NEW ISSUE **Ratings: See RATINGS herein.**

In the opinion of Ballard Spahr LLP, Bond Counsel, interest on the Series AQ Bonds is excludable from gross income for purposes of federal income tax, assuming continuing compliance with the requirements of the federal tax laws. Interest on the Series AQ Bonds is not a preference item for purposes of either individual or corporate federal alternative minimum tax; however, interest paid to corporate holders of the Series AQ Bonds may be indirectly subject to alternative minimum tax under circumstances described under "TAX EXEMPTION" herein. Under the laws of the Commonwealth of Pennsylvania, as presently enacted and construed, the AQ Bonds are exempt from personal property taxes in Pennsylvania and the interest on the AQ Bonds is exempt from Pennsylvania personal income tax and the Pennsylvania corporate net income tax. See "TAX EXEMPTION" herein.

$94,975,000
PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY
(Commonwealth of Pennsylvania)
Refunding Revenue Bonds
STATE SYSTEM OF HIGHER EDUCATION, SERIES AQ

Dated: May 1, 2015 **Due:** June 15, as shown on the inside front cover

The Series AQ Bonds are issuable only as fully registered bonds without coupons, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series AQ Bonds. Purchase of the Series AQ Bonds will be made in book-entry only form, in the denomination of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Series AQ Bonds. So long as the Series AQ Bonds are registered in the name of Cede & Co. as nominee of DTC, references herein to the registered owners shall mean Cede & Co., and shall not mean the Beneficial Owners of the Series AQ Bonds. See "The Series AQ Bonds - Book-Entry Only System" herein.

Principal of and interest on the Series AQ Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, as trustee (the "Trustee"). So long as DTC or its nominee, Cede & Co., is the registered owner of the Series AQ Bonds, such payments will be made directly to it as registered owner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. Interest will be payable on June 15 and December 15, commencing December 15, 2015, to the registered owners of record as of the applicable record dates herein described.

The Series AQ Bonds are subject to redemption prior to maturity as described herein.

The Series AQ Bonds are limited obligations of the Authority and are secured under the provisions of the Indenture and the Loan Agreement, as each is referred to herein, and are payable solely from payments to be received under the Loan Agreement between the Authority and the State System of Higher Education (the "System") and certain funds held under the Indenture.

Neither the general credit of the Authority nor the credit or taxing power of the Commonwealth of Pennsylvania or of any political subdivision thereof is pledged for the payment of the principal of or the interest on the Series AQ Bonds described above, nor shall such Series AQ Bonds be deemed to be general obligations of the Authority or obligations of the Commonwealth of Pennsylvania or any political subdivision thereof, nor shall the Commonwealth of Pennsylvania or any political subdivision thereof be liable for the payment of the principal of or interest on the Series AQ Bonds described above. The Authority has no taxing power.

The Series AQ Bonds are offered when, as and if issued by the Authority and received by the Underwriters subject to the approving legal opinion of Ballard Spahr LLP, Baltimore, Maryland, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Buchanan Ingersoll & Rooney PC, Pittsburgh, Pennsylvania, and for the System by its Chief Legal Counsel. It is expected that the Series AQ Bonds in definitive form will be available for delivery in New York, New York on or about May 7, 2015.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Prospective purchasers of the Series AQ Bonds must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Dated: April 30, 2015

$94,975,000
PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY
(Commonwealth of Pennsylvania)
Refunding Revenue Bonds
STATE SYSTEM OF HIGHER EDUCATION, SERIES AQ

MATURITY SCHEDULE

(Accrued interest to be added)

Maturity June 15	Amount	Coupon	Yield	Price	CUSIP**
2016	$1,880,000	5.000%	0.450%	105.011	70917SSK0
2017	6,685,000	5.000%	0.860%	108.619	70917SSL8
2018	7,480,000	5.000%	1.240%	111.418	70917SSM6
2019	7,855,000	5.000%	1.570%	113.584	70917SSN4
2020	8,250,000	5.000%	1.810%	115.488	70917SSP9
2021	7,965,000	5.000%	2.040%	116.909	70917SSQ7
2022	6,960,000	5.000%	2.270%	117.819	70917SSR5
2023	7,880,000	5.000%	2.440%	118.721	70917SSS3
2024	8,275,000	5.000%	2.630%	119.077	70917SST1
2025	8,690,000	5.000%	2.730%	119.926	70917SSU8
2026	5,910,000	5.000%	2.910%	118.181*	70917SSV6
2027	1,485,000	3.000%	3.150%	98.500	70917SSW4
2028	1,525,000	3.000%	3.235%	97.500	70917SSX2
2029	1,570,000	3.125%	3.303%	98.000	70917SSY0
2030	1,620,000	3.250%	3.420%	98.000	70917SSZ7
2031	1,675,000	3.250%	3.495%	97.000	70917STA1
2032	1,725,000	3.500%	3.638%	98.250	70917STB9
2033	1,790,000	3.500%	3.690%	97.500	70917STC7
2034	1,855,000	3.500%	3.739%	96.750	70917STD5
2035	1,915,000	3.625%	3.804%	97.500	70917STE3
2036	1,985,000	3.750%	3.837%	98.750	70917STF0

*Priced to the first optional redemption date of June 15, 2025.

PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY

(Commonwealth of Pennsylvania)
1035 Mumma Road
Wormleysburg, Pennsylvania 17043

MEMBERS OF THE AUTHORITY

The Honorable Thomas W. Wolf..President
Governor of the Commonwealth of Pennsylvania

The Honorable Lloyd K. Smucker. ....Vice President
Designated by the President Pro Tempore of the Senate

The Honorable Andrew E. Dinniman. ....Vice President
Designated by the Minority Leader of the Senate

The Honorable Mike Turzai..Vice President
Speaker of the House of Representatives

The Honorable Christopher B. Craig.. Treasurer
Executive Deputy State Treasurer

The Honorable Curtis M. Topper ....Secretary
Acting Secretary of General Services

The Honorable Anthony M. Deluca.. Board Member
Designated by the Minority Leader of the House of Representatives

The Honorable Eugene A. DePasquale... Board Member
Auditor General

The Honorable Pedro A. Rivera... Board Member
Acting Secretary of Education

EXECUTIVE DIRECTOR
Robert Baccon

AUTHORITY COUNSEL
(Appointed by the Office of General Counsel)
Buchanan Ingersoll & Rooney PC
Pittsburgh, Pennsylvania

TRUSTEE
The Bank of New York Mellon Trust Company, N.A.
Philadelphia, Pennsylvania

BOND COUNSEL
(Appointed by the Office of General Counsel)
Ballard Spahr LLP
Baltimore, Maryland

FINANCIAL ADVISOR
To the State System of Higher Education
RBC Capital Markets, LLC
Philadelphia, Pennsylvania

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES AQ BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesman, or other person has been authorized by the Pennsylvania Higher Educational Facilities Authority, the State System of Higher Education or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series AQ Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the State System of Higher Education, and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter or, as to information from other sources, by the Pennsylvania Higher Educational Facilities Authority or the State System of Higher Education. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

The Series AQ Bonds are not and will not be registered under the Securities Act of 1933, as amended, or under any state securities laws, and the Indenture has not been and will not be qualified under the Trust Indenture Act of 1939, as amended, because of available exemptions therefrom. Neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement.

TABLE OF CONTENTS

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OFFICIAL STATEMENT

$94,975,000
PENNSYLVANIA HIGHER EDUCATIONAL
FACILITIES AUTHORITY
(Commonwealth of Pennsylvania)
Refunding Revenue Bonds
STATE SYSTEM OF HIGHER EDUCATION, SERIES AQ

INTRODUCTION

This Introduction is qualified in its entirety by the more detailed information appearing elsewhere in this Official Statement and in the Appendices hereto.

General

This Official Statement, including the cover page and the Appendices hereto, sets forth certain information concerning the issuance by the Pennsylvania Higher Educational Facilities Authority (the "Authority"), 1035 Mumma Road, Wormleysburg, Pennsylvania 17043, of the Authority's Refunding Revenue Bonds, State System of Higher Education, Series AQ (the "Series AQ Bonds"). The Authority is a body corporate and politic constituting a public corporation and a public instrumentality of the Commonwealth of Pennsylvania, created by The Pennsylvania Higher Educational Facilities Authority Act of December 6, 1967, P.L. 678, No. 318, as amended (the "Act"). See herein under **"The Authority"** for certain information concerning the Authority.

The Series AQ Bonds are being issued on behalf of the State System of Higher Education (the "System" or "SSHE"), a body corporate and politic constituting a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania, created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended ("Act 188"). See **Appendix I: "Certain Information Concerning Pennsylvania's State System of Higher Education"** for certain information concerning the System.

Certain capitalized terms not otherwise defined herein shall have the meaning assigned to them in **Appendix III: "Summary of Legal Documents -- Definitions of Certain Terms"**.

The Series AQ Bonds

The Series AQ Bonds are being issued by the Authority in the aggregate principal amount of $94,975,000. They will be dated May 1, 2015, and will bear interest from such date, payable June 15 and December 15, commencing December 15, 2015, at the rates set forth on the inside of the cover page hereof and shall be subject to redemption prior to maturity as described herein. See **"The Series AQ Bonds -- Redemption Provisions"** herein.

The Series AQ Bonds will be issued pursuant to the Act and an Indenture of Trust dated as of June 1, 1985 (the "Original Indenture"), as previously supplemented and as further supplemented by a Thirty-Ninth Supplemental Indenture of Trust dated as of May 1, 2015 (collectively, the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, as trustee (the "Trustee"). The Series AQ Bonds will be equally and ratably secured (as and to the extent described below) with the thirty-seven prior bond issues to the extent Outstanding under the Indenture (such prior bonds are referred to collectively herein as the "Prior Bonds"). The Prior Bonds, the Series AQ Bonds and any Additional Bonds which may be Outstanding from time to time under the Indenture are referred to collectively herein as "Bonds." As of April 1, 2015 there was an aggregate of $859,890,000 in principal amount of Prior Bonds outstanding. See **"Sources of and Security for Payment of the Series AQ Bonds"** herein.

The Series AQ Bonds are issuable only as fully registered bonds without coupons, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. See **"The Series AQ Bonds -- Book-Entry Only System"** herein.

