AJ issued July 2009, final maturity June 2039	123,985	4.88%	109,800	-	4,515	105,285	-	4,835	100,450	5,245
Series AK issued Sept. 2009, final maturity June 2024	47,310	4.00%	35,945	-	3,705	32,240	-	3,795	28,445	3,910
Series AL issued July 2010, final maturity June 2035	135,410	5.00%	115,880	-	25,815	90,065	-	7,710	82,355	7,935
Series AM issued July 2011, final maturity June 2036	119,085	4.65%	112,160	-	3,990	108,170	-	4,200	103,970	4,420
Series AN issued March 2012, final maturity June 2023	76,810	5.00%	76,435	-	1,070	75,365	-	4,000	71,365	8,235
Series AO issued July 2013, final maturity June 2038	30,915	4.28%	-	$30,915	920	29,995	-	1,040	28,995	1,075
Series AP issued May 2014, final maturity June 2024	46,110	4.34%	-	46,110	-	46,110	-	2,685	43,425	2,940
Series AQ issued May 2015, final maturity June 2036	94,975	4.71%	-	-	-	-	$94,975	-	94,975	1,880
Total	**$1,273,490**	**-**	**$899,805**	**$77,025**	**$116,940**	**$859,890**	**$94,975**	**$154,410**	**$800,455**	**$55,890**

Principal and interest requirements to maturity are as follows.

(in thousands)

	Principal	Interest	Total
2016	$55,890	$38,408	$94,298
2017	62,100	35,235	97,335
2018	61,445	32,242	93,687
2019	64,955	29,299	94,254
2020	72,260	26,212	98,472
2021–2025	266,190	87,100	353,290
2026–2030	137,905	36,321	174,226
2031–2035	64,675	11,310	75,985
2036–2039	15,035	1,154	16,189
Total	**$800,455**	**$297,281**	**$1,097,736**

(9) Debt Refunding

In May 2015, the net proceeds from the Series AQ revenue bonds, together with funds provided by the State System, were used to purchase U.S. Government Securities that were deposited irrevocably in trust with an escrow agent to current refund Series AC and advance refund Series AE revenue bonds. This refunding was performed to reduce debt service by approximately $9,405,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately $9,034,000. The economic gain is reported as a deferred outflow of resources. As of June 30, 2015, $0 of Series AC and $71,565,000 of Series AE Revenue Bonds remained outstanding, and the fair market value of the escrow account was $74,877,000. The funds in escrow will be used to pay the December 15, 2015, interest payment and the June 30, 2016, principal and interest payment of Series AE. Neither the funds in escrow nor the outstanding balance of Series AE is reflected in the balance sheet.

(10) Rating Actions

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. In April 2015, Moody's reaffirmed the outlook for the rating as *negative*. In April 2015, Fitch Ratings downgraded the State System's rating from AA to AA- and revised the outlook from *negative* to *stable*.

(11) Capital Assets

The classifications of capital assets and related depreciation at June 30, 2015 and 2014, follow.

(in thousands)

	Balance June 30, 2013	2013/14 Additions	2013/14 Retirements/ Adjustments	Balance June 30, 2014	2014/15 Additions	2014/15 Retirements/ Adjustments	Balance June 30, 2015
Land	$29,263	$2,954	$143	$32,360	-	-	$32,360
Construction in progress	103,782	56,997	(90,573)	70,206	$65,737	($36,799)	99,144
Total capital assets not being depreciated	133,045	59,951	(90,430)	102,566	65,737	(36,799)	131,504
Buildings, including improvements	1,953,267	31,516	55,017	2,039,800	18,588	(2,203)	2,056,185
Improvements other than buildings	242,462	8,159	13,877	264,498	4,414	5,867	274,779
Equipment and furnishings	445,431	19,135	(9,809)	454,757	15,292	(15,921)	454,128
Library books	83,911	1,181	(1,402)	83,690	894	(2,644)	81,940
Total capital assets being depreciated	2,725,071	59,991	57,683	2,842,745	39,188	(14,901)	2,867,032
Less accumulated depreciation:							
Buildings and improvements	(703,610)	(79,062)	5,417	(777,255)	(79,045)	13,342	(842,958)
Land improvements	(112,279)	(9,721)	416	(121,584)	(10,379)	439	(131,524)
Equipment and furnishings	(339,086)	(29,276)	12,996	(355,366)	(28,215)	22,374	(361,207)
Library books	(73,566)	(2,134)	1,402	(74,298)	(2,013)	2,648	(73,663)
Total accumulated depreciation	(1,228,541)	(120,193)	20,231	(1,328,503)	(119,652)	38,803	(1,409,352)
Total capital assets being depreciated, net	1,496,530	(60,202)	77,914	1,514,242	(80,464)	23,902	1,457,680
Capital assets, net	$1,629,575	($251)	($12,516)	$1,616,808	($14,727)	($12,897)	$1,589,184

(12) Deferred Outflows of Resources and Deferred Inflows of Resources

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2015 and 2014, follow.

(in thousands)

	June 30, 2015	June 30, 2014
Deferred Outflows of Resources		
Net pension liability related (see note 4)	$64,207	-
Unamortized loss on refunding of debt	9,349	$6,527
Total Deferred Outflows of Resources	$73,556	$6,527
Deferred Inflows of Resources		
Net pension liability related (see note 4)	$14,100	-
Unamortized gain on refunding of debt	1,211	$332
Total Deferred Inflows of Resources	$15,311	$332

(13) 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, 2015, 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, with one exception: In August 2015 the State System completed an analysis and reconciliation of almost 4,400 student accounts at Cheyney University for fiscal years 2011/12, 2012/13, and 2013/14. It was determined that as a result of deficiencies in the University's policies, processes, and procedures related to the financial aid function, noncompliance with federal regulations in the administration and delivery of federal financial aid totaled $29.6 million over the three years. The State System, which undertook the analysis in consultation with the U.S. Department of Education (DOE), self-reported the findings to the DOE in August. No action has been taken at this point by the DOE and the determination of any amounts to be repaid is uncertain until communication is received from the DOE. The State System has contracted with the third-party consultant who completed the financial aid analysis to provide financial aid leadership on the University's campus and full service administration of the University's federal financial aid programs beginning in fiscal year 2014/15. The State System is now closely monitoring the financial aid function at the University.

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.

Affordable Care Act Requirements

New regulations under the federal Affordable Care Act require the State System to complete and submit various reports and forms to employees and the Internal Revenue Service (IRS) between January 31, 2016, and March 31, 2016, for the calendar year ending December 31, 2015. Failure to submit the required information accurately and on time could result in significant IRS penalties. The State System is in the process of implementing the Affordable Care Act requirements and expects to be in compliance by the applicable deadlines. No reporting or compliance penalties are anticipated as of June 30, 2015.

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2015 and 2014, were approximately $69,604,000 and $75,162,000, respectively.

(14) SUBSEQUENT EVENT

In September 2015, PHEFA issued Series AR tax-exempt revenue bonds in the amount of $102,365,000. The net proceeds from the Series AR revenue bonds were used to finance capital projects at several universities. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended June 30, 2015 and 2014
(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, 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%
July 1, 2014	$0	$1,194,849	$1,194,849	0%	$589,917	203%

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, 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%
January 1, 2015	$144,744	$16,134,419	$15,989,675	.90%	$4,289,000	373%

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

Determined as of December 31, 2014, SERS Measurement Date
(in thousands)

Fiscal Year	State System's Proportion	State System's Proportionate Share	State System's Covered-Employee Payroll	State System's Proportionate Share of NPL as a % of Covered-Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	.1785%	$728,094	$296,967	245%	64.8%

SERS Schedule of Contributions

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$57,837	$57,837	$0	$296,967	19.5%

Schedule of Proportionate Share of PSERS Net Pension Liability

Determined as of June 30, 2014, PSERS Measurement Date
(in thousands)

	PSERS Net Pension Liability						
Fiscal Year	State System's Proportion	State System's Proportionate Share	Commonwealth's Proportionate Share	Total	State System's Covered-Employee Payroll	State System's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	.1785%	$70,650	$70,650	$141,350	$22,776	310%	57.2%

PSERS Schedule of Contributions

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$5,236	$5,236	$0	$22,776	23.0%

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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, 2015, 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 28, 2015. 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, 100 percent of the total net 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

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
September 28, 2015

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2015

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SINGLE AUDIT REPORT
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YEAR ENDED JUNE 30, 2015

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 REQUIRED BY 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, 2015. 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, 2015. 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, 2015.

