

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION

COMMONWEALTH OF PENNSYLVANIA

SINGLE AUDIT REPORTING PACKAGE

YEAR ENDED JUNE 30, 2013

SECTION I

Financial Statements for the Year Ended June 30, 2013

SECTION II

Single Audit Report for the Year Ended June 30, 2013



FINANCIAL STATEMENTS

JUNE 30, 2013

UNIVERSITIES OF THE PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION

BLOOMSBURG ★ CALIFORNIA ★ CHEYNEY ★ CLARION ★ EAST STROUDSBURG ★ EDINBORO ★ INDIANA ★ KUTZTOWN
LOCK HAVEN ★ MANSFIELD ★ MILLERSVILLE ★ SHIPPENSBURG ★ SLIPPERY ROCK ★ WEST CHESTER

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
FINANCIAL STATEMENTS
JUNE 30, 2013**

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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 ("PASSHE"), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise PASSHE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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

Opinions

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 PASSHE as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 3-11 and the required supplementary information on page 34 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 Information

The financial statements of PASSHE as of June 30, 2012, were audited by other auditors whose report dated September 26, 2012, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013, on our consideration of PASSHE'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 PASSHE's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
September 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

As the public universities of the Commonwealth of Pennsylvania (Commonwealth), the 14 universities of the Pennsylvania State System of Higher Education (PASSHE) are charged with providing high quality education at the lowest possible cost to the students. With over 114,000 students enrolled, PASSHE is the state's largest higher education provider. Its 14 universities offer the lowest-cost four-year baccalaureate degree programs in the state in more than 120 areas of study. The universities function independently, but being part of PASSHE enables them to share resources and benefit from economies of scale. Following is an overview of PASSHE's financial activities for the year ended June 30, 2013, as compared to the year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- In fiscal year 2012/13, PASSHE received \$412.8 million in General Fund **appropriations** from the Commonwealth, the same amount as received in fiscal year 2011/12. This is 11.3% less than the General Fund appropriations received in fiscal year 2010/11 and the same level of funding PASSHE received in fiscal year 1997/98—fifteen years ago.
- PASSHE received an \$11.7 million Realty Transfer Tax allocation from the Commonwealth's **Key '93** (Keystone Recreation, Park and Conservation) Fund, an increase of \$4.9 million, or 71%, from fiscal year 2011/12. 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.
- PASSHE 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 PASSHE was \$130 million each year, PASSHE 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 portion of capital appropriations reflected in these statements, representing the furnishings and equipment for the Commonwealth-funded construction projects, totals \$14.8 million and \$9.7 million in fiscal years 2012/13 and 2011/12, 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, PASSHE's Board of Governors (Board) allocated \$36.6 million of PASSHE's appropriations for **performance funding** in fiscal year 2012/13, approximately 2% more than the \$35.9 million allocated in fiscal year 2011/12. Performance funding allocated in fiscal year 2010/11 was \$35.6 million.
- After 14 years of record growth, PASSHE has experienced an **enrollment decline** in fiscal year 2012/13 for the second year in a row. Fall 2012 enrollment was 114,471, a decrease of 3,753 students, or 3.2%, from fall 2011. Fall 2011 enrollment was 118,224, a decrease of 1,289 students, or 1.1%, from the fall 2010 record enrollment of 119,513. Despite these two years of decline, PASSHE's fall enrollment has increased 40% since fall of 1983, which was PASSHE's first year of operation as a System.
- Of the 114,471 **students** in the fall 2012 enrollment, 97,823 (85%) were full-time and 16,648 (15%) were part-time students; 100,350 (88%) were undergraduate and 14,121 (12%) were graduate students.

- In academic year 2011/12, PASSHE awarded 25,560 **degrees**, comprising 19,439 bachelor's degrees; 5,467 master's degrees; 206 doctoral degrees; and 448 associate's degrees. This compares to 24,672 degrees awarded in academic year 2010/11 and 24,168 degrees awarded in academic year 2009/10.
- The Board approved a **tuition rate increase** of \$188 (3%) for undergraduate resident students in fiscal year 2012/13. This compares to an increase of \$436 (7.5%) in fiscal year 2011/12, primarily due to the reduction in state appropriations. PASSHE's 2012/13 annual tuition rate of \$6,428 for full-time, resident, undergraduate students is the lowest of four-year baccalaureate degree programs in the state.
- **Mandatory student fees** set by the universities increased, on average, by 3.8%. These increases, combined with the reduction in enrollment, resulted in tuition and mandatory fee revenue (before discounts) of \$1.02 billion, a slight increase over fiscal year 2011/12. This compares to an average student fee increase of 9.4% in fiscal year 2011/12 over the prior year.
- The most common **room and board fees** (included in auxiliary enterprises) set by the universities increased 4.8% and 1.1%, respectively, resulting in revenue of \$266.5 million, an increase of \$19.6 million, or 7.9%, over fiscal year 2011/12. This compares to a fiscal year 2011/12 increase of 4.7% in room fees and 1.4% in board fees over the prior fiscal year.
- PASSHE's **average cost of attendance** (tuition, mandatory fees, room, and board) of \$17,051 in 2012/13 was \$809 below the average among all four-year public universities in the United States and \$2,503 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.
- PASSHE purchased \$139.3 million in **capital assets** in fiscal year 2012/13, including \$106.8 million to build or improve academic and auxiliary facilities across all 14 universities.
- During fiscal year 2012/13, \$41.9 million of bond principal and \$45.5 million of interest was paid, bringing the total outstanding **bond debt** to \$899.8 million at June 30, 2013. PASSHE issued no new bonds in fiscal year 2012/13.

THE FINANCIAL STATEMENTS

The *Balance Sheet* reports the balances of the assets, liabilities, and net position of PASSHE as of the end of the fiscal year. (**The term "net position" was formerly referred to as "net assets."** The Governmental Accounting Standards Board, or GASB, changed the terminology to net position effective for the year ending June 30, 2013.) 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. Liabilities include payments due to vendors and students; the balance of bonds payable; and liabilities such as workers' compensation (PASSHE is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees). The difference between the assets and liabilities is reported as **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, PASSHE 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. PASSHE classifies all of its remaining activities as operating.

The *Statement of Cash Flows* provides information about PASSHE's cash receipts and cash payments. It may be used to determine PASSHE'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, PASSHE reports three components of net position:

- *Net investment in capital assets (formerly referred to as Invested in capital assets, net of related debt)* 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 PASSHE'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 PASSHE from selling university land and buildings without prior approval.

- *Restricted* net position represents the portion of balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. *Nonexpendable* restricted net position represents corpuses of endowments and similar arrangements in which only the associated investment income can be spent. *Expendable* restricted net position represents the portion of restricted funds that is available for expenditure as long as any external purpose and time restrictions are met.
- *Unrestricted* net position includes funds that the Board has designated for specific purposes, auxiliary funds, and all other funds not appropriately classified as restricted or invested in capital assets.

Unrestricted net position reflects two unfunded liabilities:

- The liability for **postretirement benefits** for employees who participate in the PASSHE plan increased by \$69.3 million to \$933.7 million for the year ended June 30, 2013. Because this liability is expected to be realized gradually over time, and because of its size, the universities fund it only as it becomes due.
- The liability for **compensated absences** increased by \$1.7 million to \$109.9 million for the year ended June 30, 2013. Similar to the postretirement benefits liability, cash payouts to employees upon termination or retirement for annual and sick leave balances are expected to be realized gradually over time.

Overall, net position decreased by \$14.8 million in fiscal year 2012/13, compared to an increase of \$71.6 million in fiscal year 2011/12.

Following is a summary of the balance sheet at June 30, 2013, 2012, and 2011.

(in millions)

Balance Sheet

	June 30, 2013	Change from Prior Year	June 30, 2012	Change from Prior Year	June 30, 2011	Change from Prior Year
Assets						
Cash and investments	\$1,362.8	1.7%	\$1,340.3	11.7%	\$1,199.9	6.5%
Capital assets, net	1,629.6	0.4%	1,623.4	4.6%	1,551.9	5.9%
Other assets	170.3	(11.9%)	193.4	(7.6%)	209.4	17.8%
Total assets	\$3,162.7	0.2%	\$3,157.1	6.6%	\$2,961.2	6.9%
Liabilities						
Workers' compensation	\$21.3	7.6%	\$19.8	4.2%	\$19.0	15.2%
Compensated absences	109.9	1.6%	108.2	6.3%	101.8	(2.1%)
Postretirement benefits	933.7	8.0%	864.4	9.2%	791.5	9.5%
Bonds payable	899.8	(4.4%)	941.7	6.4%	885.3	7.3%
Other liabilities	400.1	(2.5%)	410.3	(2.9%)	422.5	2.3%
Total liabilities	2,364.8	0.9%	2,344.4	5.6%	2,220.1	6.7%
Net Position						
Net investment in capital assets	653.7	5.2%	621.4	3.3%	601.6	(2.3%)
Restricted	92.5	7.3%	86.2	12.7%	76.5	12.7%
Unrestricted	51.7	(50.8%)	105.1	66.8%	63.0	1,752.9%
Total net position	797.9	(1.8%)	812.7	9.7%	741.1	7.8%
Total liabilities and net position	\$3,162.7	0.2%	\$3,157.1	6.6%	\$2,961.2	6.9%

Revenues and Expenses

Overall, fiscal year 2012/13 **operating revenues** decreased slightly by .4% from the prior fiscal year. Nonoperating revenues decreased 2.1%.

In addition to the changes to the appropriation and tuition revenue discussed in the Financial Highlights section of this analysis, following are the more significant revenue and expense items:

- **Investment income** (before investment expenses) for fiscal year 2012/13 was \$20.8 million. This represents a decrease of \$4.1 million from the prior year, despite an increase in PASSHE's average monthly operating capital of approximately \$114 million from the prior year. The decrease in investment income is due to the continuing decline in interest rates. Interest rates decreased over the fiscal year from a high of 1.34% in July 2012 to a low of 0.90% in March 2013, or a 61-basis-point decrease from the prior fiscal year high. The 12-month average interest rate for fiscal year 2012/13 was 22 basis points lower than the average 12-month interest rate for fiscal year 2011/12.
- Universities spent \$704.5 million on **instruction**, or 36.6% of total operating expenses, in fiscal year 2012/13. This represents an increase of \$21.1 million, or 3.1%, over fiscal year 2011/12.
- **Financial aid** to students in the form of waivers and scholarships was \$286.9 million in fiscal year 2012/13, a decrease of \$14.7 million from the previous year. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), PASSHE reported \$211.2 million of financial aid as *scholarship discounts and allowances* (netted against tuition and fees) and \$74.5 million as *student aid* expense in fiscal year 2012/13. \$1.2 million of financial aid was reported in Auxiliary enterprises. Following is the breakdown of scholarship discounts and allowances and waivers in fiscal years 2012/13 and 2011/12:

(in millions)

Student Financial Aid		
	2012/13	2011/12
Federal Pell grants	\$140.6	\$145.7
Other federal aid	6.8	6.2
State financial aid including PHEAA	89.6	104.0
Local government financial aid	1.7	1.7
Scholarships from endowments and restricted gifts and grants	13.0	10.3
Unrestricted scholarships and fellowships	12.3	12.0
Tuition and fee waivers	21.6	20.6
Dorm and dining waivers	1.3	1.1
Total	\$286.9	\$301.6

- **Interest expense** on capital asset-related debt was \$38.8 million, a decrease of \$2.8 million over fiscal year 2011/12.
- According to the Pennsylvania Department of Labor and Industry, PASSHE is the 14th largest employer in the state, with more than 13,000 employees. **Salaries and benefits** totaled \$1.3 billion in fiscal year 2012/13. Compared to fiscal year 2011/12, salary and wage expenses increased by \$15.5 million, or 1.8%, while benefit expenses increased by \$19.8 million, or 4.9%, for an overall increase of \$35.3 million:
 - Employer share of **employee health care** costs increased 2.9% over fiscal year 2011/12, for a total increase of \$3.3 million. This follows consecutive decreases of 6.1% (\$7.4 million) and 1.5% (\$1.8 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years.
 - Employer **annuitant health care** costs increased 2.2% over fiscal year 2011/12, for a total increase of \$3.0 million. This follows consecutive increases of 6.9% (\$8.7 million) and 7.8% (\$9.1 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years. The increases are caused not only by the increase in health care costs, but also by the increase in the number of retirees.

- Employer contributions to **SERS** (Commonwealth of Pennsylvania State Employees' Retirement System), which is a defined benefits pension plan, increased 48.1% over fiscal year 2011/12, for a total increase of \$9.9 million. This follows consecutive increases of 58.5% (\$7.6 million) and 28.0% (\$2.8 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years. The steep increases were instituted by SERS to fund its enormous and growing unfunded actuarial accrued liability, which was \$17.8 billion at December 31, 2012, up from \$14.7 billion at December 31, 2011. Approximately 40% of PASSHE's employees are enrolled in SERS.
- Employer contributions to **PSERS** (Public School Employees' Retirement System), which is a defined benefits pension plan, increased 55.6% over fiscal year 2011/12, for a total increase of \$1.0 million. This follows consecutive increases of 20.0% (\$0.3 million) and 56.3% (\$0.5 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years. The steep increases were instituted by PSERS to fund its enormous and growing unfunded actuarial accrued liability, which was \$26.5 billion at June 30, 2012, up from \$19.7 billion at June 30, 2011. Since only approximately 7% of PASSHE's employees are enrolled in PSERS, the impact of contribution rate increases is far less than the impact from SERS.
- Employer contributions to the **ARP** (Alternate Retirement Plan), which is a defined contribution plan, increased 2.6% over fiscal year 2011/12, for a total increase of \$1.1 million. This follows a decrease of 2.1% (\$0.9 million) and an increase of 3.8% (\$1.6 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years. The changes in annual contributions are attributed to fluctuating employee participation. The employer contribution rate (9.29%) has been the same since the plan's inception. Since the ARP is a defined contribution plan, PASSHE has no liabilities related to future benefits. Approximately 49% of PASSHE's employees are enrolled in the ARP.
- The total cost for **all other employee benefits**, such as Social Security and workers' compensation, increased by a total of \$1.5 million, or 1.6% more than fiscal year 2011/12, compared to a decrease of \$2.3 million in fiscal year 2011/12, or 2.4%, over fiscal year 2010/11.

Following are summaries of salaries, wages, and benefits expenses for the years ending June 30, 2013, 2012, and 2011.

(in millions)

Salaries, Wages, and Benefits

	June 30, 2013	Change from Prior Year	June 30, 2012	Change from Prior Year	June 30, 2011	Change from Prior Year
Salaries and wages	\$869.4	1.8%	\$853.9	(2.7%)	\$877.7	1.8%
Benefits						
Hospitalization	108.6	3.6%	104.8	(6.9%)	112.6	(1.4%)
Health & Welfare Fund	8.3	(5.7%)	8.8	4.8%	8.4	(2.0%)
Annuitant Hospitalization	137.9	2.2%	134.9	6.9%	126.2	7.8%
SERS	30.5	48.1%	20.6	58.5%	13.0	28.0%
PSERS	2.8	55.6%	1.8	20.0%	1.5	56.3%
Alternative Retirement Plan (ARP)	43.1	2.6%	42.0	(2.1%)	42.9	3.8%
Other benefits	96.8	1.6%	95.3	(2.4%)	97.6	3.5%
Total benefits	428.0	4.9%	408.2	1.5%	402.2	4.0%
Total salaries, wages, and benefits	\$1,297.4	2.8%	\$1,262.1	(1.4%)	\$1,279.9	2.5%

Following are summaries of revenues and expenses for the years ending June 30, 2013, 2012, and 2011.