Use of Proceeds

Pursuant to a Loan and Security Agreement dated as of June 1, 1985 between the Authority and the System, as previously supplemented and as further supplemented by a Thirty-Ninth Supplemental Loan and Security Agreement dated as of May 1, 2015 (collectively, the "Loan Agreement"), the Authority will lend the proceeds of the Series AQ Bonds to the System, which will use such proceeds as more fully described herein under **"Sources and Uses of Funds"** and **"The Project."**

Security for the Series AQ Bonds

The Series AQ Bonds are being issued on a parity (except as to certain funds held under the Indenture) with the Prior Bonds and any Additional Bonds with respect to the amounts payable by the System under the Loan Agreement and by an assignment to the Trustee of all the right, title, and interest of the Authority in and to the Loan Agreement (except for the Authority's right to payment of certain fees and expenses and to indemnification), including such amounts payable thereunder. **The Loan Agreement is an unsecured general obligation of the System and the full faith and credit of the System is pledged to the payment of all sums due thereunder.** See **"Sources of and Security for Payment of the Series AQ Bonds"** and **Appendix III: "Summary of Legal Documents"** herein.

Neither the general credit of the Authority nor the credit or taxing power of the Commonwealth of Pennsylvania or of any political subdivision thereof is pledged for the payment of the principal of or the interest on the Series AQ Bonds, nor shall the Series AQ Bonds be deemed to be general obligations of the Authority or obligations of the Commonwealth of Pennsylvania or any political subdivision thereof, nor shall the Commonwealth of Pennsylvania or any political subdivision thereof be liable for the payment of the principal of or interest on the Series AQ Bonds. The Authority has no taxing power.

Availability of Documents

The general descriptions of various legal documents set forth in this Official Statement do not purport to be comprehensive or definitive and reference should be made to each document for complete details of all terms and conditions thereof. Copies of all documents referred to herein are available for inspection during normal business hours at the designated corporate trust office of the Trustee in Philadelphia, Pennsylvania. All statements herein are qualified in their entirety by the terms of each such document.

THE PROJECT

The Series AQ Bonds are being issued to provide funds to the System for financing: (i) the current refunding of all of the outstanding principal amount of the Authority's State System of Higher Education Revenue Bonds, Series AC, which mature after June 15, 2015, (ii) the advance refunding of all of the outstanding principal amount of the Authority's State System of Higher Education Revenue Bonds, Series AE, which mature after June 15, 2015 (the "Refunded Bonds"), and (iii) the financing of contingencies and payment of costs and expenses incident to the issuance of the Series AQ Bonds, including bond insurance, if advantageous to the System.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth estimated sources and uses of funds, including accrued interest, in connection with the Project:

Sources:	
Series AK Bonds	$94,975,000.00
Original Issue Premium	12,316,143.85
Original Issue Discount	(382,362.50)
Accrued Interest	74,495.95
Total Sources	$106,983,277.30
Uses:	
Refunding Escrow Deposit	$105,471,089.46
Issuance Costs[(1)]	250,086.50
Underwriters' Discount	1,187,605.39
Accrued Interest	74,495.95
Total Uses	$106,983,277.30

[(1)] Includes fees and expenses of Bond Counsel, the Financial Advisor, the Authority, the Trustee, rating agency fees, printing fees, and miscellaneous fees and expenses.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Financial S&Lutions, LLC (the "Verification Agent") will deliver to the Authority, on or before the date of issuance of the Series AQ Bonds, an attestation report (the "Verification Report") indicating that the Verification Agent has verified the mathematical accuracy of the schedules provided by the Financial Advisor, RBC Capital Markets, LLC, the Underwriters and the Authority with respect to the Refunded Bonds and the Series AQ Bonds. Included in the scope of its engagement will be a verification of the mathematical accuracy of (a) mathematical computations of the adequacy of the cash and the maturing principal of and interest on the securities required under the Indenture which will be placed in escrow to pay, when due, the maturing principal of, interest on and related premium, if any, of the Refunded Bonds; and (b) any necessary mathematical computations required to support the conclusion of Bond Counsel that the interest on the Series AQ Bonds is exempt from federal taxation.

THE AUTHORITY

The Authority is a body corporate and politic, constituting a public corporation and a public instrumentality of the Commonwealth of Pennsylvania (the "Commonwealth" or "State"), created by the Pennsylvania Higher Educational Facilities Authority Act of 1967 (Act No. 318 of the General Assembly of the Commonwealth of Pennsylvania, approved December 6, 1967, as amended) (the "Act").

The Authority is authorized under the Act, among other things, to acquire, construct, finance, improve, maintain, operate, hold and use any educational facility (as therein defined) and, with respect to a college, to finance projects by making loans, to lease as lessor or lessee, to transfer or sell any educational facility or property, to charge and collect amounts for the payment of expenses of the Authority and for payment of the principal of and interest on its obligations, to issue bonds and other obligations for the purpose of paying the cost of projects, to issue refunding bonds and to pledge all or any of the revenues of the Authority for all or any of such obligations, and to enter into trust indentures providing for the issuance of such obligations and for their payment and security.

Under the Act, the Board of the Authority (the "Board") consists of the Governor of the Commonwealth, the State Treasurer, the Auditor General, the Secretary of the Department of Education, the Secretary of the Department of General Services, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Minority Leader of the House of Representatives and the Minority Leader of the Senate. Pursuant to the Act, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Minority Leader of the Senate and the Minority Leader of the House of Representatives may designate a member of their respective legislative bodies to act as a member of the Authority in their stead. The members of the Board serve without compensation but are entitled to reimbursement for all necessary expenses incurred in connection with the performance of their duties as members. The powers of the Authority are exercised by the Board.

The Authority has issued from time to time other series of revenue bonds and notes for the purpose of financing projects for higher educational institutions in the Commonwealth. None of the revenues of the Authority with respect to any of such revenue bonds and notes are pledged as security for the Series AQ Bonds and, conversely, such revenue bonds and notes above are not payable from or secured by the revenues of the Authority or other moneys securing the Series AQ Bonds.

The Authority may in the future issue other series of bonds for the purpose of financing projects for educational institutions in the Commonwealth. Each such series of bonds will be secured by instruments separate and apart from the Indenture securing the Series AQ Bonds, except for any Additional Bonds issued thereunder.

On May 1, 1991, the Authority was unable to make payments to bondholders with respect to a series of revenue bonds issued by the Authority on behalf of a college because of defaults on payment obligations related to such series of revenue bonds by such college. The Florida Department of Banking and Finance, Division of Securities and Investor Protection, generally requires disclosure by any issuer of securities sold in Florida of defaults on any other obligations of such issuer. Because these defaulted bonds were special obligations payable only from revenues received from the particular college or from other limited sources, but not from revenues pledged to pay any series of bonds, and the full faith and credit of the Authority was not pledged to secure the payment of such bonds, such default is not material with respect to the offering and sale of the Series AQ Bonds, and further details with respect thereto are not being provided.

The Series AQ Bonds are being issued under the Act pursuant to a resolution of the Authority adopted on April 9, 2015 and pursuant to the Indenture.

Except for the Prior Bonds and any Additional Bonds, none of the revenues of the Authority with respect to any of the revenue bonds and notes referred to above are pledged as security for any of the Series AQ Bonds and, conversely, the revenue bonds and notes referred to above are not payable from or secured by the revenues of the Authority or other moneys securing the Series AQ Bonds. See **"Sources of and Security for Payment of the Series AQ Bonds"**.

The following are key staff members of the Authority who are involved in the administration of the financing and projects:

Robert Baccon, Executive Director

Mr. Baccon has served as an executive of both the Authority and the State Public School Building Authority (the "SPSBA") since 1984. He is a graduate of St. John's University with a bachelor's degree in management and holds a master's degree in international business from the Columbia University Graduate School of Business. Prior to joining the Authority, Mr. Baccon held financial management positions with multinational U.S. corporations and was Vice President - Finance for a major highway construction contractor.

David Player, Comptroller & Director of Financial Management

Mr. Player serves as the Comptroller & Director of Financial Management of both the SPSBA and the Authority. He has been with the SPSBA and the Authority since 1999. Prior to his present position, he served as Senior Accountant for the SPSBA and the Authority and as an auditor with the Pennsylvania Department of the Auditor General. Mr. Player is a graduate of the Pennsylvania State University and is a Certified Public Accountant.

Beverly M. Nawa, Administrative Officer

Mrs. Nawa has served as the Administrative Officer of both the Authority and the SPSBA since 2004. She is a graduate of Alvernia University with a bachelor's degree in business administration. Prior to her present employment, Mrs. Nawa served as an Audit Senior Manager and an Accounting Systems Analyst with the Pennsylvania Department of the Auditor General.

THE SERIES AQ BONDS

Description of the Series AQ Bonds

The Series AQ Bonds shall be dated May 1, 2015, will mature on the dates and in the amounts and shall be payable as to interest, on June 15 and December 15 of each year commencing December 15, 2015, at the rates set forth on the inside of the cover page hereof. The Series AQ Bonds shall be subject to redemption prior to maturity as described below.

The Series AQ Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. Purchases of the Series AQ Bonds will be made in book-entry only form, in denominations of $5,000 or any integral multiple thereof. Beneficial Owners will not receive certificates representing their interest in the Series AQ Bonds purchased. So long as Cede & Co. is the registered owner, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series AQ Bonds. See **"Book-Entry Only System"** below.

Principal of and interest on the Series AQ Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, as Trustee. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series AQ Bonds, such payments will be made directly to it as registered owner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

Book-Entry-Only System

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC, BUT NONE OF THE SYSTEM, THE AUTHORITY AND THE TRUSTEE TAKES ANY RESPONSIBILITY FOR THE ACCURACY THEREOF.

Purchasers of Series AQ Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Series AQ Bonds. Purchases of beneficial interests in the Series AQ Bonds will be made in book-entry only form in Authorized Denominations by credit to participating broker-dealers and other institutions on the books of DTC as described herein. Payments of principal of and interest on the Series AQ Bonds will be made by the Trustee directly to DTC as the registered Owner thereof. Disbursement of such payments to the Direct Participants (as hereinafter defined) is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the Direct Participants and the Indirect Participants (as hereinafter defined), as more fully described herein. Any purchaser of beneficial interests in the Series AQ Bonds must maintain an account with a broker or dealer who is, or acts through, a Direct Participant to receive payment of the principal of and interest on such Series AQ Bonds.