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 2015-001 through 2015-010. 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 2015-001 through 2015-010 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, 2015, 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 28, 2015, 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

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
March 25, 2016

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Federal CFDA Number	Federal Expenditures
U.S. Department of Education Clusters		
Student Financial Assistance Cluster		
Federal Supplemental Education Opportunity Grants	84.007	$ 3,317,768
Federal Work-Study Program	84.033	5,157,115
Federal Perkins Loans Outstanding	84.038	41,065,414
Federal Pell Grant Program	84.063	145,724,432
Federal Direct Student Loans	84.268	743,326,743
Teacher Education Assistance for College and Higher Education Grants	84.379	453,424
Federal Nursing Loans Outstanding	93.364	473,410
Total Student Financial Assistance Cluster		939,518,306
TRIO Cluster		5,009,748
Other		
Total Research and Development Cluster		3,410,987
Total Other Federal Awards		15,606,088
Total Expenditures of Federal Awards		$ 963,545,129

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number	Federal CFDA Number	University	Federal Expenditures
U.S. Department of Education				
TRIO - Student Support Services	P042A101265-13	84.042A	Bloomsburg	$ 5,300
TRIO - Student Support Services	P042A101265-14	84.042A	Bloomsburg	260,899
TRIO - Student Support Services	P042A100147-13	84.042A	California	16,768
TRIO - Student Support Services	P042A100147-14	84.042A	California	259,126
TRIO - Student Support Services	P042A100469-10	84.042	Clarion	322,858
TRIO - Student Support Services	P042A100594-14	84.042A	ESU	41,008
TRIO - Student Support Services	P042A100594-15	84.042A	ESU	157,323
TRIO - Student Support Services	P042A101003-13	84.042A	Kutztown	39,803
TRIO - Student Support Services	P042A101003-14	84.042A	Kutztown	268,050
TRIO - Student Support Services	P042A100997-13 & 14	84.042A	Lock Haven	219,862
TRIO - Student Support Services	P042A100342	84.042A	Mansfield	246,956
TRIO - Student Support Services	P042A100378	84.042A	West Chester	267,026
Total TRIO - Student Support Services				2,104,979
TRIO - Talent Search	P044A110159	84.044	Clarion	352,686
TRIO - Upward Bound	P047A130363	84.047A	Bloomsburg	152,198
TRIO - Upward Bound	P047A130363-14	84.047A	Bloomsburg	244,054
TRIO - Upward Bound	P047A120320	84.047A	California	209
TRIO - Upward Bound	P047A120320-14	84.047A	California	199,914
TRIO - Upward Bound	P047A120320-13	84.047A	California	61,308
TRIO - Upward Bound	P047A121736-13	84.047A	California	84,329
TRIO - Upward Bound	P047A121736-14	84.047A	California	288,683
TRIO - Upward Bound	P047A070541-10	84.047A	Clarion	364,522
TRIO - Upward Bound	P047A121574-13	84.047A	ESU	24,885
TRIO - Upward Bound	P047A121574-14	84.047A	ESU	404,683
TRIO - Upward Bound	P047A121574-15	84.047A	ESU	35,041
TRIO - Upward Bound	P047M120160	84.047M	IUP	239,874
TRIO - Upward Bound	P047A070763-11	84.047	Lock Haven	212,171
Total TRIO - Upward Bound				2,311,871
TRIO - McNair Post-Baccalaureate Achievement	P217A120039	84.217A	IUP	240,212
Total TRIO Cluster				$ 5,009,748

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
U.S. Department of Agriculture				
Forestry Research	14-CS-11091900-017	10.652	Lock Haven	$ 696
National Fish and Wildlife Foundation	Not available	10.683	Lock Haven	5,000
Pass-Through IUP Research Institute:				
Soil and Water Conservation	68-7482-12-502	10.902	Indiana	21,194
Total U.S. Department of Agriculture				26,890
U.S. Department of the Interior				
Pass-Through IUP Research Institute:				
Migratory Bird Monitoring, Assessment and Conservation	#940A	15.655	Indiana	1,160
Natural Resource Stewardship	P11AC4-836/2	15.944	East Stroudsburg	698
Natural Resource Stewardship	P11AC4-836/3	15.944	East Stroudsburg	12,500
Natural Resource Stewardship	P11AC4-836/4	15.944	East Stroudsburg	5,041
Natural Resource Stewardship	H4560040069	15.944	East Stroudsburg	1,596
Total Natural Resource Stewardship				19,835
Pass-Through IUP Research Institute:				
Cooperative Research and Training Programs Resources of the National Park System	P11AC30805	15.945	Indiana	3,137
Total U.S. Department of the Interior				24,132
U.S. Department of Justice				
National Institute of Justice Research, Evaluation, and Development Project Grants	2014-R2-CX-K008	16.560	West Chester	103
Total U.S. Department of Justice				103

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
National Aeronautics and Space Administration				
Pass-Through Science Systems & Applications, Inc:				
Science	21101-12-022	43.001	Millersville	214,932
Science	21101-12-022	43.001	Millersville	7,107
Pass-Through Smithsonian Astrophysical Observatory:				
Science	AR3-14001A	43.001	West Chester	37,704
Total Science				259,743
Total National Aeronautics and Space Administration				259,743
National Science Foundation				
Engineering Grants	CMMI-1436444	47.041	Millersville	75,657
Mathematical and Physical Sciences	PHY-1313871	47.049	Kutztown	31,386
Mathematical and Physical Sciences	DMR-1206231	47.049	West Chester	50,821
Mathematical and Physical Sciences	DMR-1107667	47.049	Clarion	24,282
Total Mathematical and Physical Sciences				106,489
Geosciences	EAR-1220317/1358974	47.050	Indiana	7,441
Geosciences	OCE-1030430	47.050	Kutztown	6,967
Geosciences	AGS-1259020	47.050	Millersville	8,907
Geosciences	AGS-1359720	47.050	Millersville	183,398
Pass-Through IUP Research Institute:				
Geosciences	1325333	47.050	Indiana	18,313
Geosciences	PO:OL14077	47.050	Indiana	7,000
Geosciences	Not available	47.050	Indiana	752
Total Geosciences				232,778