(in millions)

Revenues and Gains						
	June 30, 2013	Change from Prior Year	June 30, 2012	Change from Prior Year	June 30, 2011	Change from Prior Year
Operating revenues						
Tuition and fees, net	\$804.2	2.3%	\$786.4	8.7%	\$723.5	8.4%
Grants and contracts	157.9	(9.8%)	175.0	5.2%	166.3	(3.7%)
Auxiliary enterprises, net	332.9	1.8%	327.1	2.5%	319.0	8.4%
Other	44.5	(21.5%)	56.7	38.6%	40.9	9.7%
Total operating revenues	1,339.5	(0.4%)	1,345.2	7.6%	1,249.7	6.7%
Nonoperating revenues and gains						
State appropriations	427.6	1.2%	422.5	(16.3%)	504.7	(5.3%)
Investment income, net	20.4	(16.7%)	24.5	2.1%	24.0	(14.0%)
Unrealized gain on investment	-	(100.0%)	11.7	91.8%	6.1	(61.6%)
Gifts, nonoperating grants, and other	171.8	(1.5%)	174.4	(2.1%)	178.2	15.0%
Total nonoperating revenues and gains	619.8	(2.1%)	633.1	(11.2%)	713.0	(2.5%)
Total revenues and gains	\$1,959.3	(1.0%)	\$1,978.3	0.8%	\$1,962.7	3.1%

(in millions)

Expenses and Losses						
	June 30, 2013	Change from Prior Year	June 30, 2012	Change from Prior Year	June 30, 2011	Change from Prior Year
Operating expenses						
Instruction	\$704.5	3.1%	\$683.4	(1.9%)	\$696.7	4.9%
Research	5.4	(18.2%)	6.6	(7.0%)	7.1	0.0%
Public service	34.2	1.2%	33.8	(5.1%)	35.6	(2.2%)
Academic support	170.8	7.5%	158.9	(0.1%)	159.0	(3.5%)
Student services	170.3	2.4%	166.3	1.0%	164.6	6.1%
Institutional support	258.1	2.7%	251.4	0.7%	249.6	1.4%
Operations and maintenance of plant	143.2	4.4%	137.1	(2.3%)	140.3	0.1%
Depreciation	119.5	5.6%	113.2	4.6%	108.2	2.4%
Student aid	74.5	(2.7%)	76.6	(3.8%)	79.6	3.5%
Auxiliary enterprises	243.3	3.3%	235.5	1.9%	231.1	5.0%
Total operating expenses	1,923.8	3.3%	1,862.8	(0.5%)	1,871.8	3.0%
Other expenses and losses						
Interest expense on capital asset- related debt	38.8	(6.7%)	41.6	14.3%	36.4	4.0%
Loss on disposal of assets	6.3	173.9%	2.3	283.3%	.6	(91.8%)
Unrealized gain (loss) on investment	5.1	-	-	-	-	-
Total other expenses and losses	50.2	14.4%	43.9	18.6%	37.0	(12.5%)
Total expenses and losses	\$1,974.0	3.5%	\$1,906.7	(0.1%)	\$1,908.8	2.7%

FUTURE ECONOMIC FACTORS

- The **Commonwealth** ended fiscal year 2012/13 with General Fund collections that were \$56.9 million, or 0.2%, more than estimated. The Governor's Program Policy Guidelines for preparation of the 2014/15 Commonwealth budget states that "the Pennsylvania economy is growing very modestly and a number of factors are restraining its growth. The commonwealth budget, which is highly dependent on a growing economy, faces additional challenges, such as increased pension obligations, wage and benefit increases, debt service and medical and entitlement costs. These mandated cost drivers will consume virtually all revenue growth. Therefore, agencies should not assume funding increases for the 2014-15 fiscal year."
- In fiscal year 2013/14, PASSHE will receive \$412.8 million in **General Fund appropriations**, the same as received in fiscal years 2012/13 and 2011/12. This funding level is approximately the same as the appropriations PASSHE received from the Commonwealth in fiscal year 1997/98.
- The Commonwealth has continued its commitment to fund PASSHE's deferred maintenance projects with a Realty Transfer Tax allocation from the **Key '93** funds. PASSHE has received \$13.6 million from this revenue stream in fiscal year 2013/14, a 16.2% increase from the \$11.7 million received in fiscal year 2012/13. Key '93 funds are derived from the Realty Transfer Tax; the actual amount received is an estimate and may be adjusted based upon the health of the real estate market.
- The Board approved a \$194 (3.0%) **increase in tuition** for the 2013/14 academic year. This sets the new rate for full-time, resident, undergraduate students at \$6,622, the lowest among all four-year colleges and universities in Pennsylvania.
- With an undergraduate population made up of almost 90% Pennsylvania residents—and the majority of those being traditional-age students enrolling right out of high school—PASSHE's enrollment historically has been closely tied to the state's demographic trends. Based on estimates from the National Center for Education Statistics, there were about 2,200 fewer **high school graduates** in Pennsylvania in spring 2012 than in spring 2011, a drop of about 2%. This continuing downward trend, which is especially pronounced in western Pennsylvania, is expected to continue for the next three years before leveling off.
- PASSHE universities are retooling to meet changing student demographics, new program content needs, and the rapid evolution of how, where, when, and by whom courses and programs are offered. PASSHE is proactively responding by **realigning programs and resources**. PASSHE is committed to ensuring relevance in programs, reducing costs through collaboration, and focusing resources on what students want and what the Commonwealth needs.
 - More students now are enrolling in new and existing programs in science, technology, mathematics, business and finance, and allied health than are enrolling in education and other public service programs, which were PASSHE's historic strengths. PASSHE continues to **align academic offerings** with work force needs and student expectations. Over the past five years, the Board created 56 new academic programs, placed 158 programs in moratorium, discontinued 40 programs, and reorganized 90 programs.
 - Universities are realigning faculty and staff resources, as evidenced through **work force reductions** via attrition and layoffs and the reassignment of vacancies to higher priority positions. Through a combination of retirements, voluntary separations, and furloughs, PASSHE had 600 fewer permanent positions in fall 2012 than in fall 2009, a trend that is continuing.
 - PASSHE's **strategic emphasis** adds value as the universities work together to attract, educate, and graduate students via greater collaboration across institutions. For example, new this fall is a multiuniversity electronic admissions application that showcases PASSHE's program offerings, assists prospective students in applying to multiple PASSHE universities, and should result in increased admissions applications. Pathways for entry for nontraditional and returning adult students include articulation agreements in 25 areas of study with Pennsylvania's 14 community colleges, and efforts are underway to assist these students in developing "prior learning portfolios" for college credit in conjunction with the Center for Adult and Experiential Learning.
- In fiscal year 2012/13, SERS (State Employees' Retirement System) continued its steep increases in employer **pension contribution rates** that are anticipated to persist through fiscal year 2014/15 and remain high for the foreseeable future. The most predominant employer-paid SERS rates for PASSHE employees rose 44% in 2013/14, and are

anticipated to increase 30% in 2014/15. A similar pattern is occurring with PSERS (Public School Employees' Retirement System). The contribution rate for the ARP (Alternative Retirement Plan) remains unchanged.

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

SERS

- At December 31, 2012, SERS' actuarial accrued pension liability of \$43.1 billion was only 58.8% funded, down from 65.3% funded at December 31, 2011, and 75.2% funded the previous year.
- The actuarial value of SERS' assets was \$25.3 billion at December 31, 2012, compared to \$27.6 billion at December 31, 2011, and \$29.4 billion the previous year.
- \$17.8 billion of the SERS' actuarial pension liability was unfunded at December 31, 2012, compared to \$14.7 billion unfunded at December 31, 2011, and \$9.7 billion the previous year. This is debt already incurred by the Commonwealth, and it is an obligation that cannot be eliminated by reducing future benefits. SERS predicts that it may take as many as 40 years to fully fund its liability.
- Employer contributions to SERS in 2012 were only 53.9% of the actuarially calculated Annual Required Contribution, up from 42.8% and 31.4% in 2011 and 2010, respectively.
- The number of new retirees added to the SERS' rolls in 2012 (5,572) was 45% higher than those removed from the rolls (3,853), increasing the annual allowance paid to retirees to \$2.3 billion, or 3.9% higher than 2011.
- On a positive note, in 2012 the SERS fund earned 12%, well exceeding the assumed rate of 7.5%.
- At December 31, 2012, PASSHE's employees represented 4.8% of active SERS members.

PSERS

- At June 30, 2012, PSERS' actuarial accrued pension liability of \$85.6 billion was only 69.1%

funded, down from 75.1% funded at June 30, 2011, and 79.2% funded the previous year.

- The actuarial value of PSERS' assets was \$59.1 billion at June 30, 2012, compared to \$59.3 billion at June 30, 2011, and \$59.8 billion the previous year.
- \$26.5 billion of the PSERS' actuarial pension liability was unfunded at June 30, 2012, compared to \$19.7 billion unfunded at June 30, 2011, and \$15.7 billion the previous year. This is debt already incurred and cannot be eliminated by reducing future benefits.
- The 2012 employer contributions were only 27% of the actuarially calculated Annual Required Contribution.
- PASSHE's employees represent approximately 0.4% of reported member salaries covered under PSERS.

• **Moody's Rating and Outlook**

In October 2012, after downgrading the Commonwealth's rating from Aa1 *negative* to Aa2 *stable*, Moody's Investors Service, Inc. (Moody's), downgraded PASSHE's **bond rating from Aa2 to Aa3**. Moody's ratings outlook for PASSHE is *stable*. In June 2013, Moody's *Outlook* for PASSHE was as follows:

What could make the rating go up (not for the foreseeable future given the downgrade):

- Substantial decline in the OPEB liability from benefits restructuring.
- Consistently favorable operating performance and strong cash flow generation.
- Increased student demand with higher nonresident student enrollment.

What could make the rating go down:

- Stagnant or declining tuition revenues from continued enrollment declines or downward pressures on tuition increases.
- Failure to respond to enrollment declines.
- The rising OPEB and pension costs.
- Failure to achieve significant gains in union contract negotiations.
- Substantially reduced state funding.
- Downgrade in the rating of the Commonwealth.
- Further increase in debt, including student housing, without growth in financial resources.

• **Performance Funding**

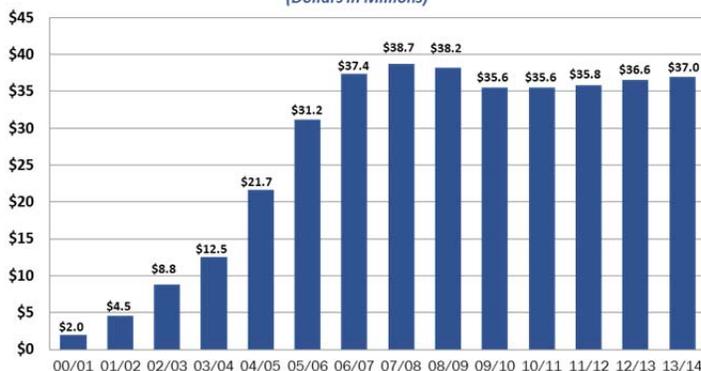
Calls for increased accountability among colleges and universities have come from various sources across the nation. One of the more recent examples is a recommendation by Governor Tom Corbett's **Advisory Commission on Postsecondary Education** to link any new funding for higher education

institutions to performance expectations. PASSHE 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. PASSHE continues to be one of the few public university systems in the nation to voluntarily implement this type of performance program. Many of the measures PASSHE uses closely align with the general goals for performance-based funding that were included in the report of the Governor’s advisory commission, which was issued in fall of 2012. They include:

- The number of degrees conferred, especially in high-need areas such as science, technology, engineering, and mathematics (STEM) and health care.
- Student persistence rates into their third and fourth academic years.
- Closing the achievement and access gaps of Pell grant recipients and underrepresented minorities.
- Student and employee diversity.
- Investment in facilities.
- Private funds raised.

PASSHE universities have “earned” nearly **\$340 million** through performance since this program was instituted. 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.

PASSHE History of Performance Funding
 2000/01 to 2013/14
 (Dollars in Millions)



PASSHE 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 **\$36.98 million** in performance funding for fiscal year 2013/14, an increase of \$0.4 million over fiscal year 2012/13.

- Construction of **PennREN** (Pennsylvania Research and Education Network), a 1,600-mile high-speed fiber-optic network across the Commonwealth, was completed in February 2013. PennREN provides network connectivity between both public and private higher education institutions, provides opportunities for partnerships with K-12 schools, increases access to national and federal research centers to enhance student learning, and promotes the use of telemedicine and use of electronic medical records. As the Keystone Initiative for Network Based Education and Research (KINBER) continues to grow in membership, opportunities for education collaboration, information sharing, and economic development will be realized.
- On July 1, 2013, at the direction of the Board of Governors’ Audit Committee, PASSHE implemented an **Incident Reporting System** to collect and record both anonymous and self-identified complaints of potential fraud, waste, abuse, and ethical matters related to the PASSHE organization. An external contractor was hired to provide the incident reporting services to PASSHE, and the Office of Internal Audit and Risk Assessment will be responsible for managing the incident reporting operation.
- Former PASSHE Chancellor Dr. John C. Cavanaugh accepted a position in Washington, D.C., effective March 1, 2013. In August 2013, the PASSHE Board of Governors selected **Mr. Frank T. Brogan** to serve as PASSHE’s Chancellor beginning October 1, 2013. Within the last two years, new presidents have taken office at East Stroudsburg, Edinboro, Indiana, Lock Haven, Slippery Rock, Mansfield, and Millersville Universities of Pennsylvania. Interim presidents are serving at California and Shippensburg Universities of Pennsylvania.
- For **further information** about these financial statements, contact the Pennsylvania State System of Higher Education, Accounting Office, 2986 North Second Street, Harrisburg, PA 17110.

Pennsylvania State System of Higher Education

Balance Sheet

(dollars in thousands)

Assets

	June 30, 2013	June 30, 2012
Current Assets		
Cash and cash equivalents	\$ 35,887	\$ 23,713
Short-term investments	406,478	431,145
Accounts receivable, students, net of allowance for doubtful accounts of \$28,121 in 2013 and \$22,462 in 2012	45,915	50,127
Accounts receivable, other	12,820	10,743
Governmental grants and contracts receivable	27,263	54,394
Inventories	3,624	3,863
Prepaid expenses	8,400	8,654
Current portion of loans receivable, net	6,360	5,302
Due from component units	19,345	13,467
Other current assets	2,257	3,436
Total Current Assets	568,349	604,844
Noncurrent Assets		
Restricted cash and cash equivalents	25	25
Endowment investments	25,702	27,679
Other long-term investments	894,724	857,690
Due from component units	14,099	11,581
Loans receivable, net of allowance for doubtful accounts of \$5,791 in 2013 and \$6,047 in 2012	27,466	29,120
Capital Assets:		
Land	29,263	27,606
Buildings, including improvements	1,953,267	1,888,922
Improvements other than buildings	242,462	232,226
Equipment and furnishings	445,431	425,040
Library books	83,911	83,960
Construction in progress	103,782	92,627
	2,858,116	2,750,381
Less accumulated depreciation	(1,228,541)	(1,126,994)
Capital assets, net	1,629,575	1,623,387
Other noncurrent assets	2,736	2,786
Total Noncurrent Assets	2,594,327	2,552,268
Total Assets	\$ 3,162,676	\$ 3,157,112

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

Balance Sheet

(dollars in thousands)

Liabilities and Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Current Liabilities		
Accounts payable and accrued expenses	\$ 145,133	\$ 151,992
Unearned revenue	53,140	54,822
Deposits	7,052	9,337
Current portion of workers' compensation liability	4,803	4,755
Current portion of compensated absences liability	11,585	11,656
Current portion of postretirement benefits liability	56,154	56,635
Current portion of capitalized lease obligations	3,345	8,893
Current portion of bonds payable	46,970	41,913
Due to component units	9,515	12,276
Other current liabilities	55,198	46,010
Total Current Liabilities	<u>392,895</u>	<u>398,289</u>
Noncurrent Liabilities		
Unearned revenue	3,383	3,545
Deposits	388	362
Workers' compensation liability	16,541	15,008
Compensated absences liability	98,324	96,550
Postretirement benefits liability	877,536	807,760
Capitalized lease obligations	53,537	46,627
Bonds payable	852,835	899,802
Other noncurrent liabilities	69,289	76,442
Total Noncurrent Liabilities	<u>1,971,833</u>	<u>1,946,096</u>
Total Liabilities	<u>2,364,728</u>	<u>2,344,385</u>
Net Position		
Net investment in capital assets	653,720	621,400
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	9,868	24,305
Other	1,271	1,251
Expendable:		
Scholarships and fellowships	32,114	12,699
Research	644	731
Student loans	1,513	432
Capital projects	39,653	38,030
Other	7,420	8,771
Unrestricted	51,745	105,108
Total Net Position	<u>797,948</u>	<u>812,727</u>
Total Liabilities and Net Position	<u>\$ 3,162,676</u>	<u>\$ 3,157,112</u>

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

**Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013 and 2012**

(dollars in thousands)

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Tuition and fees	\$ 1,015,386	\$ 1,010,294
Less scholarship discounts and allowances	<u>(211,187)</u>	<u>(223,877)</u>
Net tuition and fees	\$ 804,199	\$ 786,417
Governmental grants and contracts:		
Federal	42,161	46,453
State	104,167	117,550
Local	3,800	4,027
Nongovernmental grants and contracts	7,790	6,966
Sales and services	34,749	33,535
Auxiliary enterprises, net of discounts of \$890 in 2013 and \$659 in 2012	332,890	327,139
Other revenues	9,777	23,205
Total Operating Revenues	<u>1,339,533</u>	<u>1,345,292</u>
Operating Expenses		
Instruction	704,473	683,429
Research	5,419	6,591
Public service	34,233	33,844
Academic support	170,773	158,935
Student services	170,270	166,300
Institutional support	258,068	251,352
Operations and maintenance of plant	143,214	137,128
Depreciation	119,536	113,154
Student aid	74,488	76,592
Auxiliary enterprises	243,320	235,488
Total Operating Expenses	<u>1,923,794</u>	<u>1,862,813</u>
Operating Loss	<u>(584,261)</u>	<u>(517,521)</u>
Nonoperating Revenues (Expenses)		
State appropriations, general and restricted	412,751	412,751
Pell grants	140,585	145,697
Investment income, net of related investment expense of \$432 in 2013 and \$434 in 2012	20,409	24,465
Unrealized gain (loss) on investments	(5,131)	11,687
Gifts for other than capital purposes	15,124	15,362
Interest expense on capital asset-related debt	(38,786)	(41,617)
Loss on disposal of assets	(6,347)	(2,312)
Other nonoperating revenue	1,334	1,308
Net Nonoperating Revenues	<u>539,939</u>	<u>567,341</u>
Income (loss) before other revenues	<u>(44,322)</u>	<u>49,820</u>
State appropriations, capital	14,835	9,748
Capital gifts and grants	14,708	12,046
Increase (Decrease) in Net Position	<u>(14,779)</u>	<u>71,614</u>
Net position—beginning of year	812,727	741,113
Net position—end of year	<u>\$ 797,948</u>	<u>\$ 812,727</u>

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

**Statement of Cash Flows
For the Years Ended June 30, 2013 and 2012**

(dollars in thousands)