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Series AQ Bonds (the "Bond Depository"). The Series AQ Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series AQ Bonds, each in the aggregate principal amount of the Series AQ Bonds of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series AQ Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series AQ Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series AQ Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series AQ Bonds, except in the event that use of the book-entry system for the Series AQ Bonds is discontinued.

To facilitate subsequent transfers, all Series AQ Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series AQ Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series AQ Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series AQ Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series AQ Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series AQ Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond Documents. For example, Beneficial Owners of the Series AQ Bonds may wish to ascertain that the nominee holding the Series AQ Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series AQ Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series AQ Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series AQ Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series AQ Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series AQ Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

SO LONG AS CEDE & CO., AS THE NOMINEE FOR DTC, IS THE REGISTERED OWNER OF THE SERIES AQ BONDS, THE AUTHORITY AND THE TRUSTEE WILL TREAT CEDE & CO. AS THE ONLY REGISTERED OWNER OF THE SERIES AQ BONDS FOR ALL PURPOSES UNDER THE INDENTURE, INCLUDING RECEIPT OF ALL PRINCIPAL OF AND INTEREST ON THE SERIES AQ BONDS, RECEIPT OF NOTICES, AND VOTING.

The Trustee will pay principal of and interest on the Series AQ Bonds to or upon the order of the respective Owners, as shown on the Bond Register, or upon their respective attorneys duly authorized in writing, as provided in the Indenture, and all such payments will be valid and effective to fully satisfy the Authority's obligations with respect to the payment of principal and interest on the Series AQ Bonds to the extent of the sum or sums so paid. Upon delivery by the nominee of DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of the existing nominee, and subject to the provisions of the Indenture with respect to record dates, the word "Cede & Co." in the Indenture will refer to such new nominee of DTC.

In the event the Authority or the Trustee receives written notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities, and the Authority is unable to find a substitute depository, in the opinion of the Authority, willing and able to undertake the functions of the Bond Depository upon reasonable and customary terms, then the Series AQ Bonds will no longer be restricted to being registered in the Bond Register in the name of the nominee of DTC or DTC, but may be registered in whatever name or names the Beneficial Owners (as certified by DTC) transferring or exchanging the Series AQ Bonds will designate, in accordance with the provisions of the Indenture.

In the event the Authority determines that it is in the best interests of the Beneficial Owners of the Series AQ Bonds that they be able to obtain bond certificates, the Authority may notify DTC and the Trustee, whereupon DTC will notify the Direct Participants and Indirect Participants of the availability through the nominee or DTC of bond certificates. In such event, the Trustee will issue, transfer, and exchange Series AQ Bond certificates as requested by DTC and any other Bondowners in appropriate amounts, and whenever the Bond Depository requests the Authority and the Trustee to do so, the Authority and the Trustee will cooperate with DTC by taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Series AQ Bonds to any nominee or Direct Participant having Series AQ Bonds credited to its account or (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Series AQ Bonds.

Notwithstanding any other provision described herein or contained in the Indenture to the contrary, so long as any Series AQ Bond is registered in the name of the nominee of DTC, all payments with respect to the principal of and interest on such Series AQ Bond will be made and given, respectively, to the nominee or DTC in the manner provided in the Blanket Letter of Representation entered into between DTC and the Authority.

In connection with any notice or communication to be provided to Bondowners pursuant to the Indenture by the Authority or the Trustee with respect to any consent or other action to be taken by Bondowners, the Authority, or the Trustee, as the case may be, will establish a record date for such consent or other action and give the nominee or DTC notice of such record date not less than fifteen (15) calendar days in advance of such record date to the extent possible.

NONE OF THE SYSTEM, THE AUTHORITY AND THE TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATIONS TO THE DIRECT OR INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF AND INTEREST ON THE SERIES AQ BONDS; (C) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDOWNERS; (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES AQ BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC, OR ITS NOMINEE, CEDE & CO., AS REGISTERED BONDOWNER.

Redemption Provisions

The Series AQ Bonds are subject to redemption as follows:

Optional Redemption: The Series AQ Bonds maturing on or after June 15, 2026 are subject to optional redemption prior to maturity by the Authority at the written direction of the System in whole or in part at any time, on or after June 15, 2025, at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus accrued interest thereon to the date of redemption. Any partial redemption may be in any order of maturity and in any principal amount within a maturity as designated by the System. In the case of any Series AQ Bond also subject to mandatory redemption, the Authority, at the direction of the System, shall be entitled to designate whether any optional redemption shall be credited against principal amounts due at maturity or against particular scheduled mandatory redemption obligations with respect to such Series AQ Bond. The Series AQ Bonds to be redeemed within any maturity will be selected by the Trustee by lot.

Extraordinary Optional Redemption: The Series AQ Bonds will be subject to redemption prior to maturity at the option of the Authority, at the direction of the System, in whole or in part at any time, with respect to the Series AQ Bonds in any order of maturity selected by the System, and within any maturity by lot, upon payment of a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus accrued interest to the date of redemption, but only in the event that all or a portion of the Projects financed or refinanced with the proceeds of the Series AQ Bonds are damaged, destroyed or condemned, or sold under threat of condemnation, and it is determined that repair or reconstruction is not desirable, practical or financially feasible, from and to the extent of insurance proceeds, condemnation awards or proceeds of sale in lieu of condemnation received by the Trustee as a result of such damage, destruction, condemnation or sale under threat of condemnation.

Notice of Redemption

Notice of any redemption, identifying the Series AQ Bonds or portions thereof to be redeemed, will be given not more than 45 nor less than 30 days prior to the redemption date, by first-class mail, postage prepaid, to the registered owners of the Series AQ Bonds to be redeemed. Any defect in the notice or the mailing thereof with respect to any Series AQ Bond will not affect the validity of the redemption as to any other Series AQ Bonds. No further interest will accrue on the principal of any Series AQ Bonds called for redemption after the date fixed for redemption if payment of the redemption price thereof has been duly provided for, and the registered owners of such Series AQ Bonds will have no rights under the Indenture except to receive payment of the redemption price thereof and unpaid interest accrued to the date fixed for redemption. If the notice so specifies, a call for redemption may be conditioned on the deposit of funds for redemption by the redemption date, in the absence of which deposit the call for redemption would be of no effect. The Trustee will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee as long as DTC acts as securities depository for the Series AQ Bonds.

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Debt Service Requirements on the Series AQ Bonds and the Prior Bonds

The following tables set forth, for each of the periods indicated, the amounts required in such periods to be made available for the captioned purposes:

Fiscal Year Ending June 30	Series AQ Bonds			Prior Bond Total Debt Service[1]	Refunded Bonds Debt Service	Total Debt Service
	Principal	Interest	Total			
2015				95,748,077.00	2,455,631.25	93,292,445.75
2016	1,880,000	5,016,059.80	6,896,059.80	99,328,312.56	11,926,262.50	94,298,109.86
2017	6,685,000	4,375,756.26	11,060,756.26	97,968,300.06	11,694,350.00	97,334,706.32
2018	7,480,000	4,041,506.26	11,521,506.26	93,856,050.06	11,690,925.00	93,686,631.32
2019	7,855,000	3,667,506.26	11,522,506.26	94,421,812.56	11,690,425.00	94,253,893.82
2020	8,250,000	3,274,756.26	11,524,756.26	98,638,812.56	11,691,175.00	98,472,393.82
2021	7,965,000	2,862,256.26	10,827,256.26	78,901,918.84	10,992,175.00	78,737,000.10
2022	6,960,000	2,464,006.26	9,424,006.26	76,184,843.84	9,997,425.00	75,611,425.10
2023	7,880,000	2,116,006.26	9,996,006.26	73,278,500.08	10,002,425.00	73,272,081.34
2024	8,275,000	1,722,006.26	9,997,006.26	77,033,200.06	9,998,675.00	77,031,531.32
2025	8,690,000	1,308,256.26	9,998,256.26	48,643,487.56	10,004,112.50	48,637,631.32
2026	5,910,000.00	873,756.26	6,783,756.26	43,580,973.84	6,785,612.50	43,579,117.60
2027	1,485,000.00	578,256.26	2,063,256.26	38,756,803.84	2,063,362.50	38,756,697.60
2028	1,525,000.00	533,706.26	2,058,706.26	34,970,052.58	2,061,137.50	34,967,621.34
2029	1,570,000.00	487,956.26	2,057,956.26	30,657,121.26	2,061,062.50	30,654,015.02
2030	1,620,000.00	438,893.76	2,058,893.76	26,272,383.76	2,062,900.00	26,268,377.52
2031	1,675,000.00	386,243.76	2,061,243.76	22,029,408.76	2,061,412.50	22,029,240.02
2032	1,725,000.00	331,806.26	2,056,806.26	16,690,333.76	2,061,600.00	16,685,540.02
2033	1,790,000.00	271,431.26	2,061,431.26	16,694,808.76	2,063,225.00	16,693,015.02
2034	1,855,000.00	208,781.26	2,063,781.26	11,195,600.00	2,065,375.00	11,194,006.26
2035	1,915,000.00	143,856.26	2,058,856.26	9,388,750.00	2,063,925.00	9,383,681.26
2036	1,985,000.00	74,437.50	2,059,437.50	8,990,550.00	2,063,875.00	8,986,112.50
2037				4,539,025.00		4,539,025.00
2038				2,369,737.50		2,369,737.50
2039				294,000.00		294,000.00
Total	$94,975,000.00	$35,177,241.24	$130,152,241.24	$1,200,432,864.24	$139,557,068.75	$1,191,028,036.73

[1] Includes the debt service being refunded from Series AC Bonds and the Series AE Bonds and $10,945,000 of principal from the Series AL Bonds of the Authority that was internally defeased.

SOURCES OF AND SECURITY FOR PAYMENT OF THE SERIES AQ BONDS

The Series AQ Bonds are limited obligations of the Authority, payable solely from (i) payments received from the System under the Loan Agreement, and (ii) moneys held by the Trustee in funds established under the Indenture excepting, however, sinking or Indenture funds pledged to a specific series of Bonds.

Under the Loan Agreement, the System pledges its full faith and credit to the timely payment of the amounts payable and to the performance of the acts required of it thereunder. The Loan Agreement constitutes an unsecured general obligation of the System and does not limit the ability of the System to incur additional indebtedness. In accordance with the Loan Agreement, the System may pledge up to twenty percent (20%) of its tuition receipts and Commonwealth appropriations to secure any indebtedness it may incur or any guaranties it may undertake without providing similar pledges to the owners of the Series AQ Bonds. As of the date hereof, no such pledge has been made by the System.