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, 2015

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	26,953
Computer & Information Science & Engineering	IIS-1434919	47.070	Millersville	14,091
Computer & Information Science & Engineering	IIS-0968368	47.070	Millersville	16,322
Computer & Information Science & Engineering	IIS-1016900	47.070	Millersville	6,324
Total Computer and Information Science and Engineering				63,690
Biological Sciences	1457177	47.074	Millersville	5,549
Biological Sciences	DEB-1036505	47.074	Millersville	1,925
Biological Sciences	DEB-1406231	47.074	West Chester	62,371
Biological Sciences	IOS-1450588	47.074	West Chester	17,078
Total Biological Sciences				86,923
Social, Behavioral, and Economic Sciences	BCS-1231350	47.075	Slippery Rock	4,808
Pass-Through IUP Research Institute:				
Social, Behavioral, and Economic Sciences	BSC-1430754	47.075	Indiana	15,890
Total Social, Behavioral, and Economic Sciences				20,698
Education and Human Resources	HRD-1137523	47.076	Cheyney	270,139
Education and Human Resources	HRD-1408052	47.076	Cheyney	7,233
Education and Human Resources	DUE-1241663	47.076	Indiana	378,198
Education and Human Resources	DUE-1259860	47.076	Indiana	153,491
Education and Human Resources	DUE-1154006	47.076	Kutztown	117,485
Education and Human Resources	DUE-1458118	47.076	Kutztown	5,717
Education and Human Resources	DUE-0806660	47.076	Lock Haven	4,614
Education and Human Resources	DUE-1058829	47.076	Lock Haven	123,675
Education and Human Resources	DUE-1136359	47.076	Millersville	257,081
Education and Human Resources	1417527	47.076	Millersville	55,268
Education and Human Resources	DUE-0618678	47.076	Millersville	8,460
Education and Human Resources	DUE-0122954	47.076	Millersville	15,000
Education and Human Resources	1107082	47.076	Shippensburg	223,611
Education and Human Resources	1140299	47.076	Shippensburg	2,613
Education and Human Resources	1154203	47.076	Shippensburg	81,816
Education and Human Resources	1245937	47.076	Shippensburg	62,848
Education and Human Resources	0941777	47.076	Shippensburg	2,778
Education and Human Resources	DUE-1245013	47.076	West Chester	107,543

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, 2015

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	45,972
Pass-Through Ed Lab Group:				
Education and Human Resources	GSE-1153882	47.076	California	1,519
Pass-Through Bates College, Lewiston, ME:				
Education and Human Resources	DUE-1118600/2051-2037-02 ESUP	47.076	East Stroudsburg	4,648
Education and Human Resources	DUE-1118600/2051-2037-03 ESUP	47.076	East Stroudsburg	4,784
Pass-Through University of Central Florida:				
Education and Human Resources	DUE-1303732/UCF-61036046	47.076	Indiana	18,700
Pass-Through Hofstra University/Husky Research Corporation:				
Education and Human Resources	DRL-0821965	47.076	Bloomsburg	4,799
Pass-Through Drexel University:				
Education and Human Resources	HRD-0903924	47.076	Cheyney	9,072
Total Education and Human Resources				1,967,064
Pass Through Jefferson Community and Technical College:				
International Science and Engineering (OISE)	KDT-PS-621	47.079	California	24,779
Total National Science Foundation				2,578,078
Environmental Protection Agency				
Pass Through Board of Trustees of Western Michigan University:				
Science to Achieve Results (STAR) Research Program	83540901	66.509	West Chester	4,659
Total Environmental Protection Agency				4,659
U.S. Department of Health and Human Services				
Pass-Through IUP Research Institute:				
Environmental Health	R21-DA037380	93.113	Indiana	55,212
Drug Abuse and Addiction Research Programs	1R15DA035432-01A1	93.279	Bloomsburg	64,880

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through PA Department of Health:				
Environmental Public Health and Emergency Response	410059335	93.070	East Stroudsburg	5,491
Environmental Public Health and Emergency Response	4400013268-4300453838	93.070	East Stroudsburg	15,118
Total Environmental Public Health and Emergency Response				20,609
Pass-Through PA Department of Health:				
Prevention and Public Health Funding	4400013268-4300427901	93.757	East Stroudsburg	4,964
Pass-Through PA Department of Health:				
Assistance Programs for Chronic Disease Prevention and Control	4400013268-4300427901	93.945	East Stroudsburg	162,578
Total U.S. Department of Health and Human Services				308,243
U.S. Department of Defense				
Pass-Through University of Virginia:				
Basic and Applied Scientific Research	N00014-08-1-0642	12.300	West Chester	1,438
Basic and Applied Scientific Research	N00014-14-1-0533	12.300	West Chester	154,783
Pass-Through Lehigh University:				
Basic and Applied Scientific Research	542549-78004	12.300	Kutztown	15,816
Total Basic and Applied Scientific Research				172,037
Basic Scientific Research	W911NF-14-2-0098	12.431	West Chester	29,683
Mathematical Sciences Grants Program	H98230-13-1-0207	12.901	West Chester	7,419
Total U.S. Department of Defense				209,139
Total Research and Development Cluster				$ 3,410,987

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University		Federal Expenditures
U.S. Department of Agriculture					
Child and Adult Care Food Program	300214900	10.558	Shippensburg	$	62,090
Pass-Through PA Dept. of Education:					
Summer Food Service Program for Children	AUN: 300191200	10.559	Bloomsburg		4,353
Summer Food Service Program for Children	Not available	10.559	California		2,509
Summer Food Service Program for Children	Not available	10.559	California		1,548
Summer Food Service Program for Children	4-06-16-140-0	10.559	Clarion		4,015
Summer Food Service Program for Children	Not available	10.559	Lock Haven		2,464
Total Summer Food Service Program for Children					14,889
Pass-Through U.S. Forest Service:					
Forestry Research	Not available	10.652	Clarion		5,010
Pass-Through SBDC:					
Rural Business Enterprise Grants	Not available	10.769	Lock Haven		17,896
Total U.S. Department of Agriculture					99,885
U.S. Department of Commerce					
Pass-Through National Geographic Society:					
NOAA Mission-Related Education Awards	NA12SEC0080021.05	11.008	Shippensburg		10,752
Pass-Through University of Pennsylvania:					
Economic Development-Technical Assistance	561120-C	11.303	Lock Haven		24,592
Pass-Through University of Pennsylvania:					
Economic Adjustment Assistance	01-79-14227	11.307	Kutztown		36,540
Economic Adjustment Assistance	01-79-14227	11.307	Shippensburg		46,535
Total Economic Adjustment Assistance					83,075
Measurement and Engineering Research and Standards	70NANB14H163	11.609	Millersville		2,888
Science, Technology, Business and/or Education Outreach	70NANB15H113	11.620	Millersville		17,000
Total U.S. Department of Commerce					138,307

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
U.S. Department of Defense				
Procurement Technical Assistance For Business Firms	SP-4800-12-2-1334	12.002	California	32,657
Procurement Technical Assistance For Business Firms	SP-4800-12-2-1434	12.002	California	172,512
Procurement Technical Assistance For Business Firms	SP-4800-11-2-1335	12.002	Indiana	37,004
Procurement Technical Assistance For Business Firms	SP-4800-11-2-1435	12.002	Indiana	123,165
Pass-Through University of Pennsylvania PA SBDC:				
Procurement Technical Assistance For Business Firms	SP4800-12-2-1336	12.002	Kutztown	4,403
Procurement Technical Assistance For Business Firms	SP4800-12-2-1436	12.002	Kutztown	120,822
Total Procurement Technical Assistance for Business Firms				490,563
Total U.S. Department of Defense				490,563
U.S. Department of Housing and Urban Development				
Pass-Through PA Dept. of Health:				
Housing Opportunities for Persons with AIDS	4100062910	14.241	Clarion	206,625
Pass-Through City of Reading:				
Community Development Block Grants	B-14-MC-42-0013	14.218	Kutztown	58,362
Community Development Block Grants	B-15-MC-42003	14.218	Kutztown	37,999
Total Community Development Block Grants				96,361
Total U.S. Department of Housing and Urban Development				302,986
U.S. Department of the Interior				
Pass Through Commonwealth of Pennsylvania Fish and Boat Commission:				
State Wildlife Grants	T2-10-R1	15.634	California	15,032
Endangered Species - Candidate Conservation Action Funds	F14AP01014	15.660	Edinboro	18,286