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Tuition and fees	\$ 804,269	\$ 786,282
Grants and contracts	184,169	162,611
Payments to suppliers for goods and services	(440,752)	(406,141)
Payments to employees	(1,219,854)	(1,216,389)
Loans issued to students	(5,474)	(5,153)
Loans collected from students	6,069	6,746
Student aid	(75,070)	(77,033)
Auxiliary enterprise charges	333,303	326,124
Sales and services	36,138	33,136
Other receipts (payments)	(15,329)	23,576
Net cash used in operating activities	<u>(392,531)</u>	<u>(366,241)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	412,751	412,751
Gifts and nonoperating grants for other than capital purposes	155,542	161,003
PLUS, Stafford, and other loans receipts (non-Perkins)	792,193	890,468
PLUS, Stafford, and other loans disbursements (non-Perkins)	(792,245)	(890,396)
Agency transactions, net	15,053	13,632
Other	1,334	1,308
Net cash provided by noncapital financing activities	<u>584,628</u>	<u>588,766</u>
Cash Flows from Capital Financing Activities		
Proceeds from capital debt and leases	-	202,982
Capital appropriations	13,897	8,338
Capital grants and gifts received	11,154	9,792
Proceeds from sales of capital assets	80	36
Purchases of capital assets	(114,235)	(167,345)
Principal paid on capital debt and leases	(50,952)	(144,200)
Interest paid on capital debt and leases	(45,156)	(27,973)
Net cash used in capital financing activities	<u>(185,212)</u>	<u>(118,370)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	22,100,511	23,828,180
Interest on investments	20,718	24,472
Purchase of investments	(22,115,940)	(23,955,234)
Net cash provided by (used in) investing activities	<u>5,289</u>	<u>(102,582)</u>
Net Increase in Cash and Cash Equivalents	12,174	1,573
Cash and cash equivalents—beginning of year	23,738	22,165
Cash and cash equivalents—end of year	<u>\$ 35,912</u>	<u>\$ 23,738</u>

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

**Statement of Cash Flows
For the Years Ended June 30, 2013 and 2012**

(dollars in thousands)

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (584,261)	\$ (517,521)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	119,536	113,154
Expenses paid by Commonwealth or donor	251	1,344
Changes in assets and liabilities:		
Receivables, net	33,123	(12,619)
Inventories	239	(64)
Other assets	(11,937)	15,047
Accounts payable	(10,302)	(44,791)
Unearned revenue	(1,751)	340
Student deposits	(2,259)	658
Compensated absences	1,703	6,377
Loans to students and employees	595	1,593
Other liabilities	62,532	70,241
Net cash used in operating activities	<u>\$ (392,531)</u>	<u>\$ (366,241)</u>
Noncash Capital Financing Activities		
Capital assets included in payables or acquired by gift	\$ 6,780	\$ 6,382
Capital assets acquired through capital leases	\$ 10,345	\$ 13,259
Like-kind exchanges	\$ 1,451	\$ 13

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education
Component Units Statement of Financial Position

(dollars in thousands)

	June 30, 2013	June 30, 2012
Assets		
Cash and cash equivalents	\$ 131,195	\$ 111,029
Accounts receivable	5,197	4,792
Contributions/pledges receivable	15,938	19,122
Due from universities	10,359	12,600
Inventories	8,030	9,279
Short-term investments	32,606	29,606
Investments	483,326	336,422
Capital assets:		
Land	26,866	25,216
Buildings	1,011,029	916,314
Building improvements	14,787	14,909
Improvements other than buildings	9,124	8,597
Equipment and furnishings	73,344	68,028
Construction in progress	85,161	73,656
	1,220,311	1,106,720
Less accumulated depreciation	(193,895)	(159,507)
Capital assets, net	1,026,416	947,213
Other assets	135,492	142,308
Total Assets	\$ 1,848,559	\$ 1,612,371
Liabilities		
Accounts payable and accrued expenses	\$ 35,704	\$ 37,767
Annuity liabilities	8,040	8,699
Due to universities	33,422	22,868
Deposits payable	19,553	16,398
Capitalized leases	31,562	32,620
Bonds payable	1,106,805	909,170
Notes payable	225,431	218,730
Other liabilities	97,206	130,050
Total Liabilities	1,557,723	1,376,302
Net Assets		
Unrestricted	(4,737)	(31,481)
Temporarily restricted	77,380	70,018
Permanently restricted	218,193	197,532
Total Net Assets	290,836	236,069
Total Liabilities and Net Assets	\$ 1,848,559	\$ 1,612,371

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

**Component Units Statement of Activities
For the Years Ended June 30, 2013 and 2012**

(dollars in thousands)

	<u>2013</u>	<u>2012</u>
Revenues and Gains		
Contributions	\$ 34,231	\$ 33,921
Sales and services	50,059	49,360
Student fees	33,818	33,753
Grants and contracts	9,845	11,171
Rental income	128,023	111,953
Investment income	11,389	8,133
Unrealized gains (losses) related to investment activity	54,033	(58,089)
Other revenues and gains	8,947	13,045
Total Revenues and Gains	<u>330,345</u>	<u>203,247</u>
Expenses and Losses		
Program services:		
Scholarships and grants	11,576	10,501
Student activities and programs	30,991	28,278
University stores	33,476	32,068
Housing	127,830	110,144
Other university support	23,146	21,364
Other programs	13,716	20,278
Management and general	26,448	24,736
Fundraising	8,395	7,380
Total Expenses and Losses	<u>275,578</u>	<u>254,749</u>
Change in Net Assets	54,767	(51,502)
Net assets—beginning of year	236,069	287,571
Net assets—end of year	<u>\$ 290,836</u>	<u>\$ 236,069</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Pennsylvania State System of Higher Education (PASSHE) 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). PASSHE 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. PASSHE comprises the 14 universities of the Pennsylvania State System of Higher Education and the Office of the Chancellor.

Reporting Entity

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

Certain affiliated organizations are included in PASSHE'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 PASSHE 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 PASSHE, the activity of the organization is significant to PASSHE universities, and PASSHE historically has received a majority of these economic resources. Neither PASSHE nor its universities control the timing or amount of receipts from these organizations.

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the component units' financial information presented herein.

Operating Revenues and Expenses

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

Net Position (formerly referred to as Net Assets)

PASSHE maintains the following classifications of net position. The term “net position” has replaced the term “net assets” as required by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Net investment in capital assets (previously referred to and the same as “Invested in capital assets, net of related debt”; the terminology was changed by GASB in Statement No. 63): 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 PASSHE 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 PASSHE 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

PASSHE 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. PASSHE 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 PASSHE. Since PASSHE neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed using capital funds appropriated by the Commonwealth after June 30, 1983, and made available to the universities.

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

Equipment and furnishings are stated at cost less accumulated depreciation. Library books are capitalized and depreciated. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. PASSHE 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.

PASSHE 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, 2013 and 2012.

Unearned Revenue (previously Deferred Revenue)

Unearned revenue includes amounts for tuition and fees, grants, corporate sponsorship payments, and certain auxiliary activities received prior to the end of the fiscal year but earned in a subsequent accounting period. PASSHE previously referred to "unearned revenue" as "deferred revenue," but changed the terminology in accordance with new GASB requirements.

Compensated Absences

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

Pension Plans

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

Scholarships and Waivers

In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), PASSHE allocates the cost of scholarships, waivers, and other student financial aid between *Scholarship discounts and allowances* (netted against tuition and fees) and *Student aid expense*. Scholarships and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

Income Taxes

PASSHE 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.

New Accounting Standards

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Statement No. 60 establishes guidance for accounting and financial reporting for service concession arrangements, which are a type of public-private or public-public partnership. PASSHE was required to adopt Statement No. 60 for the fiscal year ending June 30, 2013. PASSHE has determined that Statement No. 60 has no effect on its financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. With Statements No. 63 and 65, GASB has reclassified certain assets and liabilities as "*deferred outflows*" and "*deferred inflows*" of resources. Further, GASB has replaced the term "*net assets*" with "*net position*," and has changed the balance sheet presentation to "*assets, plus deferred outflows of resources equals liabilities, plus deferred inflows of resources, plus net position*." PASSHE was required to adopt Statement No. 63 for the fiscal year ending

June 30, 2013, and is required to adopt Statement No. 65 for the fiscal year ending June 30, 2014. PASSHE has determined that Statement No. 63 has no effect on the substance of its financial statements; however, the changes increase the complexity of the financial statements to its readers, as the new presentation differs from the traditional and familiar business reporting model. PASSHE has determined that the adoption of Statement No. 65 will require that bond issuance costs, which previously were netted against the associated bond discount or bond premium on the balance sheet and amortized over the life of the associated bond payable, now will be expensed in the period incurred. The amount of fiscal year 2012/13 bond issuance costs that will be restated as an expense on next year's financial statements is \$6,151,000.

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

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

(2) DEPOSITS AND INVESTMENTS

Board Policy 1986-02-A, *Investment*, authorizes PASSHE 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, PASSHE 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 PASSHE'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.

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

Investment Categories	Qualifications/Moody's Ratings Requirements
United States Government Securities	Together with repurchase agreements, must comprise at least 20% of the market value of the fund.
Repurchase Agreements	Underlying collateral must be direct obligations of the United States Treasury and be in PASSHE'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 PASSHE'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: PASSHE 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: PASSHE 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. PASSHE 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. PASSHE's duration targets are not applicable to its long-term investments.

On June 30, 2013 and 2012, the carrying amount of PASSHE's demand and time deposits and certificates of deposit for all funds was \$35,935,000 and \$23,761,000, respectively, compared to bank balances of \$36,437,000 and \$22,470,000, respectively. The difference is caused primarily by items in transit. Of the bank balances, \$6,065,000 and \$3,529,000, respectively, were covered by federal government depository insurance or collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions; \$1,547,000 and \$2,302,000, respectively, were uninsured and uncollateralized; and \$28,825,000 and \$16,639,000, 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 PASSHE's pooled funds in M&T Bank on June 30, 2013 and 2012, follow.

PASSHE Pooled Deposits and Investments

June 30, 2013

(in thousands)

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

PASSHE Pooled Deposits and Investments

June 30, 2012

(in thousands)

	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits			
Money market funds			\$3,741
Total deposits			3,741
Investments			
Repurchase agreements			40,872
Commercial paper	P1	0.06	187,893
U.S. government and agency obligations	Aaa	3.15	495,203
Asset-backed securities	Aaa	0.69	69,846
	P1	0.17	41,026
Collateralized mortgage obligations (CMOs)	Aaa	2.01	211,515
Corporate bonds and notes	Aaa	2.58	29,519
	Aa1	1.62	10,684
	Aa2	1.91	31,849
	Aa3	1.89	56,803
	A1	2.23	15,488
	A2	2.34	33,162
	A3	3.92	5,131
	Baa1	2.31	19,192
	Baa2	2.73	28,899
	Baa3	0.14	5,729
Total investments			1,282,811
Total deposits and investments			\$1,286,552

Of the investments noted above at June 30, 2013 and 2012, \$17,071,000 and \$36,525,000, 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 9). 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, 2013 and 2012, follow.

University Local Deposits and Investments
June 30, 2013
(in thousands)

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

University Local Deposits and Investments
June 30, 2012
(in thousands)

	Moody's Rating <i>(if applicable)</i>	Modified Duration <i>(if applicable)</i>	Fair Value
Deposits			
Demand and time deposits			\$19,997
Certificates of deposit			23
Total deposits			20,020
Investments			
U.S. government and agency obligations		1.17	736
Fixed-income mutual funds		4.52	4,747
Equity/balanced mutual funds			26,225
Common stock			1,972
Total investments			33,680
Total deposits and investments			\$53,700

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

		Fair Value	
		June 30, 2013	June 30, 2012
<i>(in thousands)</i>			
Investment	Currency		
Deposit	British Pound	\$12	\$44

The universities are beneficiaries of trust funds held by others with an approximate fair value of \$3,870,000 and \$3,608,000 on June 30, 2013 and 2012, 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 PASSHE operating leases amounted to \$8,292,000 and \$7,773,000 for the years ended June 30, 2013 and 2012, respectively.

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

		June 30, 2013		June 30, 2012	
<i>(in thousands)</i>					
Cost:					
Construction in Progress		\$9,820		-	
Buildings		65,599		\$72,384	
Equipment		3,490		4,797	
Total		<u>\$78,909</u>		<u>\$77,181</u>	
Accumulated Depreciation:					
Buildings		\$25,216		\$21,708	
Equipment		1,785		2,089	
Total		<u>\$27,001</u>		<u>\$23,797</u>	

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.

	Operating Leases	Capital Leases
<i>(in thousands)</i>		
2014	\$7,092	\$5,973
2015	5,995	5,626
2016	4,950	5,369
2017	3,140	5,271
2018	1,660	5,179
Thereafter	41,535	53,001
Total minimum lease payments	<u>\$64,372</u>	80,419
Amount representing interest on capital leases		<u>23,537</u>
Present value of net minimum capital lease payments		<u>\$56,882</u>

Changes in the liability for capital leases in fiscal years 2013 and 2012 follow.

Year	Beginning Balance	Capital Lease Additions	Capital Lease Payments	Ending Balance
<i>(in thousands)</i>				
2012	\$46,436	\$13,259	\$4,175	\$55,520
2013	\$55,520	\$10,345	\$8,983	\$56,882

(4) PENSION BENEFITS

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

PSERS provides retirement and disability benefits, legislative-mandated ad hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101-8535) is the authority by which PSERS benefits provisions are established and may be amended. The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, the employer (PASSHE), and the Commonwealth of Pennsylvania. Contribution rates for most active members are between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefits class was selected. New members hired after July 1, 2011, have a one-time election to choose a 10.3% contribution rate. The contribution rate for PASSHE is an actuarially determined rate. The rate was 6.18% of annual covered payroll at June 30, 2013. PASSHE's contributions to PSERS for the years ended June 30, 2013, 2012, and 2011, were \$2,752,000, \$1,769,000, and \$1,481,000, respectively, equal to the required contractual contribution. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125.

SERS provides retirement, death, and disability benefits, and legislative-mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefits provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (PASSHE). The contribution rate for both active members and PASSHE depends upon when the active member was hired and what benefits class is selected. Contribution rates for most active members are between 5.0% and 6.25% of their qualifying compensation. New members hired after January 1, 2011, have a one-time election to choose a 9.3% contribution rate. PASSHE contributed at actuarially determined rates of between 8.43% and 10.51% of active members' annual covered payroll at June 30, 2013. PASSHE's contributions to SERS for the years ended June 30, 2013, 2012, and 2011, were \$30,490,000, \$20,643,000, and \$13,032,000, respectively, equal to the required contractual contribution. SERS issues

a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Commonwealth of Pennsylvania, State Employees' Retirement System, P.O. Box 1147, Harrisburg, PA 17108.

Because the ARP is a defined contribution plan, benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. PASSHE's contribution rate on June 30, 2013 and 2012, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2013 and 2012, were \$43,080,000 and \$41,978,000, respectively, from PASSHE; and \$23,633,000 and \$23,165,000, respectively, from active members.

(5) POSTRETIREMENT BENEFITS

PASSHE 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 PASSHE (System Plan). The System Plan provides eligible retirees and their eligible dependents with health care benefits and tuition waivers at any of the 14 PASSHE 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 PASSHE 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. PASSHE paid premiums of \$42,975,000 and \$38,729,000 for the fiscal years ending June 30, 2013 and 2012, 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, 2013:

- 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 annuitants become eligible for Medicare, they pay 15% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.
- Other eligible annuitants who retire on or after July 1, 2008, pay 15% of the plan premium in effect on their retirement date. Future adjustments will apply if contributions increase for active employees.

Total contributions made by plan members were \$3,607,000 and \$3,189,000, or approximately 7.7% and 7.6% of the total premiums, for the fiscal years ending June 30, 2013 and 2012, respectively.

Annual OPEB Cost and Net OPEB Obligation

PASSHE'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 PASSHE's annual OPEB cost for the year, the amount actually

contributed to the plan, and changes in PASSHE's net OPEB obligation.

<i>(in thousands)</i>		
	June 30, 2013	June 30, 2012
Annual required contribution	\$120,129	\$116,548
Interest on net OPEB obligation	36,737	35,615
Adjustment to ARC	(44,596)	(40,491)
Annual OPEB cost (expense)	112,270	111,672
Contributions made	(42,975)	(38,729)
Increase in net OPEB obligation	69,295	72,943
Net OPEB obligation at July 1	864,395	791,452
Net OPEB obligation at June 30	\$933,690	\$864,395

PASSHE's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2013, and the two preceding years were as follows.

<i>(in thousands)</i>			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$106,123	35.1%	\$791,452
June 30, 2012	\$111,672	34.7%	\$864,395
June 30, 2013	\$112,270	38.3%	\$933,690

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2012, the most recent actuarial valuation date, was as follows.

<i>(in thousands)</i>	
Actuarial accrued liability (AAL)	\$1,420,502
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	\$1,420,502
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$566,753
UAAL as a percentage of covered payroll	251%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the

annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2012, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected rate to be earned on PASSHE's operating portfolio, and annual health care cost trend rates of 8.0% for pre-Medicare and 7.0% for post-Medicare initially, reduced by decrements to an ultimate rate of 5.0% by 2025. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2012, was 23 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 2012/13, PASSHE contributed \$265 for each current active employee per biweekly pay period. PASSHE made contributions of \$25,638,000, \$23,228,000, and \$20,069,000 for the fiscal years ending June 30, 2013, 2012, and 2011, 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

PASSHE is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, PASSHE universities must pay up to \$100,000; for claims occurring on or after July 1, 1995, PASSHE 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 PASSHE universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the universities contributed \$1,854,000 and \$2,004,000 to the Reserve Fund during the years ended June 30, 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012, the aggregate liability for claims under the self-insurance limit was \$10,650,000 and \$10,243,000, respectively. The Reserve Fund assets of \$10,694,000 and \$9,520,000 are equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2013 and 2012, respectively. Changes in the workers' compensation claims liability in fiscal years 2013 and 2012 follow.

(in thousands)

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2012	\$18,985	\$5,888	\$5,110	\$19,763
2013	\$19,763	\$5,921	\$4,340	\$21,344

(7) COMPENSATED ABSENCES

Changes in the compensated absences liability in fiscal years 2013 and 2012 are as follows.