Additional Bonds

The Authority may issue Additional Bonds on parity with the Series AQ Bonds (other than with respect to certain funds under the Indenture). In connection with the issuance of Additional Bonds, additional funds may be established under the Indenture for the benefit of such additional series. In such event, the holders of the Series AQ Bonds will have no claims or right to any such funds. For a further description of the conditions under which such Additional Bonds may be issued, see **Appendix III: "Summary of Legal Documents: The Indenture -- Additional Bonds"**.

No Recourse

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Indenture are deemed to be covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his or her individual capacity, and no recourse shall be had for the payment of the principal or redemption price of or interest on the Series AQ Bonds or for any claim based thereon or on the Indenture against any member, officer or employee of the Authority or any person executing the Series AQ Bonds.

CERTAIN BONDHOLDERS' RISKS

The Series AQ Bonds constitute limited obligations of the Authority, payable solely from the payments to be made by the System pursuant to the Loan Agreement. Future revenues and expenses of the System are subject to change, and no assurance can be given that the System will be able to generate sufficient revenues to meet its obligations, including its obligations under the Loan Agreement.

General

There are a number of factors affecting institutions of higher education, including the System, that could have an adverse effect on the System's financial position and its ability to make the payments required under the Loan Agreement, including the debt service payments on the Series AQ Bonds. These factors include, but are not limited to, competition with other educational institutions; an economic downturn in the regions served by the System; changing demographics in the regions served by the System; declining enrollment; increasing costs of technology; the failure to increase (or a decrease in) the funds obtained by the System from other sources, including appropriations from governmental bodies; the impact at various times of modifications to federal student financial aid programs; and increasing costs of compliance with changes in federal or state regulatory laws or regulations. See **Appendix I: "Certain Information Concerning Pennsylvania's State System of Higher Education**". Appendix I should be read in its entirety.

Certain State Appropriations

A substantial portion of the System's operating revenues consists of appropriations made to the System by the Commonwealth of Pennsylvania. There is a risk that such Commonwealth appropriations may not continue at current levels as a percentage of the System's current unrestricted revenues which, in turn, may require greater than historic rates of tuition increases. See **Appendix I: "Certain Information Concerning Pennsylvania's State System of Higher Education: "Commonwealth Appropriations"** for a discussion of such appropriations.

LEGALITY FOR INVESTMENT

Under the Act, the Series AQ Bonds are designated securities in which all officers of the Commonwealth and its political subdivisions and municipal officers and administrative departments, boards and commissions of the Commonwealth, all banks, bankers, savings banks, trust companies, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all administrators, executors, guardians, trustees and other fiduciaries, and all other persons whatsoever who are authorized to invest in bonds or other obligations of the Commonwealth, may properly and legally invest any funds, including capital belonging to them or within their control, and the Series AQ Bonds are securities which properly and legally may be deposited with, and received by, any Commonwealth or municipal officers or agency of the Commonwealth for any purpose for which the deposit of bonds or other obligations of the Commonwealth is authorized by law.

NEGOTIABILITY

Under the Act, the Series AQ Bonds have all the qualities of negotiable instruments under the law merchant and the laws of the Commonwealth relating to negotiable instruments.

TAX EXEMPTION AND OTHER MATTERS

Pennsylvania Tax Exemption

In the opinion of Ballard Spahr LLP, Bond Counsel, under the laws of the Commonwealth of Pennsylvania, as presently enacted and construed, the AQ Bonds are exempt from personal property taxes in Pennsylvania and the interest on the AQ Bonds is exempt from Pennsylvania personal income tax and the Pennsylvania corporate net income tax.

Federal Tax Exemption

In the opinion of Ballard Spahr LLP, Bond Counsel, interest on the Series AQ Bonds (including original issue discount) is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Series AQ Bonds, assuming the accuracy of the certifications of the Authority and the System and continuing compliance by the Authority and the System with their respective covenants relating to the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the AQ Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax; however interest on AQ Bonds held by a corporation (other than an S corporation, regulated investment company or real estate trust) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Bond Counsel expresses no opinion regarding other federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Series AQ Bonds.

Original Issue Discount. The Series AQ Bonds maturing June 15, 2027 through and including June 15, 2036 ("Discount Bonds") are offered and sold at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. For federal income tax purposes, original issue discount on a Discount Bond accrues periodically over the term of the Discount Bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the owner's tax basis in the Discount Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Owners of Discount Bonds should consult their tax advisers for an explanation of the accrual rules.

Original Issue Premium. The Series AQ Bonds maturing June 15, 2016 through and including June 15, 2026 ("Premium Bonds") are offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Premium Bond through reductions in the owner's tax basis for the Premium Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Premium Bond rather than creating a deductible expense or loss. Owners should consult their tax advisers for an explanation of the amortization rules.

Other Tax Matters

Except as expressly stated above, Bond Counsel will express no opinion regarding any other state or federal income tax consequences of acquiring, carrying, owning or disposing of the Series AQ Bonds. Owners of the Series AQ Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series AQ Bonds, which may include original issue discount, original issue premium, purchase at a market discount or premium, taxation upon sale, redemption or other disposition and various withholding requirements and which may apply to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series AQ Bonds.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds will be passed upon by Ballard Spahr LLP, Baltimore, Maryland, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Buchanan Ingersoll & Rooney PC, Pittsburgh, Pennsylvania. Certain legal matters will be passed upon for the System by its Chief Legal Counsel.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") are expected to assign their municipal bond ratings of "Aa3" and "AA-", respectively, to the Series AQ Bonds. Any explanation of these ratings may be obtained only from the rating agencies issuing such ratings. Generally, rating agencies base their ratings on information and materials supplied to them and on their own investigations, studies and assumptions. There is no assurance that such ratings, once assigned, will remain for any given period of time or that they will not be lowered or withdrawn entirely by either rating agency concerned if in its judgment circumstances so warrant. Any such downward change or withdrawal of such ratings may have an adverse effect on the market price of the Series AQ Bonds.

ABSENCE OF LITIGATION

There is no litigation of any nature pending or, to the Authority's knowledge, threatened against the Authority at the date of this Official Statement to restrain or enjoin the issuance, sale, execution or delivery of the Series AQ Bonds, or in any way contesting or affecting the validity of the Series AQ Bonds or any proceedings of the Board of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or the security provided for the payment of the Series AQ Bonds or the existence or powers of the Authority or the performance of the Project.

CONTINUING DISCLOSURE

In order to satisfy the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the System will enter into a Continuing Disclosure Agreement with The Bank of New York Mellon Trust Company, N.A., as dissemination agent (in such capacity, the "Dissemination Agent") for the benefit of owners of the Series AQ Bonds. Pursuant to such agreement, the System will covenant to provide, through the Dissemination Agent, to the Electronic Municipal Market Access ("EMMA") system of the Municipal Securities Rulemaking Board (the "MSRB"), certain annual financial information and operating data of the nature included in the following sections of Appendix I to this Official Statement: Accreditation; Degrees Awarded; Enrollment; Application and Admissions; Tuition, Student Fees and Competition; Freshman Enrollment Composition; Student Financial Aid; Commonwealth Appropriations; Unrestricted Net Assets; Faculty and Staff; and Outstanding Indebtedness. Audited financial statements of the System also will be provided to EMMA when available. The System will covenant to provide such information for a fiscal year within 150 days following the end of such fiscal year, commencing with the fiscal year ending June 30, 2015. The System will covenant to provide notice in a timely manner to EMMA of a failure of the System to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement.

In the Continuing Disclosure Agreement, the System also will covenant to provide, in a timely manner not in excess of ten business days after the occurrence of the event, to EMMA notice of the occurrence of any of the following events with respect to the Series AQ Bonds: (1) principal and interest payment delinquencies, (2) non-payment related defaults, if material, (3) unscheduled draws on debt service reserves reflecting financial difficulties, (4) unscheduled draws on credit enhancements reflecting financial difficulties, (5) substitution of credit or liquidity providers, or their failure to perform, (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series AQ Bonds, or other material events affecting the tax status of the Series AQ Bonds, (7) modifications to rights of holders of the Series AQ Bonds, if material, (8) Series AQ Bond calls, if material, and tender offers, (9) defeasances, (10) release, substitution or sale of property securing repayment of the Series AQ Bonds, if material, (11) rating changes, (12) bankruptcy, insolvency, receivership or similar event of the System, (13) the consummation of a merger, consolidation, or acquisition involving the System or the sale of all or substantially all of the assets of the System other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, (14) appointment of a successor or additional trustee or the change of name of a trustee, if material, and (15) failure to provide annual information as required.

The System and the Dissemination Agent may amend the Continuing Disclosure Agreement, including amendments deemed necessary or appropriate in the judgment of the System (whether to reflect changes in the availability of information or in accounting standards or otherwise), and any provision of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied: (a) if the amendment or waiver relates to the undertakings of the System to provide annual financial information and notices, such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the System or the type of business or operations conducted by the System; (b) the undertakings contained in the Continuing Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series AQ Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment either (i) is approved by the Holders of the Series AQ Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series AQ Bonds, the Authority or the Dissemination Agent. The System's obligation to provide the foregoing annual financial information and notices of the specified events when material will terminate when the Series AQ Bonds have been fully paid or legally defeased or at such other times as such information and notices (or any portion thereof) are no longer required to be provided by the Rule as it applies to the Series AQ Bonds. Notice of such amendment will be provided to EMMA.

Under the Continuing Disclosure Agreement, the sole remedy for a breach or default by the System of its covenants to provide annual financial information and notices will be an action to compel specific performance. No action may be brought for monetary damages or otherwise under any circumstances. A breach or default under the Continuing Disclosure Agreement will not constitute an Event of Default under the Indenture or the Loan Agreement.

The Authority has no responsibility for the System's compliance with the Continuing Disclosure Agreement or for the contents of the financial information, operating data or notices provided thereunder or any omissions therefrom. During the past five (5) years, the System has not failed to make any required material filings under its continuing disclosure agreements.