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through National Fish and Wildlife Foundation:				
National Fish and Wildlife Foundation	0404.14.045171	15.663	California	4,509
Pass-Through California University of Pennsylvania:				
Assistance to State Water Resources Research Institutes	1314ES029-S4	15.805	Clarion	598
Pass-Through America View:				
National Land Remote Sensing - Education Outreach and Research	GI4AP00002	15.815	California	37,789
Total U.S. Department of the Interior				76,214
U.S. Department of Justice				
Pass-Through PA Commission on Crime and Delinquency:				
Juvenile Justice and Delinquency Prevention - Allocation to States	24946	16.540	Shippensburg	171,432
Juvenile Justice and Delinquency Prevention - Allocation to States	25661	16.540	Shippensburg	171,197
Total Juvenile Justice and Delinquency Prevention - Allocation to States				342,629
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	39,505
Edward Byrne Memorial Justice Assistance Grant Program	25847	16.738	Shippensburg	47,809
Edward Byrne Memorial Justice Assistance Grant Program	24971	16.738	Shippensburg	84,030
Pass-Through IUP Research Institute:				
Edward Byrne Memorial Justice Assistance Grant Program	2011-2013JG-06-25005	16.738	Indiana	6,054
Total Edward Byrne Memorial Justice Assistance Grant Program				137,893
Total U.S. Department of Justice				520,027

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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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
U.S. Department of Labor				
Pass-Through Central PA Workforce Development Corporation:				
H-1B Job Training Grants	Not available	17.268	Mansfield	13,464
Consultation Agreements	CS-26098-CS5	17.504	Indiana	1,297,061
Consultation Agreements	CS-24783-CS4	17.504	Indiana	554,527
Total Consultation Agreements				1,851,588
Mine Health and Safety Education and Training	IUP-14-018	17.602	Indiana	11,376
Total U.S. Department of Labor				1,876,428
U.S. Department of Transportation				
Highway Planning and Construction	Not available	20.205	Shippensburg	(33,111)
Pass-Through PA Department of Transportation:				
Highway Planning and Construction	360630	20.205	Cheyney	24,031
Total Highway Planning and Construction				(9,080)
State and Community Highway Safety	MOU-47116	20.600	Indiana	24,024
State and Community Highway Safety	470191 CTSP-2014	20.600	Indiana	84,813
Total State and Community Highway Safety				108,837
Total U.S. Department of Transportation				99,757
Appalachian Regional Commission				
Pass-Through Appalachian Regional Commission:				
Appalachian Area Development	PA-17659-13	23.002	East Stroudsburg	30,656
Total Appalachian Regional Commission				30,656

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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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
National Aeronautics & Space Administration				
Science	Z670701	43.001	Shippensburg	4,620
Pass-Through Pennsylvania State University:				
Science	NGT5-40064	43.001	Clarion	5,330
Total National Aeronautics & Space Administration				9,950
National Endowment for the Humanities				
Promotion of the Arts Grants to Organizations and Individuals	13-3800-7004	45.024	West Chester	8,562
Promotion of the Arts Grants to Organizations and Individuals	13-5900-7119	45.024	Millersville	7,908
Total Promotion of the Arts Grants to Organizations and Individuals				16,470
Promotion of the Arts Partnership Agreements	14-6100-2003	45.025	Millersville	2,720
Promotion of the Arts Partnership Agreements	26511	45.025	Millersville	2,000
Total Promotion of the Arts Partnership Agreements				4,720
Promotion of the Humanities - Professional Development	AQ-50496-11	45.163	Cheyney	1,360
Total National Endowment for the Humanities				22,550
U.S. Small Business Administration				
Small Business Development Centers	SBAHQ-09-I-0116	59.037	Lock Haven	17,585
Small Business Development Centers	SBAHQ-14-B-0055	59.037	Shippensburg	94,066
Small Business Development Centers	SBAHQ-15-B-0053	59.037	Shippensburg	12,454
Pass-Through The University of Pennsylvania:				
Small Business Development Centers	SBAHQ-14-B-0055	59.037	Kutztown	151,393
Small Business Development Centers	SBAHQ-15-B-0053	59.037	Kutztown	196,061
Small Business Development Centers	0-603001-Z-0040-30	59.037	Clarion	309,223
Small Business Development Centers	SBAHQ-14-B-0055 5629	59.037	Indiana	9,364
Small Business Development Centers	SBAHQ-14-B-0055	59.037	Indiana	54,580
Small Business Development Centers	5-62937-M	59.037	Lock Haven	53,982
Small Business Development Centers	Not available	59.037	Lock Haven	16,305
Small Business Development Centers	5-62937-M Amend 1	59.037	Lock Haven	6,831
Total Small Business Development Centers				921,844

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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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Growth Accelerator Fund Competition	Not Available	59.065	Kutztown	38,505
Total U.S. Small Business Administration				960,349
Department of Veterans Affairs				
VA Assistance to United States Paralympic Integrated Adaptive Sports Program	2015-ASG-47	64.034VA	Slippery Rock	16,820
Total Department of Veterans Affairs				16,820
Environmental Protection Agency				
Solid Waste Management Assistance Grants	96325601	66.808	West Chester	10,623
Total Environmental Protection Agency				10,623
Department of Energy				
Office of Science Financial Assistance Program	DE-SC0002013	81.049	Cheyney	6,456
Total Department of Energy				6,456
U.S. Department of Education				
Pass-Through PA Dept. of Education:				
Migrant Education - State Grant Program	017-13-0105	84.011	Millersville	519,632
Migrant Education - State Grant Program	017-14-0105	84.011	Millersville	1,362,356
Total Migrant Education - State Grant Program				1,881,988
Higher Education - Institutional Aid	P031B070075	84.031	Cheyney	1,431,027
Higher Education - Institutional Aid	P031B100095	84.031	Cheyney	544,560
Total Higher Education - Institutional Aid				1,975,587

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through PA Dept. of Education:				
Career and Technical Education - Basic Grants to States	381-10-0051	84.048	Clarion	64,681
Career and Technical Education - Basic Grants to States	119-14-4001	84.048	Indiana	16,647
Career and Technical Education - Basic Grants to States	119-15-0002	84.048	Indiana	1,120,751
Total Career and Technical Education - Basic Grants to States				1,202,079
Pass-Through IUP Research Institute:				
Fund for the Improvement of Postsecondary Education	P116110036	84.116J	Indiana	586
Pass-Through Connect Inc. through PA Department of Revenue:				
Twenty-First Century Community Learning Centers	Not Available	84.287	California	4,600
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K120303	84.325K	Slippery Rock	283,308
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325T090007-12	84.325T	California	48,652
Total Special Education - Personnel Development to Improve Services and Results for Children with Disabilities				331,960
Pass-Through University of Missouri:				
Special Education - Technology and Media Services for Individuals with Disabilities	H327A110069	84.327A	California	1,784
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Bloomsburg	5,887
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Shippensburg	5,892
Gaining Early Awareness and Readiness for Undergraduate Programs	P334S080005	84.334S	Office of the Chancellor	299,643
Gaining Early Awareness and Readiness for Undergraduate Programs	P334S140007	84.334S	Office of the Chancellor	357,369

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through Pennsylvania Higher Education				
Assistance Agency:				
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Indiana	7,147
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Lock Haven	3,364
Pass-Through School District of Lancaster:				
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Millersville	11,622
Total Gaining Early Awareness and Readiness for Undergraduate Programs				690,924
Childcare Access Means Parents in School	P335A100026	84.335A	Indiana	22,162
Childcare Access Means Parents in School	P335A130077	84.335A	Slippery Rock	14,695
Total Child Care Access Means Parents in School				36,857
English Language Acquisition Grants	T365Z120055	84.365	California	390,240
Improving Teacher Quality State Grants	071-130011	84.367	Bloomsburg	108,853
Improving Teacher Quality State Grants	071-130030	84.367	Bloomsburg	564,353
Improving Teacher Quality State Grants	09-PA12-SEED2012	84.367D	Edinboro	21,368
Pass-Through National Writing Project:				
Improving Teacher Quality State Grants	05-PA11-SEED2012	84.367	East Stroudsburg	867
Improving Teacher Quality State Grants	05-PA11-SEED2013	84.367	East Stroudsburg	762
Improving Teacher Quality State Grants	05-PA11-SEED2014	84.367	East Stroudsburg	842
Improving Teacher Quality State Grants	05-PA11-SEED2012/2	84.367D	East Stroudsburg	15,118
Improving Teacher Quality State Grants	Not available	84.367D	Mansfield	274
Improving Teacher Quality State Grants	92-PA05-SEED2012	85.367D	West Chester	22,136
Pass-Through University of Pittsburgh:				
Improving Teacher Quality State Grants	Not available	84.367	Mansfield	59,868
Total Improving Teacher Quality State Grants				794,441
Pass-Through Ohio State University:				
Investing in Innovation (i3) Fund - ARRA	60033091	84.411	Shippensburg	276,397
Total U.S. Department of Education				7,587,443