(in thousands)

Year	Beginning Balance	Current Changes in Estimates	Less Payouts	Ending Balance
2012	\$101,828	\$14,837	\$8,459	\$108,206
2013	\$108,206	\$11,887	\$10,184	\$109,909

(8) TERMINATION BENEFITS

In March 2013, the Board approved a Voluntary Retirement Incentive Program for APSCUF employees meeting certain age and service requirements. Eligible faculty who indicated their intent to retire by May 31, 2013, and eligible coaches who indicated their intent

to retire by June 28, 2013, qualified for a cash incentive payout of between \$10,000 and \$30,000, depending on base salary and years of service. A total of 135 eligible PASSHE employees accepted the offer by signing a release and settlement agreement releasing PASSHE from all legal claims related to their employment and retirement. For the year ended June 30, 2013, PASSHE recorded an expense of \$3,609,000 for the cash incentive and \$219,000 for associated Social Security and Medicare taxes, for a total expense of \$3,828,000. The cash incentive is not eligible for retirement benefits.

(9) BONDS PAYABLE

Bonds payable on June 30, 2013 and 2012, consisted of several outstanding tax-exempt revenue bond series issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuance, PASSHE entered into a loan agreement with PHEFA under which PASSHE has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of PASSHE. 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, 2013 and 2012, was as follows.

Bonds Payable
June 30, 2013 and 2012
(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2011	2012 Bonds Issued	2012 Bonds Redeemed/Refunded	Balance June 30, 2012	2013 Bonds Issued	2013 Bonds Redeemed/Refunded	Balance June 30, 2013	Current Portion
Series U issued August 2002, final maturity June 2022	\$14,400	4.43%	\$8,090	-	\$8,090	-	-	-	-	-
Series W issued October 2002, final maturity June 2020	69,105	4.76%	60,930	-	60,930	-	-	-	-	-
Series X issued May 2003, final maturity June 2023	80,910	4.28%	31,470	-	31,470	-	-	-	-	-
Series Z issued March 2004, final maturity June 2024	71,760	4.04%	43,105	-	1,875	\$41,230	-	\$1,930	\$39,300	\$1,985
Series AA issued July 2004, final maturity June 2024	28,750	4.65%	19,055	-	1,605	17,450	-	1,665	15,785	1,750
Series AC issued July 2005, final maturity June 2025	52,650	4.89%	39,120	-	2,540	36,580	-	2,675	33,905	2,810
Series AE issued July 2006, final maturity June 2036	103,290	4.98%	87,315	-	3,645	83,670	-	3,835	79,835	4,030
Series AF issued July 2007, final maturity June 2037	68,230	5.00%	60,845	-	2,020	58,825	-	2,105	56,720	2,195
Series AG issued March 2008, final maturity June 2024	101,335	4.75%	86,440	-	4,540	81,900	-	4,395	77,505	7,000
Series AH issued July 2008, final maturity June 2038	140,760	4.70%	130,500	-	3,645	126,855	-	3,830	123,025	4,020
Series AI issued August 2008, final maturity June 2025	32,115	4.10%	26,900	-	1,665	25,235	-	1,725	23,510	1,785
Series AJ issued July 2009, final maturity June 2039	123,985	4.89%	117,745	-	3,720	114,025	-	4,225	109,800	4,515
Series AK issued Sept. 2009, final maturity June 2024	47,310	3.79%	43,010	-	3,485	39,525	-	3,580	35,945	3,705
Series AL issued July 2010, final maturity June 2035	135,410	5.00%	130,765	-	7,180	123,585	-	7,705	115,880	8,115
Series AM issued July 2011, final maturity June 2036	119,085	4.68%	-	\$119,085	3,060	116,025	-	3,865	112,160	3,990
Series AN issued March 2012, final maturity June 2023	76,810	4.90%	-	76,810	-	76,810	-	375	76,435	1,070
Total	\$1,265,905	-	\$885,290	\$195,895	\$139,470	\$941,715	-	\$41,910	\$899,805	\$46,970

Principal and interest requirements to maturity are as follows.

<i>(in thousands)</i>			
	Principal	Interest	Total
2014	\$46,970	\$42,801	\$89,771
2015	54,970	40,689	95,659
2016	60,825	38,069	98,894
2017	61,910	35,105	97,015
2018	61,030	32,072	93,102
2019-2023	301,650	115,299	416,949
2024-2028	186,265	52,970	239,235
2029-2033	92,385	20,154	112,539
2034-2038	33,520	3,663	37,183
2039	280	14	294
Total	\$899,805	\$380,836	\$1,280,641

(10) RATING ACTIONS

Subsequent to its July 2012 rating action downgrading the Commonwealth from Aa1 to Aa2, Moody's Investors Service, Inc., downgraded PASSHE's outstanding bonds from Aa2 to a rating of Aa3 in October 2012. PASSHE's other major rating agency,

Fitch Ratings, took no downgrading action and continues to rate PASSHE's bonds as AA.

(11) CAPITAL ASSETS

The classifications of capital assets and related depreciation at June 30, 2013 and 2012, follow.

<i>(in thousands)</i>							
	Balance June 30, 2011	2011/12 Additions	2011/12 Retirements/ Adjustments	Balance June 30, 2012	2012/13 Additions	2012/13 Retirements/ Adjustments	Balance June 30, 2013
Land	\$26,304	\$987	\$315	\$27,606	\$1,657	-	\$29,263
Construction in progress	175,278	75,983	(158,634)	92,627	65,413	(\$54,258)	103,782
Total capital assets not being depreciated	201,582	76,970	(158,319)	120,233	67,070	(54,258)	133,045
Buildings, including improvements	1,687,780	73,283	127,859	1,888,922	39,741	24,604	1,953,267
Improvements other than buildings	223,831	3,374	5,021	232,226	6,516	3,720	242,462
Equipment and furnishings	388,202	32,028	4,810	425,040	24,688	(4,297)	445,431
Library books	83,810	1,342	(1,192)	83,960	1,331	(1,380)	83,911
Total capital assets being depreciated	2,383,623	110,027	136,498	2,630,148	72,276	22,647	2,725,071
Less accumulated depreciation							
Buildings and improvements	(568,326)	(71,357)	2,531	(637,152)	(76,504)	10,046	(703,610)
Land improvements	(95,316)	(9,090)	886	(103,520)	(9,194)	435	(112,279)
Equipment and furnishings	(298,280)	(30,292)	14,837	(313,735)	(31,589)	6,238	(339,086)
Library books	(71,345)	(2,415)	1,173	(72,587)	(2,249)	1,270	(73,566)
Total accumulated depreciation	(1,033,267)	(113,154)	19,427	(1,126,994)	(119,536)	17,989	(1,228,541)
Total capital assets being depreciated, net	1,350,356	(3,127)	155,925	1,503,154	(47,260)	40,636	1,496,530
Capital assets, net	\$1,551,938	\$73,843	(\$2,394)	\$1,623,387	\$19,810	(\$13,622)	\$1,629,575

(12) CONTINGENCIES AND COMMITMENTS

Contingencies

The nature of the educational industry is such that, from time to time, PASSHE 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.

PASSHE is self-insured for workers' compensation up to stated limits (note 6). For all other risks of loss, PASSHE pays annual premiums to the Commonwealth to participate in its Risk Management Program. PASSHE 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. PASSHE has not significantly reduced any of its insurance coverage from the prior year. Settled

claims have not significantly exceeded PASSHE's insurance coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2013 and 2012, were approximately \$58,155,000 and \$100,049,000, respectively.

(13) SUBSEQUENT EVENTS

In July 2013, PHEFA issued Series AO revenue bonds, comprising \$12,340,000 in tax-exempt revenue bonds and \$18,575,000 in taxable revenue bonds. The net proceeds from the Series AO revenue bonds were used to finance capital projects at several universities. In connection with the bond issuance, PASSHE entered into a loan agreement with PHEFA under which PASSHE pledged its full faith and credit for repayment of bonds.

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended June 30, 2013 and 2012

(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, 2010	\$0	\$1,315,116	\$1,315,116	0%	\$554,213	237%
July 1, 2011	\$0	\$1,373,049	\$1,373,049	0%	\$570,839	241%
July 1, 2012	\$0	\$1,420,502	\$1,420,502	0%	\$566,753	251%

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, 2010	\$56,320	\$13,674,250	\$13,617,930	.41%	\$3,786,000	360%
July 1, 2011	\$70,740	\$12,907,790	\$12,837,050	.55%	\$3,839,000	334%
July 1, 2012	\$71,630	\$12,843,700	\$12,772,070	.56%	\$4,130,000	309%



**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 (PASSHE), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise PASSHE's basic financial statements, and have issued our report thereon dated September 26, 2013. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, which represent 100 percent of the total assets and 100 percent of the total revenues of the discretely presented component units, as described in our report on PASSHE'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 PASSHE'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 PASSHE's internal control. Accordingly, we do not express an opinion on the effectiveness of PASSHE's internal control.

Internal Control Over Financial Reporting (Continued)

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



CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
September 26, 2013

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
OFFICE OF THE CHANCELLOR
DIXON UNIVERSITY CENTER
2986 NORTH SECOND STREET
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**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA**

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2013

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SINGLE AUDIT REPORT
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YEAR ENDED JUNE 30, 2013**

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Pennsylvania State System of Higher Education's ("PASSHE") 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 PASSHE's major federal programs for the year ended June 30, 2013. PASSHE's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. PASSHE'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 PASSHE's Schedule of Expenditures of Federal Awards during the year ended June 30, 2013. 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 PASSHE'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 PASSHE'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 PASSHE's compliance.

Opinion on Each Major Federal Program

In our opinion, PASSHE 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, 2013.

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 2013-001 through 2013-018. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of PASSHE 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 PASSHE'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 PASSHE'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 2013-001 through 2013-018 that we consider to be significant deficiencies.

Report on Internal Control Over Compliance (Continued)

PASSHE'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. PASSHE'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, the aggregate discretely presented component units of PASSHE, a component unit of the Commonwealth of Pennsylvania as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise PASSHE's basic financial statements. We issued our report thereon dated September 26, 2013, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the discretely presented component units, which represent 100% percent, 100% percent, and 100% percent, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
March 31, 2014

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Education Clusters</u>		
Student Financial Assistance Cluster:		
Federal Supplemental Education Opportunity Grants	84.007	\$ 3,509,836
Federal Work-Study Program	84.033	5,115,120
Perkins Loan Cancellations	84.037	2,152,338
Federal Perkins Loan Outstanding	84.038	38,856,679
Federal Pell Grant Program	84.063	140,614,993
Federal Direct Student Loans	84.268	749,476,683
Teacher Education Assistance for College and Higher Education Grants	84.379	386,235
Postsecondary Education Scholarships for Veteran's Dependents	84.408	1,052,392
Federal Nursing Loans Outstanding	93.364	<u>440,573</u>
Total student financial assistance cluster		941,604,849
TRIO Cluster		4,992,827
<u>Other</u>		
Total research and development cluster		1,599,384
Total other federal awards		<u>24,153,487</u>
Total expenditures of federal awards		<u>\$ 972,350,547</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
RESEARCH AND DEVELOPMENT CLUSTER
YEAR ENDED JUNE 30, 2013**

Federal Grantor/ Program or Cluster Title/ Pass-Through Grantor	Grant Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Education</u>				
TRIO - Student Support Services	P042A101265-11	84.042A	Bloomsburg	\$ 796
TRIO - Student Support Services	P042A101265-12	84.042A	Bloomsburg	238,788
TRIO - Student Support Services	P042A101265-12	84.042A	Bloomsburg	28,000
TRIO - Student Support Services	P042A100147-1	84.042A	California	13,263
TRIO - Student Support Services	P042A100147-12	84.042A	California	268,372
TRIO - Student Support Services	P042A100594-11	84.042A	ESU	55,695
TRIO - Student Support Services	P042A100594-12	84.042A	ESU	161,045
TRIO - Student Support Services	P042A101003-11	84.042A	Kutztown	61,764
TRIO - Student Support Services	P042A101003-12	84.042A	Kutztown	276,088
TRIO - Student Support Services	P042A100997-11	84.042A	Lock Haven	279,694
TRIO - Student Support Services	P042A100342	84.042A	Mansfield	212,344
TRIO - Student Support Services	P042A100378	84.042A	West Chester	235,289
TRIO - Student Support Services	P042A100469-10	84.042A	Clarion	<u>281,621</u>
Total TRIO - Student Support Services				<u>2,112,759</u>
TRIO - Talent Search	P044A110159	84.044	Clarion	<u>372,012</u>
TRIO - Upward Bound	P047A080324-10	84.047A	Bloomsburg	3,220
TRIO - Upward Bound	P047A080324-11	84.047A	Bloomsburg	84,816
TRIO - Upward Bound	P047A080324-12	84.047A	Bloomsburg	257,037
TRIO - Upward Bound	P047A080305-11	84.047A	California	102,889
TRIO - Upward Bound	P047A080448-11	84.047A	California	40,259
TRIO - Upward Bound	P047A121736	84.047A	California	329,845
TRIO - Upward Bound	P047A120320	84.047A	California	186,989
TRIO - Upward Bound	P047A121574	84.047A	ESU	398,953
TRIO - Upward Bound	P047A121574-13	84.047A	ESU	11,727
TRIO - Upward Bound	P047M070334	84.047M	IUP	67,295
TRIO - Upward Bound	P047M120160	84.047M	IUP	164,695
TRIO - Upward Bound	P047A070763-11	84.047	Lock Haven	216,184
TRIO - Upward Bound	P047A070541-10	84.047	Clarion	<u>414,456</u>
Total TRIO - Upward Bound				<u>2,278,365</u>
TRIO - McNair Post-Baccalaureate Achievement	P217A070107	84.217A	IUP	74,472
TRIO - McNair Post-Baccalaureate Achievement	P217A120039	84.217A	IUP	<u>155,219</u>
Total TRIO - McNair Post-Baccalaureate Achievement				<u>229,691</u>
Total TRIO Cluster				<u><u>\$ 4,992,827</u></u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
RESEARCH AND DEVELOPMENT CLUSTER
YEAR ENDED JUNE 30, 2013**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Agriculture</u>				
Grants for Agricultural Research				
Special Research Grants	2010-38888-21748	10.200	Cheyney	(269)
Pass-Through IUP Research Institute:				
Soil and Water Conservation	68-7482-12-502	10.902	Indiana	<u>(743)</u>
Total U.S. Department of Agriculture				<u>(1,012)</u>
<u>U.S. Department of Commerce</u>				
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	NA10NMF4270215	11.427	West Chester	<u>43,245</u>
Total U.S. Department of Commerce				<u>43,245</u>
<u>U.S. Department of the Interior</u>				
Pass-Through University of Pennsylvania Assistance to State Water Resources Research Institutes	6532102811	15.805	Shippensburg	833
Pass-Through IUP Research Institute:				
Wildlife Restoration and Basic Hunter Education	NFC050112-22813IUP	15.611	Indiana	817
National Fish and Wildlife Foundation	231047	15.663	Indiana	31,792
National Fish and Wildlife Foundation	790B	15.663	Indiana	<u>2,864</u>
Total National Fish and Wildlife Foundation				<u>34,656</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
National Cooperative Geologic Mapping Program	G12AC20270	15.810	Bloomsburg	29,373
Natural Resource Stewardship	P11AC40836	15.944	East Stroudsburg	2,415
Natural Resource Stewardship	NPSRP 62108	15.944	East Stroudsburg	56
Natural Resource Stewardship	R4320110302	15.944	East Stroudsburg	993
Natural Resource Stewardship	H4560040069	15.944	East Stroudsburg	904
Natural Resource Stewardship	DEWA-2013--SCI-0011	15.944	East Stroudsburg	1,539
Natural Resource Stewardship	H4506080729	15.944	East Stroudsburg	205
Total Natural Resource Stewardship				<u>6,112</u>
Total U.S. Department of the Interior				<u>71,791</u>
<u>National Aeronautics and Space Administration</u>				
Science	NNX11AR18G	43.001	Bloomsburg	13,623
Science	NNX11AG23G	43.001	Millersville	2,885
Pass-Through Science Systems & Applications, Inc:				
Science	21101-12-022	43.001	Millersville	156,832
Science	21101-12-022	43.001	Millersville	20,617
Science	21101-12-022	43.001	Millersville	1,794
Pass-Through Smithsonian Astrophysical Observatory:				
Science	GO2-13017X	43.001	West Chester	1,821
Total Science				<u>197,572</u>
Total National Aeronautics and Space Administration				<u>197,572</u>
<u>National Endowment for the Humanities</u>				
Promotion of the Humanities Research	RZ-20982-02	45.161	East Stroudsburg	3,278
Promotion of the Humanities Public Programs	LT-50072-09	45.164	Kutztown	1,840
Total National Endowment for the Humanities				<u>5,118</u>

The accompanying Notes are an integral part of this schedule.

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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>National Science Foundation</u>				
Mathematical and Physical Sciences	PHY-0970012	47.049	Kutztown	33,095
Mathematical and Physical Sciences	DMR-1206231	47.049	West Chester	57,260
Mathematical and Physical Sciences	DMS-1137949	47.049	West Chester	26,837
Pass-Through Trustees of the University of Pennsylvania, Mathematical and Physical Sciences	00001883	47.049	West Chester	27,343
Total Mathematical and Physical Sciences				144,535
Geosciences	EAR-1220317	47.050	Indiana	3,714
Geosciences	OCE-1030430	47.050	Kutztown	16,899
Geosciences	AGS-1259020	47.050	Millersville	1,518
Geosciences	EAR-1037709	47.050	Millersville	27,849
Geosciences	GEO-1034925	47.050	West Chester	3,426
Geosciences	AGS-1127242	47.050	West Chester	19,540
Pass-Through Trustees of the University of Pennsylvania Geosciences	EAR-1052848	47.050	West Chester	10,574
Total Geosciences				83,520
Computer & Information Science & Engineering	IIS-0835411	47.070	Millersville	13,715
Computer & Information Science & Engineering	IIS-0968368	47.070	Millersville	48,738
Computer & Information Science & Engineering	IIS-1016900	47.070	Millersville	62,714
Computer & Information Science & Engineering	IIS-0932712	47.070	West Chester	48,021
Computer & Information Science & Engineering	CNS-1054492	47.070	West Chester	20,970
Total Computer and Information Science and Engineering				194,158
Pass-Through Pennsylvania State University,				
Biological Sciences	EF-0914384	47.074	Millersville	\$ 35,347
Biological Sciences	DEB-1036505	47.074	Millersville	12,202
Biological Sciences	653210008	47.074	Shippensburg	8,770
Pass-Through IUP Research Institute, Biological Sciences	DEB-1120579-001	47.074	Indiana	21,290
Total Biological Sciences				77,609

The accompanying Notes are an integral part of this schedule.