UNDERWRITING

The Series AQ Bonds are being purchased for reoffering by a group of banks and investment firms represented by Wells Fargo Bank, National Association (the "Underwriter"). The Underwriter has agreed to purchase the Series AQ Bonds at an aggregate purchase price of $105,795,671.91 (consisting of the par amount of $94,975,000.00 plus accrued interest of $74,495.45 plus original issue premium of $12,316,143.85 less original issue discount of $382,362.50 and less Underwriter's Discount of $1,187,605.39). The initial public offering prices set forth on the inside cover page of this Official Statement may be changed from time to time by the Underwriter without any requirement of prior notice. The Underwriter reserves the right to join with other dealers in offering the Series AQ Bonds to the public. Series AQ Bonds may be offered and sold to other dealers (including Series AQ Bonds for deposit into investment trusts, certain of which may be sponsored or managed by the Underwriter) at prices other than the public offering prices stated on the inside cover page of this Official Statement.

FINANCIAL ADVISOR

The System has retained RBC Capital Markets, LLC as its financial advisor in connection with the issuance of the Series AQ Bonds. The receipt of a fee by RBC Capital Markets, LLC is contingent upon the issuance of the Series AQ Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

The Financial Advisor may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Series AQ Bonds.

MISCELLANEOUS

All of the summaries of the provisions of the Act, Act 188, the Indenture, the Loan Agreement and of the Series AQ Bonds set forth herein are only brief outlines of certain provisions thereof and are made subject to all of the detailed provisions thereof, to which reference is hereby made for further information, and do not propose to be complete statements of any or all such provisions of such document.

Information concerning the System has been provided by the Office of the Chancellor. All estimates, projections and assumptions herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates, projections or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The information herein above set forth, and that which follows, should not be construed as representing all of the conditions affecting the Authority, the System or the Series AQ Bonds.

The distribution of this Official Statement has been duly authorized by the Authority and the System. The Authority has not assisted in the preparation of this Official Statement, except for the statements under the section captioned **"The Authority"** and **"Absence of Litigation"** herein and, except for those sections, the Authority is not responsible for any statements made in this Official Statement. Except for the execution and delivery of documents required to effect the issuance of the Series AQ Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the Series AQ Bonds. Accordingly, except as aforesaid, the Authority assumes no responsibility for the disclosures set forth in this Official Statement.

PENNSYLVANIA HIGHER EDUCATIONAL
FACILITIES AUTHORITY

By: /s/ Robert Baccon
Robert Baccon
Executive Director

Approved:

STATE SYSTEM OF HIGHER EDUCATION

By: /s/ James S. Dillon
James S. Dillon
Vice Chancellor for Administration and Finance

APPENDIX I

CERTAIN INFORMATION CONCERNING PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION

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PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION

History and Philosophy of the System

Pennsylvania's State System of Higher Education (the "System") is a body corporate and politic constituting a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania, created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended ("Act 188").

Act 188 established a Board of Governors and the Office of the Chancellor and awarded university status to the 13 state-owned colleges on July 1, 1983. (Indiana University of Pennsylvania was awarded university status prior to the enactment of Act 188.) On that date, the System, composed of the 14 state-owned universities in the Commonwealth and the Office of the Chancellor, embarked upon its primary mission to provide "instruction for undergraduate and graduate students to and beyond the master's degree in the liberal arts and sciences, and in the applied fields, including the teaching profession." The System universities are herein referred to individually as a "University" or a "System University" and collectively as the "Universities" or "System Universities." The Universities also have specific missions in business, human services, public administration, and technology. The 14 System Universities include:

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

Bound together by the mission and by the mandate set forth in Act 188, the Universities strive to provide the highest quality education feasible for their students at the lowest possible cost.

The history of each University evolved from a need to train teachers for the Commonwealth's secondary educational institutions and to elevate the accepted standards of education. The Commonwealth adopted the Normal School Act on May 20, 1857, which provided the standards by which teachers for the Commonwealth's Normal Schools were to be trained. During the 25 years following passage of the Normal School Act, all of the schools that now comprise the System were privately established and were recognized as State Normal Schools.

On September 22, 1921, the Commonwealth enacted legislation for the acquisition of 13 State Normal Schools, adding the 14th State Normal School in 1922. These schools subsequently were redesignated as State Teachers' Colleges in 1929 (the "State Colleges"). The responsibility for certifying teachers then was transferred from the county superintendents to the Commonwealth. Within ten years following this transfer of responsibility, teacher certification requirements changed from a two-year certificate program to a four-year college degree program.

In 1959, the State Teachers' Colleges were redesignated State Colleges and, in 1961, legislation was enacted to allow the State Colleges to offer a wider range of educational opportunities. (See "Degrees Awarded" herein.) Graduate programs soon were approved and instituted at many of the State Colleges. Indiana State College achieved university status in 1965, and the remaining 13 State Colleges were recognized as universities in 1983 with the enactment of Act 188. Each University, with its unique geography and array of academic offerings, serves as a cultural center for its surrounding community.

Additionally, eight of the Universities are involved with the operation of the Chincoteague Bay Field Station of the Marine Science Consortium, a nonprofit educational 501(c)(3) corporation located in Wallops Island, Virginia (the "Consortium"), that is committed to excellence in education and research in the marine and environmental sciences. The Consortium was founded by eight of the Universities in 1970 and maintains marine stations where both field and laboratory investigations of coastal ecosystems are conducted under the supervision of University faculty and qualified marine education instructors. The Consortium supports precollege, college, and Elder Hostel programs.

The Board of Governors

The System is governed and guided by a Board of Governors (the "Board") composed of 20 members: the Governor of Pennsylvania (or his/her designee), the Secretary of Education (or his/her designee), one senator appointed by the President Pro Tempore of the Senate, one senator appointed by the minority leader of the Senate, one representative appointed by the Speaker of the House of Representatives, one representative appointed by the minority leader of the House of Representatives, and 14 members who are appointed by the Governor of Pennsylvania and confirmed by the Senate. The Board has the authority to exercise all sanctioned corporate powers in the administration of its overall responsibility to plan and to coordinate the development of the System. Members of the Board appointed from the General Assembly serve a term of office concurrent with their respective elective terms as members of the General Assembly with the Governor and Secretary of Education (or their respective designees), serving so long as they continue in office. Eleven members of the Board, appointed by the Governor, customarily will serve four-year appointments, at which time a reappointment for an additional four-year term may be commissioned. Three of the members of the Board, appointed by the Governor, must be undergraduate students presently attending a System University. The student members are selected from the presidents of the local campus student government associations or their local equivalents, and their terms automatically expire upon graduation or separation from the System. Five members of the Board also must hold membership in one of the local councils of trustees serving the Universities with no more than one trustee representing a University. The Board annually elects a chair, and at present there are two vice chairs. Members of the Board receive no compensation for their services; however, all expenses incurred in the performance of their duties may be reimbursed by the System.

The Governor of Pennsylvania and the Secretary of Education, or their designees, as members of the Board are entitled to attend all of the scheduled meetings, to address matters of concern before the Board, and to vote. However, they cannot be elected as officers of the Board.

The Chancellor of the System (the "Chancellor") serves the Board as the chief executive officer of the System. The Chancellor has the authority to address any matters of discussion before the Board but does not have voting privileges.

Act 188 requires that the Board conduct a public meeting quarterly; however, additional meetings may be convened by the chair or upon the request of six members of the Board. Presently, the Board convenes quarterly. The Office of the Chancellor has the responsibility of presenting an agenda to the Board for action at each scheduled meeting. Eleven members of the Board attending any meeting of the Board constitute a quorum.

In accordance with Act 188, the Board has “overall responsibility for planning and coordinating the development and operation of the System.” To this end, the Board employs the Chancellor as the chief executive officer of the System. The Board must approve the Chancellor’s salary and delineate any duties and responsibilities beyond those prescribed in Act 188.

The president of each University is appointed by the Board originally for a fixed term from a list of qualified candidates submitted by the Chancellor to the Board. Performance evaluations are used to evaluate the services of each president before the term of such president’s appointment can be extended.

Through the Chancellor and the 14 presidents of the Universities, the Board administers broad fiscal, personnel, and educational policies and establishes general policies that will be beneficial to the System in attaining its goal to offer an education of high quality to all its students.

The Board approves the annual operating and capital budgets for the System. The Board’s request for operating and capital appropriations is submitted to the State Board of Education for comment. As required by statute, the Board then submits its request for operating and capital appropriations to the Governor not later than November 1 of the fiscal year preceding the fiscal year for which the appropriations are requested. The Board independently submits its request for operating and capital appropriations to the General Assembly. When required, the Board or its Chancellor must represent the System before the General Assembly, the Governor of Pennsylvania, and the State Board of Education.

Under Act 188, the Board fixes the levels of tuition fees across the System, including the allowance for a differential between students who are residents of the Commonwealth and those who are nonresidents. The Board has approved a tuition/fee flexibility pilot program that allows for higher or lower tuition and fees based on local market forces.

There are five standing committees which make policy recommendations to the full Board: Academic and Student Affairs; Audit; Executive; Finance, Administration, and Facilities; and Human Resources. The present bylaws provide that members of the Board may attend and participate in the meetings of any of the committees; however, only committee members may vote on an issue under consideration.

BOARD OF GOVERNORS

Office of the Chancellor

Act 188 stipulates that the Chancellor “shall be responsible for the administration of the System under policies prescribed by the Board.” As the chief executive officer of the System, the Chancellor advises the Board on budgetary matters, academic program matters, and the formulation of personnel administration policies and procedures. In order to explore and control all of the important daily endeavors of the System, the Chancellor is empowered to employ a central office staff to fulfill the mandates of both Act 188 and the Board. Under the Chancellor’s direction, the presidents, line officers, and support staff provide System-wide management in such areas as academic policy, planning, business affairs, faculty and staff affairs, legislative policy, institutional research, legal affairs, capital planning, System relations, advancement, and equal educational opportunities. The Chancellor assists the Board in its appointment of the presidents by submitting to the Board, with his recommendation, the names of individuals recommended for consideration by the councils of trustees. Upon the appointment of each president, an annual evaluation process must be conducted, the results of which are reviewed thoroughly by the Board.

Frank T. Brogan
Chancellor

Mr. Frank T. Brogan became the fourth chancellor of Pennsylvania’s State System of Higher Education on October 1, 2013. A lifelong educator, Mr. Brogan previously served as chancellor of the State University System of Florida, was president of Florida Atlantic University, and was twice elected lieutenant governor of the state of Florida. Mr. Brogan began his academic career as a teacher at Port Salerno Elementary School in Martin County, Florida. After working his way up through the Martin County School System, including serving six years as superintendent, he was elected Florida’s Commissioner of Education in 1995. He continued his advocacy of education issues as lieutenant governor, steering education policy as legislative liaison for Governor Jeb Bush. In 2003, he assumed the presidency of Florida Atlantic University. He helped raise more than $120 million in private funds and matching grants for the university, while increasing its focus on research and establishing a four-year medical education program. Mr. Brogan was named chancellor of the State University System of Florida in 2009. As chancellor, he led the development of a new strategic plan that included 39 distinct benchmarks—an integral part of Florida’s nationally recognized accountability framework that tracks progress of university and system goals. Mr. Brogan holds a bachelor’s degree in education (magna cum laude) from the University of Cincinnati and a master’s degree in education from Florida Atlantic University.