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
U.S. Department of Health and Human Services				
Nurse Anesthetist Traineeships	A22HP27117-01-00	93.124	Bloomsburg	15,701
Pass-Through Morehouse School of Medicine:				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	T1023447-03	93.243	Cheyney	6,933
Pass-Through Armstrong Indiana Clarion Drug and Alcohol Commission:				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	5H79SP019220	93.243	Indiana	3,031
Total Substance Abuse and Mental Health Services Projects of Regional and National Significance				9,964
Pass-Through Center for Disease Control:				
Occupational Safety and Health Program	2TO20H008622-05	93.262	Millersville	4,000
Pass-Through Department of Education:				
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Not available	93.283	Lock Haven	51
Advanced Nursing Education Traineeships	A10HP25176-03-01	93.358	Bloomsburg	339,370
Pass-Through PHEAA:				
Chafee Education and Training Vouchers Program (ETV)	Not available	93.599	Shippensburg	22,500
Head Start	03CH310641	93.600	Shippensburg	251
Head Start	03CH310642	93.600	Shippensburg	828,274
Head Start	03CH310643	93.600	Shippensburg	101,973
Total Head Start				930,498
Chafee Foster Care Independence Program	410047664	93.674	Bloomsburg	29,250
Pass-Through PHEAA:				
Chafee Foster Care Independence Program	Not available	93.674	Lock Haven	31,500
Total Chafee Foster Care Independence Program				60,750

The accompanying Notes are an integral part of this schedule.

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through University of Pittsburgh:				
Biomedical Research and Research Training	RGM103369	93.859	Slippery Rock	19,117
Pass-Through the Commonwealth Medical College:				
Grants for Training in Primary Care Medicine and Dentistry	1T85HP24464-02-00	93.884	East Stroudsburg	1,071
Grants for Training in Primary Care Medicine and Dentistry	1T85HP24464-03-00	93.884	East Stroudsburg	54,490
Total Grants for Training in Primary Care Medicine and Dentistry				55,561
Pass-Through PA Department of Health:				
HIV Care Formula Grants	4100062910	93.917	Clarion	836,008
Pass-Through Health Resource Services:				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	H97HA19769	93.918	Clarion	341,747
Total U.S. Department of Health and Human Services				2,635,267
U.S. Department of Homeland Security				
Pass-Through PA Emergency Management Agency (PEMA):				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-4030-DR-PA-000-U287K-00	97.036	Bloomsburg	5,184
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-4030-DR-PA-000-U287K-00 (PW) #1177	97.036	Bloomsburg	23,789
Total Disaster Grants - Public Assistance (Presidentially Declared Disasters				28,973
Pass-Through PA Emergency Management Agency (PEMA):				
Pre-Disaster Mitigation	PDMC-PL-03 PA-2012	97.047	Office of the Chancellor	464,876
Total U.S. Department of Homeland Security				493,849

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, 2015

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Other				
Pass-Through PA. Dept. of Environmental Protection through Pennsylvania Department of Transportation: Wetland Mitigation Project	M125532000	99.999	California	26,807
Pass-Through The Pennsylvania State University PA Space Consortium	NNX10AK74H	99.999	California	5,371
Teaching with Primary Sources	GAO7C0061	99.999	California	152,009
Pass-Through Defense Logistics Agency	SPA5900-14-2-1434	99.999	Slippery Rock	15,000
Pass-Through PA. Dept. of Education Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School Based Surveillance	PS-13-1308	99.999	West Chester	11,000
Other Department of Agriculture Programs - Joint Venture Agreement, USDA, Forest Service Northern Research Station	095	99.999	West Chester	3,469
Other Department of Agriculture Programs - Joint Venture Agreement, USDA, Forest Service Northern Research Station	13-JV-11242304-033	99.999	West Chester	1,649
Pass-Through The Pennsylvania State University NASA Awards	NNX10AK74H	99.999	West Chester	12,653
Total Other				227,958
TOTAL				$ 15,606,088

The accompanying Notes are an integral part of this schedule.

(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, 2015. 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.

(3) STUDENT FINANCIAL ASSISTANCE

The following table shows certain information concerning student financial assistance programs detailed by University for the year ended June 30, 2015:

University	Federal Pell	Federal Supplemental Educational Opportunity Grant	Federal Work Study	Teacher Education Assistance For College And Higher Education Grant
Bloomsburg	$ 13,138,152	$ 209,018	$ 653,421	$ -
California	10,286,470	292,694	449,809	44,595
Cheyney	3,583,536	390,184	160,482	5,562
Clarion	8,265,141	131,036	236,339	3,964
East Stroudsburg	9,500,029	220,189	275,874	-
Edinboro	11,463,115	183,149	327,311	203,866
Indiana	19,866,047	736,991	1,426,757	-
Kutztown	12,503,463	186,500	269,838	-
Lock Haven	7,994,613	133,959	186,609	33,310
Mansfield	4,947,128	91,245	135,958	29,237
Millersville	10,248,175	171,596	213,443	-
Shippensburg	8,276,715	137,362	184,232	17,071
Slippery Rock	10,483,423	183,746	318,203	19,676
West Chester	15,168,425	250,099	318,839	96,143
	$ 145,724,432	$ 3,317,768	$ 5,157,115	$ 453,424

The above amounts awarded to students include certain administrative allowances.

(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, 2015 are as follows:

University	Federal Perkins Loans Awarded	Nursing Student Loans Awarded	Federal Direct Loans Awarded
Bloomsburg	$ 98,000	$ -	$ 64,027,513
California	315,000	-	62,384,992
Cheyney	-	-	8,775,263
Clarion	113,197	-	38,806,307
East Stroudsburg	406,613	-	45,027,104
Edinboro	288,462	46,200	51,682,488
Indiana	1,410,324	-	101,990,187
Kutztown	1,066,501	-	62,909,752
Lock Haven	24,709	-	38,308,110
Mansfield	272,641	-	19,032,564
Millersville	242,705	-	49,579,707
Shippensburg	469,328	-	45,973,006
Slippery Rock	725,606	-	59,632,712
West Chester	1,687,277	72,358	95,197,038
	$ 7,120,363	$ 118,558	$ 743,326,743

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.

(3) STUDENT FINANCIAL ASSISTANCE (CONTINUED)

Outstanding loans and administrative allowances under the programs administered by the State System for the year ended June 30, 2015 are as follows:

University	Federal Perkins Loans Outstanding	Nursing Student Loans Outstanding
Bloomsburg	$ 1,711,827	$ -
California	2,572,588	-
Cheyney	-	-
Clarion	571,762	-
East Stroudsburg	2,262,495	-
Edinboro	2,116,337	207,482
Indiana	8,131,245	-
Kutztown	3,728,446	-
Lock Haven	1,101,713	-
Mansfield	1,729,842	-
Millersville	1,476,082	-
Shippensburg	2,664,151	-
Slippery Rock	4,193,575	-
West Chester	8,805,351	265,928
	$ 41,065,414	$ 473,410

(4) MAJOR PROGRAMS

Major programs are identified on the schedule of findings and questioned costs and totaled approximately $949,557,308, which is over 99% of total expenditures of federal awards for the year ended June 30, 2015. This amount includes loans administered under the Federal Direct Loan Program during the year ended June 30, 2015 and loans outstanding as of June 30, 2015 under the Federal Perkins Loan Program and the Nursing Student Loan Program.