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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Social, Behavioral, and Economic Sciences	BCS-1231350	47.075	Slippery Rock	25,868
Education and Human Resources	DUE-1241663	47.076	Indiana	20,918
Education and Human Resources	6532102610	47.076	Shippensburg	3,684
Pass-Through University of Central Florida, Education and Human Resources	64036038	47.076	Indiana	14,043
Education and Human Resources	DUE-1118600/2051-2037-01	47.076	East Stroudsburg	1,505
Education and Human Resources	DUE-1118600/2051-2037-02 ES	47.076	East Stroudsburg	5,401
Total Education and Human Resources				45,551
Pass Through Penn State University, Trans-NSF Recovery Act Research Support - ARRA	PFI 0917466	47.082	Millersville	10,168
Trans-NSF Recovery Act Research Support - ARRA	AST-0908098	47.082	Bloomsburg	24,793
Trans-NSF Recovery Act Research Support - ARRA	BCS-0924369	47.082	Slippery Rock	7,500
Total Trans-NSF Recovery Act Research Support				42,461
Total National Science Foundation				613,702
<u>Environmental Protection Agency</u>				
Pass Through Board of Trustees of Western Michigan University Science to Achieve Results (STAR) Research Program	83540901	66.509	West Chester	1,562
<u>U.S. Department of Health and Human Services</u>				
Mental Health Research Career/Scientist Development Awards	1K23MH082257-01A1	93.281	West Chester	107,379
Child Health and Human Development Extramural Research	1R15HD061796-01A1	93.865	West Chester	18,711
Total U.S. Department of Health and Human Services				126,090

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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Defense</u>				
Basic and Applied Scientific Research Pass-Through University of Virginia,	N00014-10-1-0569	12.300	Millersville	3,961
Basic and Applied Scientific Research Pass-Through Lehigh University,	08PR06821-00	12.300	West Chester	142,613
Basic and Applied Scientific Research	542549-78004	12.300	Kutztown	<u>10,712</u>
Total Basic and Applied Scientific Research				<u>157,286</u>
Information Security Grant Program	H9820-11-1-0478	12.902	East Stroudsburg	19,697
Information Security Grant Program	H98230-12-1-0458	12.902	East Stroudsburg	61,604
Information Security Grant Program	H98230-10-1-0409	12.902	East Stroudsburg	<u>6,771</u>
Total Information Security Grant Program				<u>88,072</u>
Mathematical Sciences Grants Program	H98230-11-1-0190	12.901	West Chester	3,375
Mathematical Sciences Grants Program	H98230-13-1-0207	12.901	West Chester	<u>13,518</u>
Total Mathematical Sciences Grants Program				<u>16,893</u>
Total U.S. Department of Defense				<u>262,251</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
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YEAR ENDED JUNE 30, 2013**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Justice</u>				
Public Safety Partnership and Community				
Policing Grants	2009CKWX0594	16.710	Bloomsburg	8,407
Recovery Act - Edward Bryne Memorial				
Competitive Grant Program - ARRA	2009-SC-B9-0022	16.808	Kutztown	64,417
National Institute of Justice Research, Evaluation, and Development (NIJRED)				
Project Grants	2010-DD-BX-K039	16.560	East Stroudsburg	21,985
Project Grants	2006-DD-BX-0471	16.560	East Stroudsburg	183,554
Project Grants	2008-DD-BX-K013	16.560	East Stroudsburg	<u>(2)</u>
Total NIJRED Project Grants				<u>205,537</u>
Total U.S. Department of Justice				<u>278,361</u>
<u>U.S. Department of Energy</u>				
Pass-Through Tulane University, Office of Science Financial				
Assistance Program	DE-FC02-06ER64298	81.049	West Chester	<u>\$ 704</u>
Total Research and Development Cluster				<u><u>\$ 1,599,384</u></u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Agriculture</u>				
Child and Adult Care Food Program	6533100312	10.558	Shippensburg	3,903
Child and Adult Care Food Program	6533100313	10.558	Shippensburg	<u>29,112</u>
Total Child and Adult Care Food Program				<u>33,015</u>
Pass-Through PA Dept of Education:				
Summer Food Service Program for Children	AUN: 300191200	10.559	Bloomsburg	7,432
Summer Food Service Program for Children	AUN: 300191175	10.559	Bloomsburg	20,372
Summer Food Service Program for Children	Not available	10.559	California	2,990
Summer Food Service Program for Children	Not available	10.559	California	2,069
Summer Food Service Program for Children	4-06-16-140-0	10.559	Clarion	<u>6,899</u>
Total Summer Food Service Program for Children				<u>39,762</u>
Pass-Through SBDC,				
Rural Business Enterprise Grants	44-016-251474927	10.769	Clarion	78,251
Rural Business Enterprise Grants	Not available	10.769	Lock Haven	<u>11,180</u>
Total Rural Business Enterprise Grants				<u>89,431</u>
National Fish and Wildlife Foundation	0603.12.033212	10.683	Lock Haven	4,325
Pass-Through U.S. Forest Service, Forestry Research	Not available	10.652	Clarion	<u>6,170</u>
Total U.S. Department of Agriculture				<u>172,703</u>
<u>U.S. Department of Commerce</u>				
Pass-Through National Geographic Society, NOAA Mission-Related Education Awards	6533104213	11.008	Shippensburg	94,271
Pass-Through University of Pennsylvania, Economic Development-Technical Assistance	561120-C	11.303	Lock Haven	7,751
Pass-Through University of Pennsylvania, Economic Adjustment Assistance	01-79-14227	11.307	Kutztown	22,656
Economic Adjustment Assistance	6533104313	11.307	Shippensburg	<u>157</u>
Total Economic Adjustment Assistance				<u>22,813</u>

The accompanying Notes are an integral part of this schedule.

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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Measurement and Engineering Research and Standards	70NANB13H027	11.609	Lock Haven	5,500
Measurement and Engineering Research and Standards	70NANB12H059	11.609	Millersville	<u>4,916</u>
Total Measurement and Engineering Research and Standards				<u>10,416</u>
Total U.S. Department of Commerce				<u>135,251</u>
<u>U.S. Department of Defense</u>				
Procurement Technical Assistance For Business Firms	SP-4800-11-2-1134	12.002	California	52,502
Procurement Technical Assistance For Business Firms	SP-4800-12-2-1234	12.002	California	160,935
Procurement Technical Assistance For Business Firms	SP-4800-11-2-1135	12.002	Indiana	70,431
Procurement Technical Assistance For Business Firms	SP-4800-11-2-1135	12.002	Indiana	116,522
Pass-Through University of Pennsylvania PASBDC:				
Procurement Technical Assistance For Business Firms	SP4800-11-2-1136	12.002	Kutztown	5,151
Procurement Technical Assistance For Business Firms	SP4800-12-2-1236	12.002	Kutztown	<u>65,579</u>
Total Procurement Technical Assistance for Business Firms				<u>471,120</u>
Mathematical Sciences Grants Program	6533103012	12.901	Shippensburg	<u>5,650</u>
Total U.S. Department of Defense				<u>476,770</u>
<u>U.S. Department of Housing and Urban Development</u>				
Pass-Through PA Dept of Health, Housing Opportunities for Persons with AIDS	4100048081	14.241	Clarion	<u>163,164</u>

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**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of the Interior</u>				
Pass-Through Louisiana Department of Wildlife and Fisheries, State Wildlife Grants	CFMS 709104	15.634	Edinboro	9,632
Pass Through Commonwealth of Pennsylvania Fish and Boat Commission: State Wildlife Grants	Not available	15.634	California	10,300
State Wildlife Grants	Not available	15.634	California	<u>16,200</u>
Total State Wildlife Grants				<u>36,132</u>
Science and Technology Projects Related to Coal Mining and Reclamation	S11AC20040	15.255	Indiana	<u>31,384</u>
Pass-Through Montana State University, National Land Remote Sensing - Education Outreach and Research	08HQGR0157	15.815	California	18,149
Preservation of Historic Structures on Campuses of Historically Black Colleges and Universities (HBCUs) - ARRA	HC4218105	15.932	Cheyney	<u>173,169</u>
Total U.S. Department of the Interior				<u>258,834</u>
<u>U.S. Department of Justice</u>				
Pass-Through IUP Research Institute, Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	2009-WA-AX-0013	16.525	Indiana	28,640
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	2009-WA-AX-0015	16.525	Lock Haven	18,134
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	2009-WA-AX-0030	16.525	Slippery Rock	<u>42,545</u>
Total Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus				<u>89,319</u>
Pass-Through IUP Research Institute, Law Enforcement Assistance - FBI Field Police Training	A1A103821	16.302	Indiana	39,392

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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through PA Commission on Crime and Delinquency, Juvenile Justice and Delinquency Prevention - Allocation to States	6533100609	16.540	Shippensburg	309,500
Pass-Through PA Commission on Crime and Delinquency, Edward Byrne Memorial Formula Grant Program	6533101610	16.579	Shippensburg	644
Edward Byrne Memorial Formula Grant Program	6533101613	16.579	Shippensburg	<u>106,005</u>
Total Edward Byrne Memorial Formula Grant Program				<u>106,649</u>
Edward Byrne Memorial Justice Assistance Grant Program	6533100712	16.738	Shippensburg	2,097
Edward Byrne Memorial Justice Assistance Grant Program	6533100713	16.738	Shippensburg	<u>285,022</u>
Total Edward Byrne Memorial Justice Assistance Grant Program				<u>287,119</u>
Total U.S. Department of Justice				<u>831,979</u>
<u>U.S. Department of Labor</u>				
Trade Adjustment Assistance	CS-20931-CS1	17.245	Indiana	69,222
Pass-Through PA Dept of Labor: Trade Adjustment Assistance	Not available	17.245	Mansfield	774
Trade Adjustment Assistance	Not available	17.245	Mansfield	18,542
Pass-Through NY Dept of Labor: Trade Adjustment Assistance	Not available	17.245	Mansfield	<u>17,112</u>
Total Trade Adjustment Assistance				<u>105,650</u>
Consultation Agreements	CS-22423-CS2	17.504	Indiana	417,576
Consultation Agreements	CS-22423-CS2	17.504	Indiana	<u>1,266,138</u>
Total Consultation Agreements				<u>1,683,714</u>

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**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through Westmoreland County Community College, H-1B Job Training Grants	CB-20585-10-60-A-42	17.268	Lock Haven	151,069
Pass-Through PA Dept of Environmental Protection, Mine Health and Safety Education and Training	400016307	17.602	Indiana	5,955
Mine Health and Safety Education and Training	4000017318	17.602	Indiana	<u>31,340</u>
Total Mine Health and Safety Education and Training				<u>37,295</u>
Total U.S. Department of Labor				<u>1,977,728</u>
<u>U.S. Department of Transportation</u>				
Pass-Through PA Department of Transportation, Highway Planning and Construction	DTH61-99R-0035	20.205	Cheyney	46,629
Highway Planning and Construction	6562104040	20.205	Shippensburg	<u>69,797</u>
Total Highway Planning and Construction				<u>116,426</u>
State and Community Highway Safety	CP-2012-01	20.600	Indiana	27,484
State and Community Highway Safety	471085 CP 13-01	20.600	Indiana	<u>53,416</u>
Total State and Community Highway Safety				<u>80,900</u>
Total U.S. Department of Transportation				<u>197,326</u>
<u>National Aeronautics & Space Administration</u>				
Pass-Through Pennsylvania State University, Science	NGT5-40064	43.001	Clarion	23
Pass-Through University of Maryland, Science	6533103512	43.001	Shippensburg	<u>6,705</u>
Total Science				<u>6,728</u>
Total National Aeronautics & Space Administration				<u>6,728</u>

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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>National Endowment for the Humanities</u>				
Promotion of the Humanities - Fellowships and Stipends	Not available	45.160	Millersville	50,400
Promotion of the Humanities - Professional Development	AQ5049611	45.163	Cheyney	<u>17,000</u>
Total National Endowment for the Humanities				<u>67,400</u>
<u>Institute of Museum & Library Services</u>				
Pass-Through PA Dept of Education - Office of Commonwealth Libraries, Conservation Project Support	LSTA202-100051	45.303	Indiana	6,978
Laura Bush 21st Century Librarian Program	RE-01-10-0011-10	45.313	Mansfield	<u>321,583</u>
Total Institute of Museum & Library Services				<u>328,561</u>
<u>National Science Foundation</u>				
Computer & Information Science & Engineering	CNS-1042508	47.070	East Stroudsburg	30,620
Mathematical and Physical Sciences	DMR-1107667	47.049	Clarion	106,104
Trans-NSF Recovery Act Research Support - ARRA	DBI-0963296	47.082	Indiana	344,258
Pass-Through Penn State University, Trans-NSF Recovery Act Research Support	IIP0917466	47.082	Millersville	<u>8,127</u>
Total Trans-NSF Recovery Act Research Support				<u>352,385</u>

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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Education and Human Resources	DUE-07217177	47.076	Bloomsburg	89,324
Pass-Through Hofstra University/Husky Research Corporation,				
Education and Human Resources	DRL-0821965	47.076	Bloomsburg	26,646
Pass-Through EdLab Group Foundation,				
Education and Human Resources	GSE-1153882	47.076	California	2,127
Education and Human Resources	HRD-0631789	47.076	California	1,375
Pass-Through Drexel University,				
Education and Human Resources	HDR-0903924	47.076	Cheyney	7,071
Education and Human Resources	HRD-0506137	47.076	Cheyney	6,349
Education and Human Resources	HRD-1137523	47.076	Cheyney	294,867
Education and Human Resources	0727732	47.076	Edinboro	168,979
Education and Human Resources	DUE-0966206	47.076	Indiana	180,873
Education and Human Resources	DUE-1154006	47.076	Kutztown	79,776
Education and Human Resources	DUE-0806660	47.076	Lock Haven	123,441
Education and Human Resources	DUE-1058829	47.076	Lock Haven	122,569
Pass-Through Duquesne University,				
Education and Human Resources	DUE-1226175	47.076	Lock Haven	11,489
Education and Human Resources	DUE-1136359	47.076	Millersville	154,504
Pass-Through Georgia State University,				
Education and Human Resources	DUE-0618678	47.076	Millersville	28,604
Education and Human Resources	DUE-0122954	47.076	Millersville	92,500
Education and Human Resources	DRL-0929639	47.076	Millersville	9,864
Education and Human Resources	6533103312	47.076	Shippensburg	199,690
Education and Human Resources	6533103712	47.076	Shippensburg	88,781
Education and Human Resources	6533103912	47.076	Shippensburg	1,999
Education and Human Resources	6533104113	47.076	Shippensburg	7,054
Total Education and Human Resources				<u>1,697,882</u>
Total National Science Foundation				<u>2,186,991</u>

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Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Small Business Administration</u>				
Small Business Development Centers	1-603001-Z-0146	59.037	Clarion	50,815
Small Business Development Centers	5-56756-Q	59.037	Indiana	30,180
Small Business Development Centers	SBAHQ-12-B-0056/5832	59.037	Indiana	47,059
Pass-Through, The University of Pennsylvania PASBDC:				
Small Business Development Centers	SBAHQ-10-B-0005	59.037	Kutztown	65,000
Small Business Development Centers	SBAHQ-12-B-0056	59.037	Kutztown	180,366
Small Business Development Centers	SBAHQ-13-B0036	59.037	Kutztown	141,094
Small Business Development Centers	SBAHQ-12-B-0056	59.037	Kutztown	11,000
Small Business Development Centers	1-603001-Z-0146	59.037	Kutztown	80,518
Pass-Through the University of Pennsylvania:				
Small Business Development Centers	0-603001-Z-0040-30	59.037	Clarion	231,424
Small Business Development Centers	558323-M	59.037	Lock Haven	41,250
Small Business Development Centers	558323-M (Amend. 1)	59.037	Lock Haven	5,920
Small Business Development Centers	Not available	59.037	Lock Haven	44,466
Small Business Development Centers	1-603001-Z-00146	59.037	Lock Haven	32,481
Small Business Development Centers	6533102912	59.037	Shippensburg	24,816
Small Business Development Centers	6533103612	59.037	Shippensburg	82,948
Small Business Development Centers	6533103613	59.037	Shippensburg	12,425
Small Business Development Centers	6533104013	59.037	Shippensburg	6,000
Total Small Business Development Centers				<u>1,087,762</u>
Total U.S. Small Business Administration				<u>1,087,762</u>
<u>U.S. Department of Education</u>				
Pass-Through PA Dept of Education:				
Migrant Education - State Grant Program	017-11-0105	84.011	Millersville	435,855
Migrant Education - State Grant Program	017-12-0105	84.011	Millersville	1,201,353
Migrant Education - State Grant Program	017-100603	84.011	Millersville	859
Migrant Education - State Grant Program	4100016585	84.011	Millersville	58,814
Total Migrant Education - State Grant Program				<u>1,696,881</u>
Higher Education - Institutional Aid	P031B070075	84.031	Cheyney	1,668,605
Higher Education - Institutional Aid	P031B085075	84.031	Cheyney	(7,200)
Higher Education - Institutional Aid	P031B100095	84.031	Cheyney	841,590
Total Higher Education - Institutional Aid				<u>2,502,995</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