The Office of the Chancellor has been reorganized and currently operates with two vice chancellors—an executive vice chancellor and chief academic officer, and a vice chancellor for administration and finance—and a chief of staff. The two vice chancellors and chief of staff serve the System in an important capacity, individually and collectively, and work together to ensure that the academic programs offered on all of the campuses best suit the needs of the public.

Peter H. Garland
Executive Vice Chancellor and Chief Academic Officer

The executive vice chancellor is the System’s chief operating officer, overseeing the major functional areas in the Office of the Chancellor; serving as liaison to University presidents and the System’s Board of Governors; and leading major System-wide projects, programs, and initiatives. The chief academic officer is responsible for promoting the System’s academic mission including the development of new academic directions for the System, thorough program evaluation, and program review. Dr. Garland is responsible for negotiating and administering all collective bargaining agreements covering approximately 11,000 unionized employees of the Office of the Chancellor and the 14 System Universities. He also provides centralized grievance and arbitration services.

Dr. Garland serves as executive vice chancellor, a position to which he was appointed in October 2006, and assumed chief academic officer responsibilities in February 2014. He served as the System's acting Chancellor from March 1, 2013, to September 30, 2013. Dr. Garland previously joined the System as executive associate to the Chancellor in January 2002 and was named vice chancellor for academic and student affairs in December 2003. Prior to joining the System, Dr. Garland served as executive director of the State Board of Education since 1993. He also served as assistant commissioner for postsecondary and higher education for the Pennsylvania Department of Education, acting commissioner/deputy secretary for postsecondary and higher education, director of the bureau of postsecondary services, executive assistant to the commissioner for higher education, and senior program analyst in the Office of Higher Education Financing. Dr. Garland holds bachelor's degrees in English and psychology and a master's degree in educational administration from The College of William and Mary and a master's degree in political science and a doctoral degree in higher education from Penn State. He has numerous publications to his credit and has reviewed articles for the Association for the Study of Higher Education and the American Educational Research Association. He serves as Lecturer in the Graduate School of Education at the University of Pennsylvania.

James S. Dillon
Vice Chancellor for Administration and Finance

The vice chancellor for administration and finance is charged with leading the administration and management of the financial and administrative affairs of the System. He renders guidance in the development of policy and business procedures to be implemented by the Chancellor and by the Board. Such policy issues include accounting and financial policy and reporting; treasury operations including cash management, commercial banking, and investment programs; capital financing and planning; emergency management; physical plant planning; security management; insurance management; annual System budget development and management; and procurement management. This position also provides leadership for and works in partnership with Universities to establish, implement, and improve human resources management policies and practices for the System.

Mr. Dillon was appointed vice chancellor for administration and finance in June 2005. He joined the System in 1989 as cash and debt manager, was appointed director of cash and debt management in 1995, and was named treasurer in 1997. For two years prior to joining the System, Mr. Dillon held several finance positions at The Equitable in New York, including manager in the Office of the Treasurer. Mr. Dillon holds a Bachelor of Science in business administration from Shippensburg University and a master of business administration, corporate finance, from Fordham University. He also participated in the Program for Senior Executives in State and Local Government sponsored by Harvard University, John F. Kennedy School of Government. Mr. Dillon has presented case studies at the National Multi-Housing Developers Association Conference and the Annual Treasury Management Conference of the Treasury Management Association.

Randy Goin, Jr.
Chief of Staff

The chief of staff and senior policy advisor coordinates the efforts of senior staff in the Office of the Chancellor and works closely with university, government, and business leaders to ensure timely advancement of Board of Governors' initiatives.

Mr. Goin was appointed chief of staff in December 2013. Prior to joining the System's leadership team, Mr. Goin was chief of staff for the Florida Board of Governors, which oversees the second largest university system in America. He also led the public affairs, governmental relations, and communications group, which worked to articulate a clear message and vision with all constituents. He launched his career in the private sector more than two decades ago and later moved into communications management roles in higher education. He ultimately served as associate vice president for marketing at Florida Atlantic University, where he helped build the communications organization and reposition the institution's brand. Mr. Goin was then named university chief of staff and worked closely with the president to reshape the institution's organizational structure by increasing focus on top priorities. He served as a conduit between the administration and the university trustees—enhancing board relations and operations. He earned a Bachelor of Architecture degree and a Master of Arts degree with a focus in corporate and political communication from Florida Atlantic University.

The Presidents of the Universities

The presidents of the 14 Universities are appointed by the Board for a specified term. In an effort to ensure that the presidents are guiding the individual Universities toward the achievement of the System's unified goals, the Chancellor reviews the goals and objectives of each president annually. As the chief executive officers of the Universities, the presidents are responsible for development and implementation of policies and procedures regarding personnel administration, fiscal management, admissions, discipline and expulsion guidelines, instructional programs, research programs, and public service programs within the framework prescribed by the Board.

The presidents must ensure that prudent fiscal policies are followed in the expenditure of all Commonwealth appropriations, tuition, fees, and all other available funds. They have the authority to obligate the System for ongoing contractual liabilities within the limitations of the operating budget of the University. Overall, their primary responsibility is to implement the policies of the Board and to perform all of those operations necessary for the orderly and judicious management of the University. Each president may attend any scheduled meeting of the University's council of trustees and address matters before such council, but may not vote.

The 14 University presidents are listed below.

Dr. David L. Soltz
Bloomsburg University of Pennsylvania

Ms. Geraldine M. Jones (Interim)
California University of Pennsylvania

Dr. Frank G. Pogue (Interim)
Cheyney University of Pennsylvania

Dr. Karen M. Whitney
Clarion University of Pennsylvania

Dr. Marcia G. Welsh
East Stroudsburg University of Pennsylvania

Dr. Julie E. Wollman
Edinboro University of Pennsylvania

Dr. Michael A. Driscoll
Indiana University of Pennsylvania

Dr. Carlos Vargas-Aburto (Acting until 06/30/15)
Dr. Kenneth S. Hawkinson (Effective 07/01/15)
Kutztown University of Pennsylvania

Dr. Michael Fiorentino Jr.
Lock Haven University of Pennsylvania

Mr. Francis L. Hendricks
Mansfield University of Pennsylvania

Dr. John M. Anderson
Millersville University of Pennsylvania

Dr. George F. "Jody" Harpster
Shippensburg University of Pennsylvania

Dr. Cheryl J. Norton
Slippery Rock University of Pennsylvania

Dr. Greg R. Weisenstein
West Chester University of Pennsylvania

The Councils of Trustees

Each University within the System maintains a council of trustees consisting of 11 members who are appointed by the Governor with the advice and consent of the Senate. At least two of these members must be alumni of the institution. Ten of the members serve terms of six years while one member must be a full-time undergraduate student, other than a freshman, enrolled for at least 12 semester hours at the institution of which he/she is a trustee. The student member serves a term of three years or for so long as he/she is a full-time undergraduate student in good academic standing, whichever period is shorter. Six members of a council constitute a quorum, and each council meets at least quarterly and additionally at the call of the president, or its chair, or upon the request of three of its members.

Each council's specific responsibilities include making recommendations to the Chancellor for the appointment, retention, or dismissal of the president of its University following consultation with students, faculty, and alumni; reviewing and approving the recommendations of the president as to the standards for admission, discipline, and expulsion of students; and reviewing and approving the recommendations of the president as to the policies and procedures governing the use of institutional facilities and property, and the policies and procedures for the annual operating and capital budget requirements for submission to the Board. The council has the authority to approve schools and academic programs; to review and approve charges for room, board, and miscellaneous fees; to review and approve all contracts and purchases negotiated or awarded by the president, with or without competitive bidding, and all contracts for consulting services entered into by the president; and to take such action as may be necessary to effectuate the powers and duties delegated by Act 188.

Capital Facilities

The campuses of the 14 Universities encompass more than 4,700 acres. To date, there are almost 900 physical plant structures, with 32.6 million gross square feet. Capital facilities in place prior to the System's inception in 1983, state-appropriated capital renovations of those facilities, and new state-appropriated capital facilities are made available to the System at no cost. In 2002, the Commonwealth transferred custody and control of these facilities to the System. Under this arrangement, the Commonwealth retains fee title for the facilities and continues to provide state appropriations for capital facilities construction and renovations. Capital facilities acquired and constructed after 1983 by the System from other than state appropriations, as well as capitalized renovations and capital assets such as equipment, furnishings, and library books, are assets on the System's balance sheet and have a book value, as of June 30, 2014, of $1.6 billion net of accumulated depreciation. The current replacement cost of the total System capital facilities and infrastructure is estimated to be in excess of $10 billion.

Educational and General Facilities—The Commonwealth appropriates funds for capital repairs and renovations while the System contributes regular maintenance funded from its operating budget. In July 1996, the Board of Governors approved a facilities renovation partnership with the Commonwealth of Pennsylvania. Currently, the Commonwealth is providing approximately $65 million annually toward capital improvement for the System's academic facilities. The System contributes any additional funding for capital repairs and renovations needed through bond financing, operating funds, or fundraising. The System has expended approximately $1.6 billion for renovation of existing academic facilities since 1996, while the Commonwealth has appropriated approximately $1.4 billion.

Each University's capital budget request for the forthcoming fiscal year is submitted to the Office of the Chancellor. In order for a capital project to be included in the appropriations request to the Governor and to the General Assembly, the Chancellor assesses the project's priority using criteria that include: University priorities; academic benefit; space requirements; ADA, safety, and code compliance deficiencies; new revenue or matching funds potential; cost savings potential; and impact on deferred maintenance. The equitable distribution of capital funds to each of the Universities is also considered in developing the plan. The Office of the Chancellor conducts an in-depth review of each capital project request to determine the overall contribution of the project to the well-being of the System as a whole.