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
Consultation Agreements	17.504
Higher Education Institutional Aid	84.031
Career and Technical Education – Basic Grants to States	84.048

Dollar threshold used to distinguish between type A and type B programs: $720,805

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

II. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

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

CURRENT YEAR

2015-001 – Student Financial Assistance Cluster – Special Tests and Provisions – Enrollment Reporting:
All System Universities

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 student financial aid testing, it was noted that the National Student Loan Data Systems (NSLDS) rosters returned yielded error reports that were not corrected and resubmitted within the required 10 days.

This issue occurred at many colleges and universities in the United States during the 2014-2015 school year, attributable to a processing error on the NSLDS website. However, it is possible for universities to create an Enrollment Reporting Summary Report after reporting student status changes on NSLDS, which would have detected these types of errors.

Criteria:
Federal regulation requires enrollment status for each student be reported accurately to NSLDS. In addition, regulations require that an institution make necessary corrections and return the records within 10 days for any roster files that do not pass the NSLDS enrollment reporting edits.

Questioned Costs:
None.

Cause:
Records were not returned within 10 days for roster files that did not pass the NSLDS enrollment reporting edits.

Possible Asserted Effect:
The System Universities did not update student enrollment statuses correctly or timely to NSLDS.

Auditors' Recommendation:
We recommend that the System Universities put a process in place to ensure determination of all students who withdraw, graduate, or have a change in status are accurately and timely reported to NSLDS.

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

2015-002 – Student Financial Assistance Cluster – Eligibility – Title IV Credit Balances:
Cheyney University

CFDA:
84.007 – Federal Supplemental Education Opportunity Grants
84.033 – Federal Work Study Program
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 student financial aid testing, it was noted that 10 of the 25 students tested with credit balances created by Title IV funding were not refunded to the students within 14 days of the credit balance being created. The University did not receive approval from the students to hold funds and did not pay out the credit balance in the allowed timeframe.

Criteria:
In accordance with 34 CFR 668.164(e), federal regulation requires credit balances created on student accounts by Title IV aid to be refunded within 14 days of the creation of the credit balance.

Questioned Costs:
None.

Cause:
The University did not review student accounts on a timely basis to ensure Title IV created credit balances were refunded within the 14 day timeframe.

Possible Asserted Effect:
The University failed to refund the students their Title IV aid in excess of the institutional costs within the required timeframe of 14 days.

Auditors' Recommendation:
We recommend that the University's staff continuously monitor student accounts when Title IV disbursements are made to ensure that credit balances are refunded to the student within 14 days of the creation of the credit balance. The University should review the policies and procedures in place to ensure Title IV credit balances are identified and returned timely, or written authorization is obtained from students and kept on file for students who do not wish to receive a refund.

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

2015-003 – Student Financial Assistance Cluster – College Work Study – Community Service Requirement:
Cheyney University

CFDA:
84.033 – Federal Work Study Program

Condition and Context:
During our student financial aid testing, it was noted that the University did not met the community service requirement nor receive a waiver for the award year documenting that the University is exempted from such requirement.

Criteria:
In accordance with 34 CFR 675.18(g), federal regulation requires Universities receiving and disbursing Federal Work Study funding to disburse at least 7% of the funding for community service work. In some cases, a University may apply for and receive a waiver exempting them from this requirement.

Questioned Costs:
None.

Cause:
Due to significant turnover in management at the University, the University failed to apply for and obtain a Federal Work Study Community Service requirement waiver for the 2014-15 award year.

Possible Asserted Effect:
The University failed to meet the requirements of the Federal Work Study funding that it received and disbursed during the award year.

Auditors' Recommendation:
We recommend that the University review the compliance requirements of all the Title IV funding it is receiving, and ensure procedures are in place to meet the necessary requirements.

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

2015-004 – 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) Reporting system, we noted 3 of the 37 Pell and Direct Loan disbursements tested were not reported to COD within the required 15 days of the disbursement.

Criteria:
Federal regulation requires institutions of higher education to report Pell and Direct Loan disbursement amounts and dates to the Common Origination and Disbursement (COD) Reporting system within 15 days of the disbursement to the student accounts.

Questioned Costs:
None.

Cause:
The University's controls surrounding timely Common Origination and Disbursement (COD) reporting did not ensure accurate reporting within the 15 day requirement.

Possible Asserted Effect:
The University is not in compliance with the Title IV aid requirement and not in agreement with the Common Origination and Disbursement (COD) Reporting system.

Auditors' Recommendation:
We recommend that the University implement policies and procedures to ensure that disbursement data is submitted to the Common Origination and Disbursement (COD) Reporting system as disbursements are made to student accounts to create a parallel reporting environment.

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

2015-005 – Student Financial Assistance Cluster – Eligibility – Exit Counseling:
Cheyney University

CFDA:
84.268 – Federal Direct Student Loans

Condition and Context:
During our student financial aid testing, it was noted that a student who received Federal Direct Loan Title IV funding from the University, and subsequently withdrew from the University, did not receive notification for and/or complete required exit counseling procedures. CLA noted that of the 25 students tested, exit counseling was required for 3 students, and of those 3 students, 1 student did not receive the proper exit counseling procedures.

Criteria:
In accordance with 34 CFR 685.304, federal regulation requires all student who receive Federal Direct Student Loans and certain other Title IV funding to complete entrance counseling prior to receiving the funding, and exit counseling once the aid recipient has either withdrawn or graduated from the University.

Questioned Costs:
None.

Cause:
The University failed to identify the student as a Federal Direct Loan recipient who had withdrawn from the University. As a result, exit counseling wasn't determined to be required for the student, when in fact it was a requirement.

Possible Asserted Effect:
The University is not in compliance with the Title IV aid requirement and the student did not receive the proper counseling on the aid received at the University.

Auditors' Recommendation:
We recommend that the University review their policies and procedures to ensure that all students are provided the necessary exit counseling after leaving the University, and ensure that the process is properly documented.

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

2015-006 – Student Financial Assistance Cluster – Special Tests and Provisions – Outstanding Student Refund Checks

Cheyney University

CFDA:
84.007 – Federal Supplemental Education Opportunity Grants
84.033 – Federal Work Study Program
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 student financial aid testing, it was noted that over 400 student refund checks were outstanding for greater than 240 days. It was determined that many of these checks were related to Title IV federal funding.

Criteria:
In accordance with 34 CFR 668.164, federal regulation requires all student refund checks related to Title IV federal funding outstanding for greater than 240 days be returned to the Department of Education.

Questioned Costs:
Unknown.

Cause:
The University failed to turn over to the Department of Education any student refund checks related to Title IV federal funding outstanding for greater than 240 day. However, the University has been involved in an on-going program review by the Department of Education over the past year. As a result, the University has stopped collection procedures and stopped turning checks over to the Department of Education until a final determination is reached by the Department of Education.

Possible Asserted Effect:
The University is not in compliance with the requirement that all Title IV related student refund checks outstanding for greater than 240 days must be turned over to the Department of Education.

Auditors' Recommendation:
We recommend that the University review their policies and procedures related to outstanding Title IV student refund checks to ensure they are being properly returned to the Department of Education prior to being 240 days outstanding. Also, we recommend that the University go through every outstanding check, determine those related to Title IV funds, and return those funds to the Department of Education.

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

2015-007 – Student Financial Assistance Cluster – Eligibility – Loan Disbursements:
Cheyney University

CFDA:
84.268 – Federal Direct Student Loans

Condition and Context:
During our student financial aid testing, it was noted that 1 out of 25 students tested was awarded $8,457 in Unsubsidized Direct Loan funding for the award year was actually disbursed $10,141 in Unsubsidized Direct Loan funding during the award year, which was received in their student account.