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	93,682
Career and Technical Education - Basic Grants to States	119-12-2001	84.048	Indiana	34,940
Career and Technical Education - Basic Grants to States	119-13-3001	84.048	Indiana	<u>1,222,153</u>
Total Career and Technical Education - Basic Grants to States				<u>1,350,775</u>
Fund for the Improvement of Postsecondary Education	P116Z100098	84.116	Cheyney	(180)
Pass -Through State Higher Education Executive Officers (SHEEO), Fund for the Improvement of Postsecondary Education	P116B100154	84.116B	Office of the Chancellor	13,956
Pass-Through Georgia State University, Fund for the Improvement of Postsecondary Education	P116110036	84.116J	Indiana	<u>12,761</u>
Total Fund for the Improvement of Postsecondary Education				<u>26,537</u>
Rehabilitation Services - Service Projects	H128J100050	84.128J	Slippery Rock	<u>24,909</u>
Safe and Drug-Free Schools and Communities - National Programs	Q184Z090014	84.184Z	Office of the Chancellor	<u>24,592</u>
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K080331	84.325K	Bloomsburg	1,353
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K080331-10	84.325K	Bloomsburg	2,241
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K080331-11	84.325K	Bloomsburg	27,297
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K090312-10	84.325K	Bloomsburg	1,585
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K090312-11	84.325K	Bloomsburg	120,904

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, 2013**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K090312-12	84.325K	Bloomsburg	92,737
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325T090007-12	84.325T	California	60,708
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K080320-11	84.325K	Slippery Rock	66,329
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	H325K120303	84.325K	Slippery Rock	<u>32,040</u>
Total Special Education - Personnel Development to Improve Services and Results for Children with Disabilities				<u>405,194</u>
Special Education - Technology and Media Services for Individuals with Disabilities	H327A110069-12	84.327A	California	<u>49,382</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Bloomsburg	52,173
Pass-Through Pennsylvania Higher Education Assistance Agency:				
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Indiana	84,638
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Lock Haven	21,090
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Shippensburg	115,856
Pass-Through School District of Lancaster, Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Millersville	52,725
Gaining Early Awareness and Readiness for Undergraduate Programs	Not available	84.334	Millersville	95,062
Gaining Early Awareness and Readiness for Undergraduate Programs	P334S080005	84.334S	Office of the Chancellor	<u>3,906,077</u>
Total Gaining Early Awareness and Readiness for Undergraduate Programs				<u>4,327,621</u>
Childcare Access Means Parents in School	P335A090102-12	84.335A	California	54,570
Childcare Access Means Parents in School	P335A100026	84.335A	Indiana	128,420
Childcare Access Means Parents in School	P335A090058	84.335A	Slippery Rock	<u>16,045</u>
Total Child Care Access Means Parents in School				<u>199,035</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through Arts Council of Erie, Arts in Education	U351D100138	84.351D	Edinboro	<u>19,450</u>
English Language Acquisition Grants	T365Z120055	84.365Z	California	<u>273,432</u>
Pass-Through National Writing Project:				
Improving Teacher Quality State Grants	05-PA11-SEED2012	84.367D	East Stroudsburg	9,463
Improving Teacher Quality State Grants	09-PA12-SEED2012	84.367D	Edinboro	19,776
Improving Teacher Quality State Grants	92-PA05-SEED2012	84.367D	West Chester	20,000
Improving Teacher Quality State Grants	Not available	84.367	Mansfield	20,000
Pass-Through PA Department of Education:				
Improving Teacher Quality State Grants	71-800003	84.367B	Office of the Chancellor	43,231
Pass-Through University of Pittsburgh, Improving Teacher Quality State Grants	Not available	84.367	Mansfield	<u>31,241</u>
Total Improving Teacher Quality State Grants				<u>143,711</u>
Pass-Through Perseus House Charter School of Excellence, School Improvement Grants	K11040	84.377A	Edinboro	<u>29,849</u>
Pass-Through PA Higher Education Assistance Agency:				
College Access Challenge Grant Program	G-1112AA033	84.378A	California	9,000
College Access Challenge Grant Program	Not available	84.378	Mansfield	10,156
College Access Challenge Grant Program	6533103812	84.378A	Shippensburg	<u>7,386</u>
Total College Access Challenge Grant Program				<u>26,542</u>
Pass-Through Ohio State University, Investing in Innovation (i3) Fund - ARRA	6533103112	84.411	Shippensburg	<u>254,264</u>
Total U.S. Department of Education				<u>11,355,169</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
<u>U.S. Department of Energy</u>				
Pass-Through Office of Science, Office of Science Financial Assistance Program	DE-SC0002013	81.049	Cheyney	87,776
Renewable Energy Research and Development	DE-EE0004499	81.087	West Chester	<u>1,191,289</u>
Total U.S. Department of Energy				<u>1,279,065</u>
<u>U.S. Department of Health and Human Services</u>				
Nurse Anesthetist Traineeships	A22HP24515	93.124	Bloomsburg	<u>13,348</u>
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	T1023447	93.243	Cheyney	<u>6,193</u>
Pass-Through Center for Disease Control, Occupational Safety and Health Program	5T02OH008622-07	93.262	Millersville	9,900
Occupational Safety and Health Program	2T02OH008622-05	93.262	Millersville	<u>35,368</u>
Total Occupational Safety and Health Program				<u>45,268</u>
Pass-Through University of Pittsburgh, Drug Abuse and Addiction Research Programs	5R01DA008916-13	93.279	Slippery Rock	<u>14,729</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance	Not available	93.283	Lock Haven	<u>546</u>
Advanced Nursing Education Traineeships	A10HP25176	93.358	Bloomsburg	<u>322,205</u>
Pass-Through Drexel University, Nurse Education, Practice Quality and Retention Grants	Not available	93.359	Bloomsburg	<u>20,719</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through PHEAA, Chafee Education and Training Vouchers Program (ETV)	Not available	93.599	Shippensburg	18,000
Chafee Education and Training Training Vouchers Program (ETV)	Not available	93.599	Millersville	<u>6,000</u>
Total Chafee Education and Training Vouchers Program (ETV)				<u>24,000</u>
Head Start	6533100112	93.600	Shippensburg	773,973
Head Start	6533100113	93.600	Shippensburg	105,677
Head Start	6533100212	93.600	Shippensburg	8,599
Head Start	6533100213	93.600	Shippensburg	<u>4,602</u>
Total Head Start				<u>892,851</u>
Chafee Foster Care Independence Program	410047664	93.674	Bloomsburg	22,500
Pass-Through PHEAA, Chafee Foster Care Independence Program	Not available	93.674	Lock Haven	<u>15,000</u>
Total Chafee Foster Care Independence Program				<u>37,500</u>
Health Careers Opportunity Program	1D1SHP19982-01-00/231;	93.822	East Stroudsburg	9,084
Health Careers Opportunity Program	1D1SHP19982-01-00/231;	93.822	East Stroudsburg	<u>52,571</u>
Total Health Careers Opportunity Program				<u>61,655</u>
Pass-Through University of Pittsburgh, Biomedical Research and Research Training	RGM103368A	93.859	Slippery Rock	<u>9,661</u>
Pass-Through the Commonwealth Medical College, Grants for Training in Primary Care Medicine and Dentistry	1T85HP24464-01-00	93.884	East Stroudsburg	<u>50,903</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

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, HIV Care Formula Grants	4100048817	93.917	Clarion	680,558
Pass-Through Health Resource Services, Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	H76HA00756	93.918	Clarion	<u>405,313</u>
Pass-Through Health Resource Services, Special Projects of National Significance	H97HA19769	93.928	Clarion	<u>42,200</u>
Public Health Traineeships	A03HP24241	93.964	West Chester	<u>4,718</u>
Total U.S. Department of Health and Human Services				<u>2,632,367</u>
<u>Corporation for National and Community Service</u>				
Pass-Through Corporation for National and Community Service, Learn and Serve America School and Community Based Programs	WCU0420204	94.004	West Chester	<u>8,819</u>
<u>U.S. Department of Homeland Security</u>				
Pass-Through PA Emergency Management Agency: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-4099- DR-PA-U287K-00	97.036	East Stroudsburg	9,322
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-4099- DR-PA-U287K-00	97.036	East Stroudsburg	3,919
Pass-Through PA Emergency Management Agency (PEMA): Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-4030-DR- PA-000-U287K-00	97.036	Office of the Chancellor	<u>(750)</u>
Total Disaster Grants				<u>12,491</u>

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OTHER FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor	Grant Number/ Pass-Through Identifying Number	Federal CFDA Number	University	Federal Expenditures
Pass-Through PA Emergency Management Agency (PEMA):				
Homeland Security Grant Program	4100049475	97.067	Office of the Chancellor	103,698
Homeland Security Grant Program	4100053808	97.067	Office of the Chancellor	191,997
Homeland Security Grant Program	4100056014	97.067	Office of the Chancellor	322,365
Total Homeland Security Grant Program				618,060
Total U.S. Department of Homeland Security				630,551
<u>U.S. Election Assistance Commission</u>				
Help America Vote College Program	E4064552G	90.400	Kutztown	3,585
<u>Other</u>				
Teaching Primary Sources Program	Not available	99.999	California	227,982
Pass-Through US Dept of Education:				
National Writing Project	05PA-11 (06)	99.999	East Stroudsburg	1,208
National Writing Project	05PA-11 (07)	99.999	East Stroudsburg	18,779
Pass-through National Writing Project Corporation:				
National Writing Project		99.999	Mansfield	18,315
National Writing Project	U928A080001	99.999	Edinboro	7,170
Pass-Through PA Department of Education/ PA Higher Education Assistance Authority,				
Creating Access to Postsecondary Schools	Not available	99.999	Indiana	8,690
Pass-Through The Pennsylvania State University:				
PA Space Grant Consortium	NNX10AK74H	99.999	California	8,078
NASA Awards	4179-WCU-NASA-K74H	99.999	West Chester	8,782
Pass-Through University of California,				
National Writing Project	92-PA05	99.999	West Chester	13,949
Pass-Through US Dept of Justice,				
Grants to Encourage Arrest Policies and Enforcement of Protection Orders				
	2011-WA-AX-0018	99.999	East Stroudsburg	31,312
Equitable Share Agreement	PA0154600	99.999	West Chester	3,636
Forest Service Northern Research Station	11-JV-11242306-095	99.999	West Chester	4,287
Forest Service Northern Research Station	13-JV-11242304-033	99.999	West Chester	546
Total Other				352,734
TOTAL				24,153,487

The accompanying Notes are an integral part of this schedule.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

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 ("PASSHE"), and its member universities, for the year ended June 30, 2013. For purposes of the Schedule, federal awards include all U.S. government financial assistance, procurement relationships between PASSHE 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). PASSHE 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.

Relationship to Basic Financial Statements

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

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Student Financial Assistance

The following table shows certain information concerning student financial assistance programs detailed by University for the year ended June 30, 2013:

<u>University</u>	<u>Federal Pell</u>	<u>Federal Supplemental Educational Opportunity Grant</u>	<u>Federal Work Study</u>	<u>Federal Perkins Cancellations</u>	<u>Teacher Education Assistance For College And Higher Education Grant</u>	<u>Post-Secondary Education Scholarships for Veteran's Dependents</u>
Bloomsburg	\$ 11,607,349	\$ 204,333	\$ 683,681	\$ 13,091	\$ -	\$ -
California	10,583,161	314,099	351,562	-	43,000	-
Cheyney	4,486,765	407,229	172,320	-	4,000	-
Clarion	8,437,352	169,621	228,713	28,852	52,748	-
East						
Stroudsburg	7,946,974	168,932	275,874	16,425	-	-
Edinboro	11,434,071	238,617	278,173	-	102,760	-
Indiana	19,749,753	736,991	1,426,757	-	-	-
Kutztown	11,889,620	166,530	245,080	37,828	-	-
Lock Haven	8,047,941	269,475	225,485	2,711	43,000	-
Mansfield	5,254,563	89,573	127,630	-	17,500	-
Millersville	9,649,301	156,731	196,810	7,710	-	-
Shippensburg	8,007,624	149,822	172,216	28,160	19,000	-
Slippery Rock	10,211,390	202,129	374,448	16,932	20,787	-
West Chester	13,309,129	235,754	356,371	2,000,629	83,440	1,052,392
	<u>\$ 140,614,993</u>	<u>\$ 3,509,836</u>	<u>\$ 5,115,120</u>	<u>\$ 2,152,338</u>	<u>\$ 386,235</u>	<u>\$ 1,052,392</u>

The above amounts awarded to students include certain administrative allowances.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

Student Financial Assistance (Continued)

PASSHE 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, 2013 are as follows:

<u>University</u>	<u>Federal Perkins Loans Awarded</u>	<u>Nursing Student Loans Awarded</u>	<u>Federal Direct Loans Awarded</u>
Bloomsburg	\$ 98,000	\$ -	\$ 60,497,347
California	-	-	59,307,958
Cheyney	-	-	11,600,629
Clarion	-	-	41,677,704
East			
Stroudsburg	209,350	-	42,029,640
Edinboro	242,273	55,450	54,202,405
Indiana	861,861	-	106,375,710
Kutztown	548,159	-	63,265,001
Lock Haven	256,713	-	39,150,714
Mansfield	305,263	-	21,303,886
Millersville	206,890	-	50,311,121
Shippensburg	383,322	-	55,212,897
Slippery Rock	611,512	-	57,596,316
West Chester	854,527	37,300	86,945,355
	<u>\$ 4,577,870</u>	<u>\$ 92,750</u>	<u>\$ 749,476,683</u>

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

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

Student Financial Assistance (Continued)

Outstanding loans and administrative allowances under the programs administered by PASSHE for the year ended June 30, 2013 are as follows:

<u>University</u>	<u>Federal Perkins Loans Outstanding</u>	<u>Nursing Student Loans Outstanding</u>
Bloomsburg	\$ 1,861,138	\$ -
California	2,648,805	-
Cheyney	199,951	-
Clarion	575,366	-
East Stroudsburg	2,219,445	-
Edinboro	2,068,670	190,153
Indiana	7,968,118	-
Kutztown	3,138,283	-
Lock Haven	1,320,746	-
Mansfield	1,697,123	-
Millersville	1,521,841	-
Shippensburg	2,571,316	-
Slippery Rock	4,001,916	-
West Chester	7,063,961	250,420
	<u>\$ 38,856,679</u>	<u>\$ 440,573</u>

MAJOR PROGRAMS

Major programs are identified on the schedule of findings and questioned costs and totaled approximately \$972,351,000, which is over 97% of total expenditures of federal awards for the year ended June 30, 2013. This amount includes loans administered under the Federal Direct Loan Program during the year ended June 30, 2013 and loans outstanding as of June 30, 2013 under the Federal Perkins Loan Program and the Nursing Student Loan Program.

(5) AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS

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

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

I. SUMMARY OF AUDIT RESULTS

A. Financial Statements

1. The auditors' report expresses an unmodified opinion on the financial statements of PASSHE.
2. No material weaknesses were identified during the audit of the financial statements of PASSHE. No significant deficiencies were noted during the audit of the financial statements of PASSHE.
3. No instances of material noncompliance were disclosed during the audit of the financial statements of the PASSHE.

B. Federal Awards

1. No material weaknesses were identified during the audit of the major federal awards programs for PASSHE. Significant deficiencies were identified during the audit of the major federal award programs for PASSHE.
2. The auditors' report on compliance for the major federal award programs for PASSHE expresses an unmodified opinion.
3. The audit disclosed findings, which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a) and are included in Part III of this report.
4. The programs tested as major programs include:

Program	CFDA #
Student Financial Assistance Cluster	Various
Consultation Agreements	17.504
Education and Human Resources	47.076
Small Business Development Centers	59.037
Migrant Education - State Grant Program	84.011
Higher Education - Institutional Aid	84.031
Career and Technical Education – Basic Grants to States	84.048
Head Start	93.600
HIV Care Formula Grants	93.917
Grants to Provide Outpatient Early Intervention Services	93.918

5. The threshold for distinguishing type A programs was \$922,371.
6. PASSHE was determined to be a low risk auditee.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

II. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

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

CURRENT YEAR

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

Cheyney University

CFDA:

84.007 – Federal Supplemental Education Opportunity Grants

84.033 – Federal Work Study Program

84.038 – Federal Perkins Loans

84.063 – Federal Pell Grant Program

84.268 – Federal Direct Student Loans

84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

Cheyney University had three of five R2T4 calculations tested that had incorrect R2T4 calculations.

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

Criteria:

Under Federal regulations, institutions are required to complete accurate return to Title IV calculations as defined in the regulations.

Questioned Costs:

Unknown

Cause:

The University does not have policies and procedures in place to properly perform R2T4 calculations.

Possible Asserted Effect:

The University is not completing accurate return to Title IV 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 complete, accurate and performed timely. .

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

84.007 – Federal Supplemental Education Opportunity Grants

84.033 – Federal Work Study Program

84.038 – Federal Perkins Loans

84.063 – Federal Pell Grant Program

84.268 – Federal Direct Student Loans

84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

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

Criteria:

The Department of Education requires the University to report enrollment information to NSLDS for all loan recipients in a timely manner.

Questioned Costs:

None

Cause:

The University did not follow the policies and procedures in place to properly report enrollment statuses to NSLDS.

Possible Asserted Effect:

The NSLDS system is not updated with the student information which can cause overawarding should the student transfer to another institution or students may not properly enter the repayment period.

Auditor's Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Verification:

Kutztown University

CFDA:

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

Condition and Context:

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

Criteria:

Federal regulations require that the University obtain the required documentation and verify the student's inputs on the Institutional Student Information Record (ISIR) for all students who are selected for verification.