Auxiliary Facilities—The Board of Governors has determined that additional facilities may be needed at the Universities and has adopted a Construction Finance Policy, which permits the System to seek bond funding to finance construction of new auxiliary facilities such as residence halls, recreation centers, and student unions, and such other facilities, equipment, real property, or other needs as the Board decides. Auxiliary facilities are sustained with student fees, not Commonwealth appropriations or tuition. Act 188 requires the maintenance of an Auxiliary Facilities Reserve Fund established from mandatory resident student fees to accumulate funds with which to repair or construct new residence halls. To ensure longevity of existing residence halls, a capital renewal fee is charged per resident student for use in implementing capital maintenance projects. The monies collected are restricted for the specific purpose of roof replacement, floor replacement, or any major repair/replacement project that will significantly prolong the usable life of the building for use as a residence hall. The System has expended over $1.0 billion for auxiliary facilities since 1996.

Accreditation

All of the Universities are fully accredited by the Middle States Association of Colleges and Secondary Schools. Certain academic programs are accredited individually by various national professional organizations.

Degrees Awarded

A range of undergraduate and graduate degree programs is offered across the System; 183 undergraduate and 112 graduate programs are offered in 32 major academic areas. In addition, certification programs are offered in 79 areas. The System awarded 20,053 undergraduate degrees and 5,078 graduate degrees in 2013/14. The System also awarded 185 doctoral degrees through Indiana and Slippery Rock Universities of Pennsylvania and 385 associate's degrees through all the Universities. Education comprised 16.5 percent of the undergraduate degrees and 41.5 percent of the graduate degrees conferred.

Initiatives in Technology

By law and by history, System Universities share a mission of instruction, research, and public service, and through their existing infrastructure and human resources, have the objective of assisting the Commonwealth to achieve statewide goals and to support special programs. Directly and indirectly, these programs benefit students, families, faculty, local communities, professional organizations, government agencies, and the general public. Many programs are provided in partnership with public schools, service agencies, business and industry, other universities, and local to international government bodies.

The System operates a consolidated Enterprise Resource Planning (ERP) system for each University's finance, procurement, human resources, and payroll processes in a single, hosted solution managed from one location. Student administration functional processes, such as admissions, registration, financial aid, and student billing and accounting, are maintained at each University with interfaces to the ERP system as necessary. Seven Universities have recently implemented student information systems. An initiative is underway to develop a System-wide data management strategy that will integrate data from each System University and the ERP system to maintain decision support, strategic planning, assessment, and reporting.

The System and its Universities systematically have expanded the technological infrastructure and services provided through networked resources. Following are some highlights of these efforts.

Potential students have a valuable new tool to help make the process of applying for admission to one or more System Universities easier. The System's Admissions Application allows students seeking admission to apply to one or more System Universities without having to reenter common information. Almost 30 percent of those now applying to the System for admission are applying to more than one University. Of those using the new process, 93 percent have expressed their satisfaction with its ease of use. The System's Admissions Application also enables System Universities and associated academic departments to have real-time communication with their applicants for purposes of establishing an immediate connection.

Through the use of technology, the Universities are sharing courses—allowing students not only to take classes that might not otherwise be available at their University, but also to benefit from the expertise of extraordinary faculty at other institutions across the System. The expansion of online courses and programs has created even more opportunities for both traditional students—those who enroll in college right out of high school—and adult learners, many of whom would not be able to take the time away from job and family commitments to take a "regular" class at a campus that might be located literally hundreds of miles away. More than 11,300 System University students took at least one of their courses online last year; more than 6,400 were enrolled solely in online courses. The System Universities now offer more than 110 online certificate and degree programs. During the most recent winter and summer breaks, the Universities offered a combined 2,159 online courses, providing students significant opportunities to stay on track toward graduation or even to get ahead in earning their degree.

The System maintains a wide area network, or SSHEnet, that provides connectivity between the Universities, to coordinate delivery of both commodity Internet and Internet2, and to facilitate resource sharing between System Universities and the Office of the Chancellor. SSHEnet is the main throughway for mission-critical services, such as distance education (university to/from D2L); student, faculty, and staff access to the Keystone Library Network; access to the Shared Administrative System for finance, procurement, and human resources/payroll processing; access to the Business Warehouse for web-based reporting templates; access to the enterprise portal for Employee Self-Service (ESS) and Manager Self-Service (MSS); and System-wide videoconferencing capabilities used by faculty and staff. The model of aggregating wide area network services provides the opportunity to leverage best pricing from Internet Service Providers and point-to-point service providers. The ongoing operational costs are also reduced significantly by having a few highly skilled staff of network and video engineers to support the System on behalf of all the Universities and the Office of the Chancellor. In 2014, SSHEnet was transformed to take advantage of connectivity provided by the Keystone Initiative for Network Based Education and Research (KINBER). KINBER supports the Pennsylvania Research and Education Network (PennREN) that was built using funding from a federal broadband grant of almost $100 million to build an education and research network connecting nearly 70 anchor sites and over 1,700 miles of fiber-optic cable. The System was a named participant in preparing the federal grant request. SSHEnet is architected to provide full redundancy that will allow System students, faculty, and staff the connectivity required in today's connected/cyber society.

The System uses several license agreements to provide quality software for students and faculty. Several third-party applications are used in conjunction with the online learning environment to enhance and expand the resources available. These applications include real-time videoconference and presentation resources, antiplagiarism resources, social networking resources, and others. Independent of the online learning environment, students and faculty have access to leading resources specific to mathematics, physics, geography, geology, business, and other disciplines. The System utilizes a Microsoft Campus Agreement that covers all Universities and the Dixon University Center. The agreement provides license coverage for Windows operating systems, the latest releases of Microsoft Office, and several other applications including Windows server, Exchange, and SharePoint, and extends licensing to all University-owned personal computers and work-at-home rights for all employees.

The System and its Universities use the power and potential of existing and emerging technologies to provide a high quality education to its students and state-of-the-art services to students, faculty, and staff while continuously improving efficiency and lowering the total costs of education to students, their families, and the Commonwealth. Recognizing that the educational landscape is changing rapidly, the System intends to leverage the opportunities presented by emerging technologies to become more flexible in its operations, to remain agile in the face of new demands for content and delivery modes, and to enhance its understanding and responsiveness to the needs of the communities it serves, the Commonwealth, and the nation.

Accountability

The Board of Governors' commitment to accountability and excellence has included a performance funding program that was established in July 2000. This program measures and rewards University performance in key areas of student achievement, University excellence, diversity, and operational efficiency. The Board of Governors has increased the amount of performance funding available to the Universities from $2 million in the first year of the program to the current level of $37 million. The State System's focus on performance has produced results. Since the performance funding program began, student persistence and graduation rates (both four-year and six-year) have increased; the student and faculty populations have become more diverse—minority enrollment this fall reached another record high, now accounting for 17.24 percent of the student population; more community college students are transferring to System Universities; and more academic and professional programs are being accredited by national organizations, a sign of improved academic quality.

Enrollment

The following data shows the System's fall semester enrollment by headcount and annual full-time equivalent enrollment for the last five academic years.

	2010/11	2011/12	2012/13	2013/14	2014/15
Headcount					
Undergraduate	102,974	102,900	100,350	98,396	95,804
Graduate	16,539	15,324	14,121	13,632	13,802
Total	119,513	118,224	114,471	112,028	109,606
Full-Time	100,486	100,459	97,823	95,494	92,788
Part-Time	19,027	17,765	16,648	16,534	16,818
Total	119,513	118,224	114,471	112,028	109,606
Full-Time Equivalent					
Undergraduate	96,460*	96,512	94,213	92,457	89,478
Graduate	9,438	8,754	8,210	7,801	7,916
Total	105,898	105,266	102,423	100,258	97,394

*The 2010/11 numbers reflect actual. In prior submissions, these numbers were reported as estimates.

The general economic environment and declining numbers of high school graduates in Pennsylvania are contributing factors in declining enrollment.

Applications and Admissions

The following data shows the fall semester application/enrollment figures for the System for five academic years, including the current year.

	2010/11	2011/12	2012/13	2013/14	2014/15
Applied	104,141	101,443	93,084	77,826*	78,878
Accepted	64,060	65,587	61,247	60,862	62,312
Enrolled	21,707	21,812	20,084	19,941	19,719
% Accepted	61.5%	64.7%	65.8%	78.2%	79.0%
% Enrolled/Accepted	33.9%	33.3%	32.8%	32.8%	31.6%

*The lower number of applications reported by System institutions for FY 2013/14 is largely a result of a change implemented by the System in the method of collecting application information from the individual Universities. The transition to this new methodology may take up to two years as the Universities adjust their student information systems and their business processes.

The prior method of collecting application information may have overstated completed applications in prior years.

Tuition, Student Fees, and Competition

The following includes the current and previous four years of System-wide average in-state full-time undergraduate tuition and fees.

Full-Time Undergraduate Tuition and Student Fees

	2010/11	2011/12	2012/13	2013/14	2014/15
System Average	$7,727	$8,484	$8,733	$9,004	$9,418

System Universities compete with many other colleges and universities for qualified applicants. The undergraduate tuition and required fees collected by various higher education sectors in Pennsylvania during the current year are illustrated in the following table. The private colleges and universities listed were chosen because of geographic location, similar academic offerings, and similar selectivity ratios.

	2014/15 Required Fees and Tuition
Selected Private Colleges and Universities	
Washington and Jefferson College	$41,282
Elizabethtown College	$39,920
Juniata College	$38,630
Delaware Valley College	$33,826
Gannon University	$28,368

	2014/15 Required Fees and Tuition
State-Related Universities (in-state)	
The University of Pittsburgh	$17,772
The Pennsylvania State University	$17,502
Temple University	$14,696
Community Colleges (in-state)	
Community Colleges Average (full-time equivalent course load)	$4,572
Pennsylvania's State System of Higher Education (in-state)	
System Average	$9,418

Source: *The Chronicle of Higher Education*

Freshmen Enrollment Composition

The following tables highlight the high school rank and average SAT scores of the System's incoming freshmen for the years indicated.