Criteria:
This is an error in Federal aid disbursement, which CLA noted did not result in further noncompliance related to loan limits for the award year, and in the aggregate.

Questioned Costs:
Known questioned costs of $1,684

Cause:
The University failed to review and correctly disburse the student's awarded aid during the Title IV aid disbursement procedures.

Possible Asserted Effect:
The University erroneously disbursed Federal aid in excess of the awarded amount, which CLA noted did not result in noncompliance with loan limits.

Auditors' Recommendation:
We recommend that the University review their policies and procedures to ensure that disbursement amounts are in agreement with awarded totals that have been accepted by the student and/or parent.

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

2015-008 – Student Financial Assistance Cluster – Return of Title IV:
Cheyney University

CFDA:
84.063 – Federal Pell Grant Program
84.268 – Federal Direct Student Loans

Condition and Context:
During our student financial aid testing, it was noted that a return of Title IV funds was not made to the U.S. Department of Education within the required timeframe for one out of four students selected for testing.

Criteria:
In accordance with 34 CFR 668.22(J)(1), an institution must return unearned funds for which it is responsible as soon as possible but no later than 45 days from the determination of a student's withdrawal.

Questioned Costs:
N/A

Cause:
The University did not have a process in place to ensure return of Title IV funds within the 45 day timeframe.

Possible Asserted Effect:
Refunds of Title IV funds were not made to the U.S. Department of Education on a timely basis.

Auditors' Recommendation:
We recommend that the University review its existing procedures surrounding the process for Title IV refunds to ensure refunds are made on a timely basis and within prescribed timeframes.

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

2015-009 – Student Financial Assistance Cluster – Return of Title IV – Institution's Determination Student Withdrew:
Cheyney University

CFDA:
84.007 – Federal Supplemental Education Opportunity Grants
84.033 – Federal Work Study Program
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 student financial aid, four out of a sample of four students were noted in which the date of the University's determination of withdrawal was not within 14 days of the student's last date of attendance.

Criteria:
In accordance with 34 CFR 668.22(b)(1) and 668.22(j), institutions that are required to take attendance are expected to have a procedure in place for routinely monitoring attendance records to determine in a timely manner when a student withdraws. Except in unusual instances, the date of the institutions' determination that the student withdrew should be no later than 14 days after the student's last date of attendance as determined by the institution from its attendance records.

Questioned Costs:
N/A

Cause:
The University did not have a process in place to determine the date of a student's withdrawal within 14 days of the last date of attendance.

Possible Asserted Effect:
Return of title IV calculations was not performed on a timely basis.

Auditors' Recommendation:
We recommend that the University ensure a process is put into place to monitor student attendance and ensure students are withdrawn and calculations are performed in a timely fashion.

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

2015-010 – Student Financial Assistance Cluster – Return of Title IV – Withdrawal Dates:
Cheyney University

CFDA:
84.063 – Federal Pell Grant Program
84.268 – Federal Direct Student Loans

Condition and Context:
During our testing of student financial aid, one out of a sample of four students were noted in which the date of withdrawal utilized by the University in the return of Title IV funds calculation did not agree to supporting documentation.

Criteria:
In accordance with 34 CFR 668.22(b)(1)(2), for a student who ceases attendance at an institution that is required to take attendance, the student's withdrawal date is the last date of academic attendance as determined by the institution from its attendance records. An institution must document a student's withdrawal date and maintain documentation as of the date of the institution's determination that the student withdrew.

Questioned Costs:
Known questioned costs of $554.

Cause:
The date used in the return of Title IV funds calculation was not the last date of academic attendance as determined by the University's attendance records. The University did not maintain other documentation to support the alternate withdrawal date utilized in the calculation.

Possible Asserted Effect:
Amount of funds to be returned were not correctly calculated based off the student's date of withdrawal from the University.

Auditors' Recommendation:
We recommend that the University ensure a process is put into place to monitor student attendance and ensure withdrawal dates utilized in return of Title IV calculations are properly supported.

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

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.

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (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	8,790,760
Total	$ 13,429,025

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.

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

Views of Responsible Officials and Planned Corrective Action:
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.

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-today 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.

Status: CLA was able to test Cheyney's Student Financial Assistance awards for fiscal year 2015. See items 2015-001 through 2015-010 for the current year findings and questioned costs.

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

Views of Responsible Officials and Planned Corrective Action:
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.

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

Views of Responsible Officials and Planned Corrective Action: (Continued)
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.

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.

Status:
No issues noted at Lock Haven University in 2015.

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

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

Views of Responsible Officials and Planned Corrective Action:

According to our Return to Title IV Policy, "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 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.

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.

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.

Status:

Condition still existed at East Stroudsburg University in 2015. CLA reviewed screenshots from East Stroudsburg's Banner system for the term start/end and excluded break days used to perform the R2T4 calculations during the fall 2014 and spring 2015 terms. CLA compared the dates input in Banner to the University's academic calendar and noted that the excluded days for the Thanksgiving break were input incorrectly. As such, all calculations performed by the Banner system for the fall 2014 term were deemed to be inaccurate.

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

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

Views of Responsible Officials and Planned Corrective Action:
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.

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.

Status:
No issues noted at Edinboro University in 2015.

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

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

Views of Responsible Officials and Planned Corrective Action:
The University reviewed the R2T4 requirements and implemented procedures to ensure award adjustments are properly processed. All R2T 4 adjustments are now verified by an Assistant Director to ensure that student awards are properly adjusted based on calculations performed.

Status:
No issues noted at West Chester University in 2015.

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

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

Views of Responsible Officials and Planned Corrective Action:
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.

Status:
No issues noted at Clarion University in 2015.

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.

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

Views of Responsible Officials and Planned Corrective Action:
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 offcampus 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.

Status:
No issues noted at Lock Haven University in 2015.

APPENDIX A

Pennsylvania's
STATE SYSTEM
of Higher Education

OFFICE OF THE CHANCELLOR

Pennsylvania's State System of Higher Education respectfully submits the following corrective action plan to the schedule of findings and questioned costs for the year ended June 30, 2015.

2015-001—Student Financial Assistance Cluster—Special Tests and Provisions—Enrollment Reporting
All System Universities

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: None.

Actions planned in response to finding: The State System universities will periodically review the Enrollment Reporting Summary Report and determine if errors were corrected within ten days.

Responsible party: Various university officials as designated by each State System university.

Planned completion date: The corrective action plan was instituted in March 2016.

Plan to monitor completion of corrective action plan: Each university will follow up with NSC to monitor its resolution of its data transmission problems and ensure that errors are timely corrected as they arise.

Annette K. Mathes

Annette K. Mathes
Controller
March 22, 2016

CHEYNEY
UNIVERSITY

Cheyney University of Pennsylvania
Financial Aid Office
1837 University Circle
Cheyney, PA 19319-0200
610-399-2156 – *Office*

Cheyney University
Corrective Action Plan

March 20, 2016

Cheyney University respectfully submits the following corrective action plan to the schedule of findings and questioned costs for the year ended June 30, 2015.

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

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

2015-002 – Student Financial Assistance Cluster – Eligibility – Title IV Credit Balances

Finding:
The University did not review student accounts on a timely basis to ensure Title IV created credit balances were refunded within the 14 day timeframe.

Auditors' Recommendation:
We recommend that the University's staff should continuously monitor student accounts when Title IV disbursements are made to ensure that credit balances are refunded to the student within 14 days of the creation of the credit balance. The University should review the policies and procedures in place to ensure Title IV credit balances are identified and returned timely, or written authorization is obtained from students and kept on file for students who do not wish to receive a refund.

Corrective Action Plan:
Cheyney University understands the requirement to provide for students Title IV refunds within 14 days of disbursement. The current business practices have been reviewed and refined to ensure that effective fall 2015 refunds are being monitored and delivered within the 14 day window unless a written authorization to retain the funds is in place.