Questioned Costs:

Unknown

Cause:

The University did not follow the policies and procedures in place to properly perform verification procedures.

Possible Asserted Effect:

The University is not properly completing the verification procedures for students selected for verification.

Auditors' Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

84.063 – Federal Pell Grant Program

84.268 – Federal Direct Student Loans

Condition and Context:

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

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

Criteria:

Federal regulations require that the University report the amount and date disbursement to the COD system within 30 days of the disbursement into the student account.

Questioned Costs:

Undetermined

Cause:

The University does not have policies and procedures in place to properly report to the COD system.

Possible Asserted Effect:

The University is not timely or accurately updating the COD system.

Auditors' Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

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

Condition and Context:

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

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

Criteria:

The University is required to accurately reported items in the FISAP.

Questioned Costs:

None

Cause:

The University does not have policies and procedures in place to accurately report items in the FISAP.

Possible Asserted Effect:

Information is not properly reported in the FISAP.

Auditors' Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Balance Refunds:

Cheyney University

CFDA:

84.007 – Federal Supplemental Education Opportunity Grants

84.033 – Federal Work Study Program

84.038 – Federal Perkins Loans

84.063 – Federal Pell Grant Program

84.268 – Federal Direct Student Loans

84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

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

Criteria:

Based on Department of Education guidelines, all credit balances are to be paid to the student within 14 days of the credit balance being created on the student account without approval from the student for the University to hold the funds.

Questioned Costs

None

Cause:

The University did not follow its policies and procedures regarding credit balances.

Possible Asserted Effect:

Students are not receiving their refunds timely.

Auditors' Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

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

Criteria:

Based on Department of Education guidelines, the school must notify the student or parent in writing (paper or electronically) of the anticipated date and amount of the disbursement; student's (or parent's) right to cancel all or part of the loan or disbursement; and procedures for canceling a loan and the time by which the student (or parent) must notify the school that he or she wishes to cancel the loan, grant or loan or grant disbursement. This notification must be sent 30 days before and no later than 30 days after crediting the student's account if the school obtains affirmative confirmation, or if the school does not obtain affirmative confirmation, no earlier than 30 days before and no later than 7 days after crediting the student's account.

Questioned Costs:

None

Cause:

The University does not have a system in place to notify students when loan funds are disbursed into their account.

Possible Asserted Effect:

Students are not notified when loan funds are disbursed into their account and are not given the chance to cancel the loan if they desire.

Auditors' Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

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

Criteria:

Based on Department of Education guidelines, disbursements must be credited to the student account within three days of drawing the funds from the G5 system.

Questioned Costs:

None

Cause:

The University does not have a system in place to timely identify errors in the student accounts.

Possible Asserted Effect:

The student may not be able to pay their costs timely due to not receiving the funds from the University until after the term ends.

Auditors' Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

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

Criteria:

Based on Department of Education guidelines, loans that are accepted and originated for a student should be disbursed on their behalf if the student begins attendance.

Questioned Costs:

None

Cause:

The University does not have a system in place ensure that all loans accepted by students are fully disbursed.

Possible Asserted Effect:

The student does not receive the loan funds they expect and may not be able to meet their obligations to cover their cost of attendance.

Auditors' Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

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

Criteria:

Based on Department of Education guidelines, institutions must timely complete direct loan reconciliations on a monthly basis.

Questioned Costs:

None

Cause:

The University does not have a system in place to timely reconcile the direct loan programs.

Possible Asserted Effect:

The University may not timely discover errors made in the student accounts or in the direct loan program.

Auditors' Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

84.033 – Federal Work Study Program

Condition and Context:

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

Criteria:

Department of Education guidelines require institutions to enter into written agreements with off-campus employers which define the required attributes as outlined in the FSA Handbook.

Questioned Costs:

None

Cause:

The University was not able to provide written agreements with the off-campus employers.

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 and ensure they obtain a signed agreement before students begin working with the off-campus employers.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

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

Condition and Context:

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

Criteria:

Department of Education guidelines require institutions to have a SAP policy in place to fully address all of the SAP requirements.

Questioned Costs:

None

Cause:

The University's policy does not contain all of the required criteria under the Department of Education regulations.

Possible Asserted Effect:

Students may not understand the SAP policy which might cause them to be out of compliance with the SAP policy.

Auditors' Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Slippery Rock University

CFDA:

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

Condition and Context:

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

Criteria:

Under Federal regulations, institutions are required to complete accurate return to Title IV calculations as defined in the regulations.

Questioned Costs:

Unknown

Cause:

The University does not have policies and procedures in place to timely return funds resulting from a R2T4 calculation.

Possible Asserted Effect:

The University is not completing timely return to Title IV calculations as defined by the regulations

Auditor's Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

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

Criteria:

Under Federal regulations, schools are required to conduct exit counseling for all students who have obtained Federal loans under the Federal Student Aid programs. The material must be mailed or emailed within 30 days of learning that a borrower has withdrawn.

Questioned Costs:

None

Cause:

The University did not follow the policies and procedures in place to timely perform the required exit counseling procedures.

Possible Asserted Effect:

Students could possibly not be given the proper information regarding their responsibilities related to the loans obtained.

Auditor's Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

**2013-015 – Student Financial Assistance Cluster – Special Tests and Provisions – Stafford
Loan Limits:**

Cheyney University

CFDA:

84.268 – Federal Direct Student Loans

Condition and Context:

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

Criteria:

Under Federal regulations, students are limited to annual and aggregate limits based on their dependency and their level of education.

Questioned Costs:

\$37,000

Cause:

The University did not follow the policies and procedures in place to document when a students' parent was denied a Plus loan and to properly award loans up to the proper award limits.

Possible Asserted Effect:

Students are awarded more aid then they are eligible for.

Auditor's Recommendation:

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

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Millersville University

CFDA:

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

Condition and Context:

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

Criteria:

Under Federal regulations, institutions are required to complete accurate return to Title IV calculations as defined in the regulations.

Questioned Costs:

Unknown

Cause:

The University does not have policies and procedures in place to properly perform R2T4 calculations.

Possible Asserted Effect:

The University is not completing accurate return to Title IV 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 complete and accurate.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Kutztown University

CFDA:

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

Condition and Context:

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

Criteria:

Under Federal regulations, institutions are required to complete accurate return to Title IV calculations as defined in the regulations.

Questioned Costs:

Unknown

Cause:

The University does not have policies and procedures in place to properly perform R2T4 calculations.

Possible Asserted Effect:

The University is not completing accurate return to Title IV 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 complete and accurate.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

CURRENT YEAR (CONTINUED)

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

Kutztown University

CFDA:

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

Condition and Context:

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

Criteria:

The Department of Education requires the University to report enrollment information to NSLDS for all loan recipients in a timely manner.

Questioned Costs:

None

Cause:

The University did not follow the policies and procedures in place to properly report enrollment statuses to NSLDS in a timely manner.

Possible Asserted Effect:

The NSLDS system is not updated with the student information in a timely manner which can cause overawarding should the student transfer to another institution or the student may not properly enter the repayment period.

Auditor's Recommendation:

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

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

Finding 12-1

Bloomsburg University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA#84.007, Federal Family Education Loans CFDA#84.032, Federal-Work Study Program CFDA#84.033, Federal Perkins Loans Outstanding CFDA#84.038, Federal Pell Grant Program CFDA#84.063, Federal Direct Student Loans CFDA#84.268, Federal Nursing Student Loans Outstanding CFDA#93.364)

Criteria:

In accordance with 34 CRF 682.610 and 685.309, unless the School expects to complete its next roster file within sixty days, the School must notify NSLDS within thirty days if it discovers a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

Condition:

The University did not submit student status changes in accordance with CFR 34.

Context:

Ten of fourteen students tested did not comply.

Cause:

The University implemented a new student information system in which the reports were not generated properly therefore they did not report student status changes in accordance with CFR 34.

Effect:

NSLDS is not aware of status changes within the required sixty day time period.

Status:

No issues noted at Bloomsburg University for 2013.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

Finding 12-2

Office of the Chancellor – U.S Department of Education, Passed Through the Pennsylvania Department of Education, Improving Teacher Quality State Grant (CFDA #84.367)

Criteria:

As per the grant agreement, mentoring is designed to provide exceptional, experienced administrators who are either current practitioners or who have retired within the last five years to provide on-going support to and mentoring for up to 120 novice protégé administrators who are participating in the Pennsylvania Inspired Leaders (PIL) program offered by the Department.

Condition:

For six administrators selected for testing, there was no support that the administrator providing the mentoring was either a current practitioner or had retired within the past five years.

Context:

Condition was noted for six of eleven administrators tested.

Cause:

The documentation was stored within a website, however, the program manager no longer has access to the website.

Effect:

There is no evidence that the administrator met the requirements to participate under the grant as a mentor.

Recommendation:

Proper documentation to support the administrator's qualification to serve as a mentor should be maintained.

Status:

No issues noted at the Office of the Chancellor in the current year.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-3

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA#84.007, Federal Family Education Loans CFDA#84.032, Federal-Work Study Program CFDA#84.033, Federal Perkins Loans Outstanding CFDA#84.038, Federal Pell Grant Program CFDA#84.063, Federal Direct Student Loans CFDA#84.268, Federal Nursing Student Loans Outstanding CFDA#93.364)

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.

Condition:

Sufficient documentation was not available at the time of review to conclude the University determined the amount of Title IV grant or loan assistance the student earned as of the student's withdrawal date.

Context:

The University was unable to provide adequate documentation that any returns of Title IV calculations were performed.

Cause:

There is a lack of controls in place to ensure refund calculations and any related refunds are being processed.

Effect:

The University may not have made a post-disbursement to a student and have not returned the appropriate funds to the Department of Education.

Recommendation:

The University should implement policies and procedures to ensure return of Title IV calculations are performed.

Status:

Condition found at Cheyney University in 2013. See Finding 2013-001.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-4

Cheyney University – U.S Department of Education, Student Financial Assistance Cluster (Federal Direct Student Loans CFDA#84.268)

Criteria:

In accordance with 34 CFR 685.203, in order for a dependent undergraduate student to receive an additional loan amount, the financial aid administrator must determine that the student's parent will likely be precluded by exceptional circumstances from borrowing under the Federal Direct PLUS Program or the Federal PLUS Program and the student's family is otherwise unable to provide the student's expected family contribution. The financial aid administrator shall base the determination on a review of the family financial information provided by the student and consideration of the student's debt burden and shall document the determination in the school's file.

Condition:

It was noted that 2 students received additional unsubsidized loan amounts with no support of exceptional circumstances.

Context:

Condition was noted for 2 students in the sample of 60 students tested.

Cause:

The University indicated the student was entitled to additional loan funds due to a PLUS denial, however, the University did not have support for the PLUS denial on file.

Effect:

The students received loans in excess of the maximum allowed.

Recommendation:

The University should establish policies and procedures to ensure additional unsubsidized loans are only awarded to students who have documented denials of a parent PLUS loan.

Status:

Condition found at Cheyney University in 2013. See Finding 2013-015.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-5

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA #84.007, Federal Direct Student Loans CFDA #84.268, Federal-Work Study Program CFDA #84.033, Federal Perkins Loans Outstanding CFDA #84.038, Federal Pell Grant Program CFDA #84.375, National Science and Mathematics Access to Retain Talent (SMART) Grants CFDA #84.379, Teacher Education Assistance for College and Higher Education Grants CFDA #84.379, Postsecondary Education Scholarships for Veteran's Dependents CFDA #84.408, Federal Nursing Student Loans Outstanding CFDA #93.364)

Criteria:

In accordance with 34 CFR 675.9, 676.9, 674.9, 682.201, 685.200, and 691.62, the student's aid package, including other awards, cannot exceed the student's financial need.

Condition:

A student selected for testing was awarded total aid in excess of their need.

Context:

Condition was noted for 1 student in our sample of 60 students.

Cause:

Student was over awarded in error.

Effect:

The student received aid in excess of their cost of attendance.

Recommendation:

The University should implement policy and procedures to ensure students are not awarded amounts in excess of their cost of attendance.

Status:

No issues noted at Cheyney University in the current year.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-6

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA #84.007, Federal Direct Student Loans CFDA #84.268, Federal-Work Study Program CFDA #84.033, Federal Perkins Loans Outstanding CFDA #84.038, Federal Pell Grant Program CFDA #84.375, National Science and Mathematics Access to Retain Talent (SMART) Grants CFDA #84.379, Teacher Education Assistance for College and Higher Education Grants CFDA #84.379, Postsecondary Education Scholarships for Veteran's Dependents CFDA #84.408, Federal Nursing Student Loans Outstanding CFDA #93.364)

Criteria:

In accordance with 34 CFR 668.33, if the Social Security Administration does not confirm the student's citizenship assertion under the data match with the Secretary, the student can establish U.S. citizenship by submitting documentary evidence of that status to the institution. Before denying Title IV, HEA assistance to a student for failing to establish citizenship, an institution must give a student at least 30 days notice to produce evidence of U.S. citizenship.

Condition:

A student's ISIR indicated a C code that the student's citizenship had not been confirmed and the University did not have proper documentation on file to confirm citizenship.

Context:

Condition was noted for one student in our sample of 60 students.

Cause:

The University did not have a procedure in place to ensure C codes on the student's ISIR were properly addressed and documented.

Effect:

An ineligible student may have received student financial assistance.

Recommendation:

The University should implement procedures to ensure C codes on student's ISIR are properly addressed.

Status:

No issues noted at Cheyney University in the current year.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

FINDING 12-7

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Direct Student Loans CFDA #84.268)

Criteria:

In accordance with 34 CFR 668.32, a student is eligible to receive Title IV, HEA program assistance if the student has not obtained loan amounts that exceed annual or aggregate loan limits made under Title IV, HEA loan program.

Condition:

Two students were noted to have exceeded the aggregate loan limits for the Federal Direct Loan Program and received subsidized and unsubsidized loans in the current year.

Context:

Condition was noted for 3 students in our sample of 60 students.

Cause:

The University did not have procedures in place to review the student's aggregate loan amounts to ensure they didn't exceed the aggregate loan limits.

Effect:

The University awarded subsidized and unsubsidized loans in excess of the aggregate loan amounts.

Recommendation:

The University should establish procedures to ensure loans are not awarded in excess of aggregate loan limits.

Status:

No issues noted at Cheyney University in the current year.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

FINDING 12-8

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Work-Study Program CFDA #84.033)

Criteria:

In accordance with 34 CFR 675.18, an institution must use at least 7% of the sum of its initial and supplemental Federal Work-Study allocations for an award year to compensate students employed in community service activities.

Condition:

The University did not use 7% of its current year Federal Work-Study allocation to compensate students employed in community service activities.

Context:

The University allocated 6.55% of the current year Federal Work-Study allocation to compensate student employed in community service activities.

Cause:

The University did not properly monitor the allocation.

Effect:

The University is not in compliance with the federal requirement.

Recommendation:

The University should implement policies to ensure the proper amount of the Federal Work-Study allocation is earmarked for students employed in community service activities.

Status:

No issues noted at Cheyney University in the current year.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-9

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA #84.007, Federal Direct Student Loans CFDA #84.268, Federal-Work Study Program CFDA #84.033, Federal Perkins Loans Outstanding CFDA #84.038, Federal Pell Grant Program CFDA #84.375, National Science and Mathematics Access to Retain Talent (SMART) Grants CFDA #84.379, Teacher Education Assistance for College and Higher Education Grants CFDA #84.379, Postsecondary Education Scholarships for Veteran's Dependents CFDA #84.408, Federal Nursing Student Loans Outstanding CFDA #93.364)

Criteria:

In accordance with 34 CFR 685.301, a school participating in the Direct Loan Program shall ensure that any information it provides to the Secretary in connection with loan origination is complete and accurate. A school shall originate a Direct Loan while the student meets the borrower eligibility requirements.

Condition:

Disbursement dates indicated through the Common Origination and Disbursement (COD) reporting did not agree to the disbursement dates included on the students account history for 53 students, amounts reported as disbursed within COD did not agree to the student account histories for 3 students, and Direct Loans were disbursed to 6 students but were not reported to COD.

Context:

Condition was noted in a sample of 60 students.

Cause:

The University did not have procedures in place to ensure the disbursements were reported to the Secretary accurately and in a timely manner.

Effect:

The University did not report disbursements to the Secretary accurately and timely manner.

Recommendation:

The University should implement procedures to ensure information is reported accurately and timely.

Status:

Condition found at Cheyney University in 2013. See Finding 2013-004.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-10

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Direct Student Loans CFDA #84.268)

Criteria:

In accordance with 34 CFR 685.303, if a student is enrolled in the first year of an undergraduate program of study and had not previously received a Federal Stafford, Federal Supplemental Loans for Students, Direct Subsidized, or Direct Unsubsidized Loan, a school may not disbursement the proceeds of a Direct Subsidized or Direct Unsubsidized Loan until 30 days after the first day of the student's program of study.

Condition:

The University disbursed Direct Subsidized and Direct Unsubsidized loan proceeds for first time borrowers before the student had completed 30 days of their program of study.

Context:

Condition was noted for 10 students in our sample of 60 students.

Cause:

The University did not have procedures in place to ensure proceeds to first time borrowers were not disbursed until the student had completed the first 30 days of their program of study.

Effect:

Loan proceeds were not disbursed within the required guidelines

Recommendation:

The University should implement procedures to ensure loan proceeds are disbursed within the required timeframes.

Status:

No issues noted at Cheyney University in the current year.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-11

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Pell Grant Program CFDA #84.375)

Criteria:

In accordance with 34 CFR 690.83, an institution shall report to the Secretary any change in the amount of a grant for which a student qualifies including any related Payment Data change by submitting to the Secretary the student's Payment Data that discloses the basis and result of the change in award for each student. The institution shall submit the student's Payment Data reporting any change to the Secretary by the reporting deadlines published by the Secretary in the Federal Register.