2015-003 - Student Financial Assistance Cluster – College Work Study – Community Service Requirement

Finding:
Due to significant turnover in management at the University, the University failed to apply for

and obtain a Federal Work Study Community Service requirement waiver for the 2014-15 award year.

Auditors' Recommendation:
We recommend that the University reviews the compliance requirements of all the Title IV funding it is receiving, and ensure procedures are in place to meet the necessary requirements.

Corrective Action Plan:
Under new leadership the University submitted and received the Federal Work Study Community Service requirement waiver for the 2015-16 award year. A copy of the approval attached.

2015-004 – Student Financial Assistance Cluster – Special Tests and Provisions – Common Origination and Disbursement (COD) Reporting

Finding:
The University's controls surrounding timely Common Origination and Disbursement (COD) reporting did not ensure accurate reporting within the 15 day requirement.

Auditors' Recommendation:
We recommend that the University should implement policies and procedures to ensure that disbursement data is submitted to the Common Origination and Disbursement (COD) Reporting system as disbursements are made to student accounts to create a parallel reporting environment.

Corrective Action Plan:
During the early processing period of COD exported files for 2014-15 it was discovered that the PowerFAIDS batch file wizard was using the anticipated (scheduled) dates for the disbursements rather than actual. After that discovery late into the fall 2014 term changes were made to the disbursement date so that the actual disbursement dates were used in the file exported to COD. This has been the process since that period and will continue into the future to ensure accuracy of the actual disbursement dates.

2015-005 – Student Financial Assistance Cluster – Eligibility – Exit Counseling

Finding:
The University failed to identify the student as a Federal Direct Loan recipient who had withdrawn from the University. As a result, exit counseling wasn't determined to be required for the student, when in fact it was a requirement.

Auditors' Recommendation:
We recommend that the University review their policies and procedures to ensure that all students are provided the necessary exit counseling after leaving the University, and ensure that the process is properly documented.

Corrective Action Plan:
Since the 2014-2015 aid year the University has implemented a process that generates a report during the term to periodically identify students that officially withdraw. In addition to that Financial Aid is also included on the official withdrawal form as well as an anticipated

graduation list. These reports allow us in a timely way to determine students that need communication on the need to participate in exit counseling.

2015-006 – Student Financial Assistance Cluster – Special Tests and Provisions – Outstanding Student Refund Checks

Finding:
The University failed to turn over to the Department of Education any student refund checks related to Title IV federal funding outstanding for greater than 240 day. However, the University has been involved in an on-going program review by the Department of Education over the past year. As a result, the University has stopped collection procedures and stopped turning checks over to the Department of Education until a final determination is reached by the Department of Education.

Auditors' Recommendation:
We recommend that the University review their policies and procedures related to outstanding Title IV student refund checks to ensure they are being properly returned to the Department of Education prior to being 240 days outstanding. Also, we recommend that the University go through every outstanding check, determine those related to Title IV funds, and return those funds to the Department of Education.

Corrective Action Plan:
The University will review the outstanding Title IV refund checks to determine the source of the funds and will ensure they are properly returned to the Department of Education. Additionally, Cheyney University will create a process to monitor outstanding refund checks in a timely manner in order to remind students to negotiate their refund checks. If the checks are not negotiated successfully by the students, the dollars will be refunded to the appropriate Title IV fund account within the required 240 day period.

2015-007 - Student Financial Assistance Cluster – Eligibility – Loan Disbursements

Finding:
The University failed to review and correctly disburse the student's awarded aid during the Title IV aid disbursement procedures.

Auditors' Recommendation:
We recommend that the University review their policies and procedures to ensure that disbursement amounts are in agreement with awarded totals that have been accepted by the student and/or parent.

Corrective Action Plan:
The student is entitled to the full $10,141 which was disbursed to their student account for the fall 2014 semester. As you are aware COD reflects $8,457 as the award value. The increased amount of $1,684 should have been submitted to COD. It has now been submitted but will remain pending due to Cheyney's HCM2 reimbursement status. The Department of Education has to review all of the COD pending files and approve them before they are accepted.

2015-008 – Student Financial Assistance Cluster – Return of Title IV

Finding:
The University did not have a process in place to ensure return of Title IV funds within the 45 day timeframe.

Auditors' Recommendation:
We recommend that the University review its existing procedures surrounding the process for Title IV refunds to ensure refunds are made on a timely basis and within prescribed timeframes.

Corrective Action Plan:
The process now includes a procedure to ensure that the LDA (last date of attendance) is consistent with the actual withdrawal dates on the withdrawal form as well as the dates in Power Campus (Admissions, Records and Bursar) and PowerFAIDS (Financial Aid). This will ensure accuracy and timeliness of our Return to Title IV calculations.

2015 – 009 – Student Financial Assistance Cluster – Return of Title IV – Institution's Determination of Student Withdrew

Finding:
The University did not have a process in place to determine the date of a student's withdrawal within 14 days of the last date of attendance.

Auditors' Recommendation:
We recommend that the University ensure a process is put into place to monitor student attendance and ensure students are withdrawn and calculations are performed in a timely fashion.

Corrective Action Plan:
Cheyney University created a process where reports were run every week which identified students who were no longer showing as attending their classes since they took attendance throughout the term. Additionally, the University added the Financial Aid Office to the official withdrawal form so that the office would be appropriately notified of official withdrawals. The class attendance policy was eliminated for the spring 2016 term. Attendance was taken up through the census date ensuring no-show students were removed from the class and that students began attending classes. The withdrawal process will now be utilized for students who officially withdraw from the institution. Unofficial withdrawals will be identified at the end of the semester when all "F" graded students are reviewed to determine if they were earned grades.

2015-010 – Student Financial Assistance Cluster – Return of Title IV – Withdrawal Dates

Finding:
The date used in the return of Title IV funds calculation was not the last date of academic attendance as determined by the University's attendance records. The University did not maintain other documentation to support the alternate withdrawal date utilized in the calculation.

Auditors' Recommendation:

We recommend that the University ensure a process is put into place to monitor student attendance and ensure withdrawal dates utilized in return of Title IV calculations are properly supported.

Corrective Action Plan:

As stated in the prior finding on Student Financial Assistance Cluster – Return of Title IV**:** , the process now includes a procedure to ensure that the LDA (last date of attendance) is consistent with the actual withdrawal dates on the withdrawal form as well as the dates in Power Campus (Admissions, Records and Bursar) as well as PowerFAIDS (Financial Aid). This will ensure accuracy and timeliness of our Return to Title IV calculations.

Respectfully submitted,

Georgia K Prell

Georgia K. Prell
Chief Operating Officer
Cheyney University of Pennsylvania

START HERE
GO FURTHER
FEDERAL STUDENT AID

May 13, 2015

Georgia Prell
Cheyney University of Pennsylvania (00331700)
1837 University Circle
Cheyney, PA 19319-0200

Dear Georgia Prell:

Each school that participates in the Federal Work-Study (FWS) Program is required to expend at least seven percent of its total FWS Federal allocation to compensate students employed in community service activities. Also, in meeting that seven percent community service expenditure requirement, one or more of the school's FWS students must be employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project.

We have evaluated your school's request for a waiver of one or both of the FWS community service expenditure requirements for the 2015-2016 Award Year. Our decision regarding your school's request is as follows:

7% Community Service Requirement	Approved	04/22/2015
Reading Tutoring or Family Literacy Project	Did not apply	

We appreciate your school's participation in the FWS Program and your endeavors to meet the community service requirement in the future.

Sincerely,

Sue O'Flaherty

Sue O'Flaherty
Service Director
Program Management
Federal Student Aid

Pennsylvania's State System of Higher Education
Office of the Chancellor
Dixon University Center
2986 North Second Street
Harrisburg, PA 17110

717-720-4000 ★ www.passhe.edu