Condition:

The University did not report to the Secretary changes in the amount of Pell grants awarded and disbursed to students.

Context:

Condition was noted for 7 students in our sample of 60 students.

Cause:

The University did not have procedures in place to ensure payment data was reported timely to the Secretary.

Effect:

The University did not report changes in Pell grants awarded and disbursed to the Secretary.

Recommendation:

The University should implement policies and procedures to ensure accurate reporting to the Secretary.

Status:

No issues noted at Cheyney University in the current year.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-12

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Pell Grant Program CFDA #84.375)

Criteria:

In accordance with 34 CFR 690.83, an institution shall submit, in accordance with deadline dates established by the Secretary, through publication in the Federal Register, other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure that the reports are correct.

Condition:

It was noted for one student a disbursement was not reported to the Secretary within the 30 day timeframe as required through the Federal Register.

Context:

Condition was noted for one student in a sample of 60 students.

Cause:

The University did not have procedures in place to ensure disbursements were reported to the Secretary in a timely manner.

Effect:

The Secretary was not informed of the disbursement within the required timeframe.

Recommendation:

The University should implement policies and procedures to ensure Pell Grant disbursements are reported to the Secretary in a timely manner.

Status:

Condition found at Cheyney University in 2013. See Finding 2013-004.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-13

Cheyney University – U.S, Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA #84.007, Federal Direct Student Loans CFDA #84.268, Federal-Work Study Program CFDA #84.033, Federal Perkins Loans Outstanding CFDA #84.038, Federal Pell Grant Program CFDA #84.375, National Science and Mathematics Access to Retain Talent (SMART) Grants CFDA #84.379, Teacher Education Assistance for College and Higher Education Grants CFDA #84.379, Postsecondary Education Scholarships for Veteran's Dependents CFDA #84.408, Federal Nursing Student Loans Outstanding CFDA #93.364)

Criteria:

In accordance with 34 CFR 668.53, an institution must establish and use written policies and procedures for verifying an applicant's FAFSA information. These policies and procedures must include the period within which an applicant must provide any documentation requested by the institution.

Condition:

Although the University has written policies and procedures indicating the period within which the applicant must provide the documentation requested, it was noted 5 students that were selected for verification did not have the required verification information on file.

Context:

Condition was noted for 5 students in our sample of 60 students.

Cause:

The University did not have procedures in place to ensure all students selected for verification submitted required documentation to perform verification procedures.

Effect:

The University could not provide adequate documentation of verification procedures.

Recommendation:

The University should implement procedures to ensure verifications are performed for all students selected.

Status:

No issues noted at Cheyney University in the current year.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-14

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA #84.007, Federal Direct Student Loans CFDA #84.268, Federal-Work Study Program CFDA #84.033, Federal Perkins Loans Outstanding CFDA #84.038, Federal Pell Grant Program CFDA #84.375, National Science and Mathematics Access to Retain Talent (SMART) Grants CFDA #84.379, Teacher Education Assistance for College and Higher Education Grants CFDA #84.379, Postsecondary Education Scholarships for Veteran's Dependents CFDA #84.408, Federal Nursing Student Loans Outstanding CFDA #93.364)

Criteria:

In accordance with 34 CFR 668.59, for the subsidized student financial assistance programs, excluding the Federal Pell Grant Program, if an applicant's FAFSA information changes as a result of verification, the institution must adjust the applicant's financial aid package on the basis of the EFC on the corrected valid SAR or valid ISIR and comply with the procedures specified in 34 CFR 668.61 for an interim disbursement if, as a result of verification, the financial aid package must be reduced.

Condition:

The University obtained the proper documentation to perform the verification procedures. However, it did not update the student's ISIR to reflect changes based on the documentation received. Consequently, the University did not adjust the student's financial aid package.

Context:

Condition was noted for 12 students in our sample of 60 students.

Cause:

The University did not have procedures in place to ensure the student's ISIR was updated based on the results of the verification procedures performed.

Effect:

The University did not update for changes to the students ISIR or financial assistance award package.

Recommendation:

The University should implement procedures to ensure changes are made to the student's ISIR and financial aid package as a result of the verification procedures performed.

Status:

No issues noted at Cheyney University in the current year.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-15

Cheyney University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA #84.007, Federal Direct Student Loans CFDA #84.268, Federal-Work Study Program CFDA #84.033, Federal Perkins Loans Outstanding CFDA #84.038, Federal Pell Grant Program CFDA #84.375, National Science and Mathematics Access to Retain Talent (SMART) Grants CFDA #84.379, Teacher Education Assistance for College and Higher Education Grants CFDA #84.379, Postsecondary Education Scholarships for Veteran's Dependents CFDA #84.408, Federal Nursing Student Loans Outstanding CFDA #93.364)

Criteria:

In accordance with 34 CFR 668.57, an institution must require an applicant selected for verification to submit a statement noting the number of family members in the household signed by both the applicant and one of the applicant's parents if the applicant is a dependent student, or only the applicant if the applicant is an independent student, listing the name and age of each family member in the household and the relationship of that household member to the applicant.

Condition:

The University did not obtain signed statements from the student.

Context:

Condition was noted for 2 students in our sample of 60 students.

Cause:

The University did not have procedures in place to ensure signed statements were received from students selected for verification.

Effect:

The proper documentation was not received for students selected for verification.

Recommendation:

The University should implement procedures to ensure proper documentation is received from all students selected for verification.

Status:

No issues noted at Cheyney University in the current year.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-16

Clarion University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA #84.007, Federal Direct Student Loans CFDA #84.268, Federal-Work Study Program CFDA #84.033, Federal Perkins Loans Outstanding CFDA #84.038, Federal Pell Grant Program CFDA #84.375, National Science and Mathematics Access to Retain Talent (SMART) Grants CFDA #84.379, Teacher Education Assistance for College and Higher Education Grants CFDA #84.379, Postsecondary Education Scholarships for Veteran's Dependents CFDA #84.408, Federal Nursing Student Loans Outstanding CFDA #93.364)

Criteria:

In accordance with 34 CFR 668.22, any student that withdraws prior to sixty percent completion of semester must have a return of Title IV funds calculation performed and the unearned portion returned to the Title IV programs within 45 days.

Condition:

A return of Title IV funds calculation was not performed timely.

Context:

Four of five students tested did not comply.

Cause:

A return of title IV funds calculation was not done due to delays in system controls.

Effect:

The University may have kept unearned Title IV monies.

Recommendation:

We recommend the University implement a system to ensure all return of Title IV funds calculations are completed in accordance with 34 CFR 668.22.

Status:

No issues noted at Clarion University in 2013.

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-17

Mansfield University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Supplemental Education Opportunity Grants CFDA #84.007, Federal Direct Student Loans CFDA #84.268, Federal-Work Study Program CFDA #84.033, Federal Perkins Loans Outstanding CFDA #84.038, Federal Pell Grant Program CFDA #84.375, National Science and Mathematics Access to Retain Talent (SMART) Grants CFDA #84.379, Teacher Education Assistance for College and Higher Education Grants CFDA #84.379, Postsecondary Education Scholarships for Veteran's Dependents CFDA #84.408, Federal Nursing Student Loans Outstanding CFDA #93.364)

Criteria:

In accordance with 34 CFR 668.59, for the subsidized student financial assistance programs, excluding the Federal Pell Grant Program, if an applicant's FAFSA information changes as a result of verification, the institution must adjust the applicant's financial aid package on the basis of the EFC on the corrected valid SAR or valid ISIR and comply with the procedures specified in 34 CFR 668.61 for an interim disbursement if, as a result of verification, the financial aid package must be reduced.

Condition:

The University obtained the proper documentation to perform the verification procedures. However, it did not update the student's ISIR to reflect changes based on the documentation received. Consequently, the University did not adjust the student's financial aid package.

Context:

Condition was noted for 1 student in our sample of 40 students.

Cause:

The University did not have procedures in place to ensure the student's ISIR was updated based on the results of the verification procedures performed.

Effect:

The University did not update for changes to the student's ISIR or financial assistance award package.

Recommendation:

The University should implement procedures to ensure changes are made to the student's ISIR and financial aid package as a result of the verification procedures performed.

Status:

No issues noted at Mansfield University in the current year

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

FINDING 12-18

Mansfield University – U.S. Department of Education, Student Financial Assistance Cluster (Federal Direct Student Loans CFDA #84.268)

Criteria:

In accordance with 34 CFR 685.309, a school shall, unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a subsidized, unsubsidized, or PLUS loan has been made to or on behalf of a student who enrolled at the school but has ceased to be enrolled on at least a half-time basis; has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended, or has changed his or her permanent address.

Condition:

The University did not submit student status changes in a timely manner.

Context:

Condition was noted for 2 students in our sample of 40 students.

Cause:

The University properly identified the students however, they were not reported due to the circumstances for the change in the students' status.

Effect:

The Secretary was not aware of the status changes within the required timeframe.

Recommendation:

The University should report all students to the Secretary within the prescribed timeframes as noted in the regulations.

Status:

No issues noted at Mansfield University in 2013.

PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

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

FINDING 12-19

West Chester University – U.S. Department of Energy, Renewable Energy Research and Development (CFDA#81.087)

Criteria:

In accordance with Section 1512 of the American Recovery and Reinvestment Act (“ARRA”), quarterly reports for ARRA funding are due within 10 days of the end of each quarter.

Condition:

The University did not file one quarterly report within the prescribed timeframes.

Context:

The December 2011 quarterly report was filed late.

Cause:

The late filing occurred during the time period when the University was in the process of hiring a replacement for its former grant accountant. During this process, the employee assigned to the responsibility of the former grant accountant missed the reporting deadline.

Effect:

The University did not file the report timely.

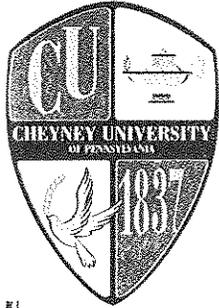
Recommendation:

The University should review and revise existing policies and procedures related to timely submission of ARRA reports.

Status:

No issues noted at West Chester University in the current year.

APPENDIX A



Cheyney University of Pennsylvania
1837 University Circle
Cheyney, Pennsylvania 19319-0200
610-399-2000
www.cheyney.edu

CHEYNEY UNIVERSITY CORRECTIVE ACTION PLAN

March 24, 2014

U.S. Department of Education

Cheyney University respectfully submits the following corrective action plan for the year ended June 30, 2013.

Name and address of independent public accounting firm:

CliftonLarsonAllen LLC
220 South Sixth Street
Suite 300
Minneapolis, MN 55402

Audit Period: June 30, 2013

The findings from the June 30, 2013 schedule of findings and questioned costs are discussed below.

FINDING 2013-001

Student Financial Assistance Cluster – Return of Title IV (R2T4)

Recommendation:

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

Action Plan:

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

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

FINDING 2013-002

Student Financial Assistance Cluster – National Student Loan Data System (NSLDS) Reporting

Recommendation:

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

Action Plan:

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

FINDING 2013-004

Student Financial Assistance Cluster – Common Origination and Disbursement (COD) Reporting

Recommendation:

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

Action Plan:

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

FINDING 2013-005

Student Financial Assistance Cluster – Fiscal Operations Report and Application to Participate (FISAP) Reporting

Recommendation:

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

Action Plan:

The Financial Aid Office will reconcile all Title IV funds, including campus-based programs, at the end of each semester and again at the end of the award year in order to ensure that figures being used in the

FISAP report are accurate and that supporting documentation can be provided to substantiate the use of those figures. Evidence of monthly and annual reconciliation will be kept on hand as reference for the data provided on the FISAP.

FINDING 2013-006

Student Financial Assistance Cluster – Credit Balance Refunds

Recommendation:

We recommend the University implement controls in which all credit balances are monitored and paid within a timely period or written authorization is obtained and kept on file for all credit balances retained by the University.

Action Plan:

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

FINDING 2013-007

Student Financial Assistance Cluster – Notification of Loan Disbursements

Recommendation:

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

Action Plan:

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

FINDING 2013-008

Student Financial Assistance Cluster – Loan Disbursements

Recommendation:

We recommend the University implements procedures to timely reconcile student accounts to the COD and G5 systems.

Action Plan:

The Financial Aid Office will reconcile their records with COD and the Bursar every thirty days. A FAA will request reconciliation files from COD to be imported into PowerFAIDS. A custom reconciliation report will be used to identify any dollar amount discrepancies between PowerFAIDS and COD. Those awards will then be reconciled with the Bursar. Monthly reconciliation will ensure that disbursement dates and amounts are accurately reported to COD within the required thirty day time frame. In addition, the Financial Aid Office will closely monitor the institution's CFL (current funding level) via COD to ensure that the University is not drawing funds from G5 that have not been substantiated.

FINDING 2013-009

Student Financial Assistance Cluster – Loan Disbursements

Recommendation:

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

Action Plan:

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

FINDING 2013-010

Student Financial Assistance Cluster – Direct Loan Reconciliations

Recommendation:

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

Action Plan:

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

FINDING 2013-011

Student Financial Assistance Cluster – Federal Work Study Off-Campus Employer Agreements

Recommendation:

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

Action Plan:

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

FINDING 2013-012

Student Financial Assistance Cluster – Satisfactory Academic Progress Policy

Recommendation:

We recommend the University develop review the minimum requirements for the SAP policy and rewrite the policy to ensure all of the required criteria are included.

Action Plan:

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

FINDING 2013-014

Student Financial Assistance Cluster – Exit Counseling

Recommendation:

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

Action Plan:

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

FINDING 2013-015

Student Financial Assistance Cluster- Stafford Loan Limits

Recommendation:

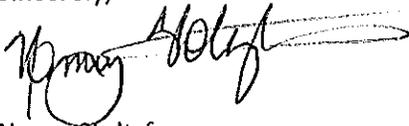
We recommend the University review their procedures to ensure that students are awarded within their annual and aggregate loan limits. If a student's parent is denied a PLUS loan, the documentation should be maintained to support the higher loan limits.

Action Plan:

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

If the U.S. Department of Education has questions regarding this plan, please call 610-399-2544.

Sincerely,



Nancy Stoltzfus
Assistant Controller
Cheyney University of Pennsylvania

March, 28, 2014

Reed Binder
CliftonLarsonAllen
610 W. Germantown Pike,
Suite 400
Plymouth Meeting, PA 19462

Dear Mr. Binder:

The corrective action plan for Slippery Rock University is as follows:

Finding:

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

Auditor's Recommendation:

We recommend Slippery Rock review the R2T4 requirements and implement procedures to ensure the R2T4 returns are completed timely.

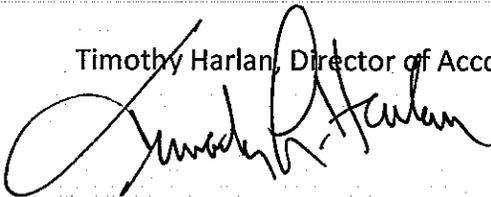
Corrective Plan:

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

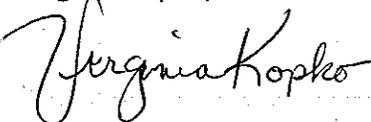
Completion date of Corrective Action Plan:

Procedures were reviewed in July 2013 and corrective the corrective plan was put into place by the end of July 2013.

Timothy Harlan, Director of Accounting



Virginia Kopko, Interim Financial Aid Director



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

Corrective Action Plan for the Single Audit Report for 2012-2013

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

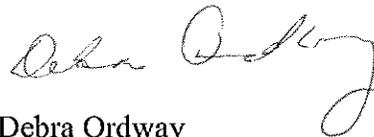
Finding - This finding indicated that the number of days included in the spring break period was incorrect. This led to two students who withdrew during the period to have the incorrect number of days used in the refund calculation.

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

The appropriate policies and procedures to calculate R2T4 are in place and have been since the Banner system was implemented in 1997. The cause of the error was due to a staff change



Dwight Horsey
Assistant Vice President for Enrollment Mgt.
Director of Financial Aid



Debra Ordway
Controller

March 31, 2014



Brenda Scherer, CPA, Manager
Nonprofit, CliftonLarsonAllen LLP
220 South Sixth Street, Suite 300
Minneapolis, MN 55402

RE: Response to A- 133 Audit Findings (Revised)

**2013-003 - Student Financial Assistance Cluster – Special Tests and Provisions – Verification:
Kutztown University**

CFDA:

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

Condition and Context:

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

Cause:

The University did not follow the policies and procedures in place to properly perform verification procedures.

Criteria:

Federal regulation requires that the University obtain the required documentation and verify the student's inputs on the Institutional Student Information Record (ISIR) for all students who are selected for verification.

Questioned Costs:

Unknown

Response:

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



Corrective Action Plan:

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

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

CFDA:

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

Condition and Context:

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

Cause:

The University does not have policies and procedures in place to properly perform R2T4 calculations.

Criteria:

Under Federal regulations, institutions are required to complete accurate return to Title IV calculations as defined in the regulations.

Questioned Costs:

Unknown

Response:

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

Corrective Action Plan:

No corrective action is needed; however, we will review our policy to insure that we are operating within the guidelines of the regulations.

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



CFDA:

84.007 – Federal Supplemental Education Opportunity Grants

84.033 – Federal Work Study Program

84.038 – Federal Perkins Loans

84.063 – Federal Pell Grant Program

84.268 – Federal Direct Student Loans

84.379 – Teacher Education Assistance for College and Higher Education Grants

Condition and Context:

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

Criteria:

The Department of Education requires the University to report enrollment information to NSLDS for all loan recipients in a timely manner.

Questioned Costs:

None

Cause:

The University did not follow the policies and procedures in place to properly report enrollment statuses to NSLDS.

Corrective Action Plan:

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

Submitted:

Bernard L. McCree

Bernard L. McCree
Director, Financial Aid Services
Kutztown University
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mccree@kutztown.edu