Percentage of Freshmen by High School Rank

Quintile	2010	2011	2012	2013	2014
1	23.8%	22.8%	22.0%	21.1%	21.4%
2	30.7%	31.0%	31.1%	29.4%	29.4%
3	26.1%	26.5%	26.5%	27.2%	25.6%
4	15.3%	15.0%	15.7%	17.0%	17.5%
5	4.1%	4.7%	4.7%	5.3%	6.1%

Average SAT Scores

	2010	2011	2012	2013	2014
Verbal	517	498	492	490	490
Math	526	504	500	497	496
Total	1,043	1,002	992	987	986

Student Financial Aid

Almost 87 percent of all first-time, full-time, degree-seeking undergraduate students attending System Universities during academic year 2013/14 received financial aid. Almost 37 percent of these students received awards from federal grant aid, while 39 percent received awards from the Commonwealth or local agencies. Seventeen percent of these students received awards from the institution. Seventy-eight percent of all first-time, full-time undergraduates received a student loan.

The major sources of financial aid available to System students are the Federal Pell Grant Program, Pennsylvania State Grant Program, Federal Supplemental Educational Opportunity Grant Program, Federal Work Study Program, Federal Perkins Loan Program, and Federal Direct Loan Program. Of the financial aid programs available, the three main sources of financial aid received by System students are the Federal Pell Grant, Pennsylvania State Grant, and Federal Direct Loans. Each University maintains a fully functioning student financial aid office.

Commonwealth Appropriations

In Act 188, the General Assembly defined the System as an instrumentality of state government and declared its operating costs ordinary expenses of state government, entitling it to preferred appropriations status under Article III, Section 11, of the Pennsylvania Constitution. Preferred appropriations are authorized only for state government, public schools, and payment of the public debt. Preferred appropriations bills require only a simple majority vote of the General Assembly, while “nonpreferred appropriations” bills, authorized by Article III, Section 30, of the Pennsylvania Constitution to fund state-related universities and private state-aided institutions, require a two-thirds majority vote.

One advantage of preferred appropriations status is that a smaller constitutional majority is required for passage of bills, thereby reducing the possibility of defeat. It also is settled law that, in exigent times, the Governor may reduce or entirely abate nonpreferred appropriations. See *Schnader v. Liveright*, 308 Pa. 35 (1932).

The System’s annual appropriations represent approximately 19 percent of total revenues. Receipt of an appropriation in a given year does not ensure an appropriation or the amount of such appropriation in the following year. The chart below shows the current fiscal year and a five-year history of total annual appropriations received by the System.

Fiscal Year	Appropriations
2014/15	$412,751,000
2013/14	$412,751,000
2012/13	$412,751,000
2011/12	$412,751,000
2010/11	$465,197,000
2009/10	$465,197,000

The FY 2014/15 appropriation of $412,751,000 is the same amount as received in FY 2011/12, FY 2012/13, and FY 2013/14. While state appropriations remain level, mandatory cost increases are addressed through a combination of modest increases in price to the students and continued cost savings in operations, which may include reducing discretionary expenses, implementing changes in academic programs and University specialization, limiting employee compensation, and eliminating positions.

As of the printing of this Official Statement, the Commonwealth has not passed the FY 2015/16 budget. The Governor’s recommended budget proposes a two-year commitment to restore the System’s funding to levels prior to the $90.6 million cut made in FY 2011/12. The proposed FY 2015/16 Educational and General appropriation of $458.1 million includes a $45.3 million increase. In addition, an increase in the amount received from the realty transfer tax for deferred maintenance is anticipated. The final appropriation will not be known until the summer.

Realty Transfer Tax

In 1993, the General Assembly and the Governor of Pennsylvania passed into law a dedicated allocation of 2.7 percent of the Pennsylvania Realty Transfer Tax to the System. These revenues are restricted as to use for deferred maintenance on academic facilities. As a result of budget pressures on the Commonwealth, revenues normally received from this tax for the System were suspended during FY 2009/10 and FY 2010/11. Revenues the System received from this tax were $6.8 million in FY 2011/12, $11.7 million in FY 2012/13, $13.6 million in FY 2013/14, and $13.4 million in FY 2014/15.

Statement of Revenues, Expenses, and Changes in Net Position

This statement reports the revenues earned and the expenses incurred in the fiscal year. The resulting net income or loss is reported as an increase or decrease in net position on the *Balance Sheet*.

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Pennsylvania's State System of Higher Education

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2014 and 2013
(dollars in thousands)

	2014		***Restated*** 2013	
Operating Revenues				
Tuition and fees	$1,029,150		$1,015,386	
Less scholarship discounts and allowances	(219,840)		(211,187)	
Net tuition and fees		$809,310		$804,199
Governmental grants and contracts:				
Federal		38,268		42,161
State		109,812		104,167
Local		3,901		3,800
Nongovernmental grants and contracts		8,849		7,790
Sales and services of educational departments		39,003		34,749
Auxiliary enterprises, net of discounts of $928 in 2014 and $890 in 2013		331,431		332,890
Other revenues		14,089		9,777
Total Operating Revenues		1,354,663		1,339,533
Operating Expenses				
Instruction		720,970		704,473
Research		5,115		5,419
Public service		37,457		34,233
Academic support		171,911		170,773
Student services		176,618		170,270
Institutional support		263,981		258,068
Operations and maintenance of plant		152,304		143,214
Depreciation		120,193		119,536
Student aid		75,592		74,488
Auxiliary enterprises		251,781		243,320
Total Operating Expenses		1,975,922		1,923,794
Operating Loss		(621,259)		(584,261)
Nonoperating Revenues (Expenses)				
State appropriations, general and restricted		412,751		412,751
Pell Grants		143,572		140,585
Investment income, net of related investment expense of $465 in 2014 and $432 in 2013		26,226		20,409
Unrealized gain on investments		(3,179)		(5,131)
Gifts for other than capital purposes		17,791		15,124
Interest expense on capital asset-related debt		(36,862)		(37,936)
Loss on disposal of assets		(12,055)		(6,347)
Other nonoperating revenue		1,504		1,334
Net Nonoperating Revenues		549,748		540,789
Income before other revenues		(71,511)		(43,472)
State appropriations, capital		14,385		14,835
Capital gifts and grants		4,375		14,708
Decrease in Net Position		(52,751)		(13,929)
Net position—beginning of year		719,799		812,727
Restatement for bond issuance costs as required by GASB 65		—		(6,999)
Net position—beginning of year, restated				85,728
Net position—end of year		$739,048		$791,799

Investment of Working Capital

The System invests its working capital in accordance with the Board of Governors' Investment Policy. The investment priorities of the System as stated in this policy are, in order of priority: (1) safety of principal, (2) liquidity, and (3) yield. This policy expressly prohibits leverage and speculative investment strategies.

Unrestricted Net Position

Unrestricted net position, which totals -$48.7 million, includes the effects of two unfunded liabilities: the liability for postretirement benefits for employees who participate in the System plan totaled $1,007.1 million for the year ended June 30, 2014 (see financial statements note 5 for more information); and the liability for compensated absences totaled $114.7 million for the year ended June 30, 2014 (see financial statements note 7 for more information). Without the effect of these liabilities, total unrestricted net position would equal $1,073.1 million.

Faculty and Staff

As of October 31, 2014, System faculty numbered 4,766 full-time members and 1,193 part-time members. Of the full-time faculty members, 3,319 have been awarded tenure, and 877 are tenure-track.

As of October 31, 2014, the System employed 6,232 full-time staff members and 184 part-time staff members. The System believes that it provides a competitive compensation program for its faculty, and that it is able to attract persons with outstanding qualifications.

The System participates in three different retirement systems funded in part each year from each University's operating budget: the State Employees' Retirement System (SERS), the Public School Employees' Retirement System (PSERS), and the Alternative Retirement Plan (ARP, which includes VALIC, ING, Fidelity, and TIAA-CREF). Liabilities of the respective retirement systems are not the responsibility of the System. The basic benefits for each program are outlined below (see also financial statements note 4).

(1) State Employees' Retirement System (SERS). The employee's contribution rate is 5.00 percent of gross salary for Class A and 6.25 percent of gross salary for Class AA. An employee is vested upon completion of five years of service with the state government for these classes. The employee's contribution rate is 6.25 percent of gross salary for Class A-3 and 9.3 percent of gross salary for Class A-4. Class A-3 and Class A-4 are applicable to new members enrolling after January 1, 2011. An employee in Class A-3 or A-4 is vested upon completion of ten years of service with the state government.

(2) Public School Employees' Retirement System (PSERS). The employee's contribution rate ranges from 5.25 percent to 7.50 percent of gross salary, depending upon class and hire date. Most employees elected the 7.5 percent Class T-D when offered the higher benefit effective January 1, 2002. An employee is vested upon completion of five years of service with the state government for these classes. The employee's contribution rate is 7.5 percent of gross salary for Class T-E and 10.3 percent of gross salary for Class T-F. Class T-E and Class T-F are applicable to new members enrolling after July 1, 2011. An employee in T-E or T-F is vested upon completion of ten years of service with the state government.

(3) Alternative Retirement Plan (ARP). The employee's contribution rate is 5.00 percent of gross salary. An employee is immediately vested in this retirement program upon employment. Early retirement can be requested at any age; however, the amount of annuity is based on the employee/employer contributions and investment income.

The following table summarizes the System's contribution rates for employee retirement benefits for five years (including the current year) for each of the above-mentioned retirement plans. All of the figures are a percent of the employee's gross salary. (See financial statements note 4 for the dollar amount of such contributions.)

	SERS*				
	Class A	**Class AA**	**Class A-3 and A-4**	**PSERS**	**ARP**
2014/15	15.94%	19.92%	13.77%	10.70%	9.29%
2013/14	12.10%	15.12%	10.46%	8.465%	9.29%
2012/13	8.43%	10.51%	7.29%	6.18%	9.29%
2011/12	5.59%	6.99%	4.83%	4.325%	9.29%
2010/11	3.29%	4.11%		2.82%	9.29%

**There are three different rates for SERS employees, depending on their class. The majority of System employees are in Class AA. Newly enrolled employees hired after January 1, 2011, are in Class A-3 or A-4.*

The System's contribution rates are determined by state legislation. Required employer contribution rates are expected to increase considerably in subsequent years, which will likely have a negative effect on the financial condition of the System.

Most System employees are represented by various labor unions. The two that represent the largest number of employees are the American Federation of State, County and Municipal Employees (AFSCME) (contract termination date June 30, 2015), and the Association of Pennsylvania State College and University Faculties (APSCUF) (contract termination date June 30, 2015, for faculty and nonfaculty coaches, which are two separate bargaining units). Other labor unions include the State College and University Professional Association (SCUPA) (contract termination date June 30, 2015); Office and Professional Employees International Union Healthcare Pennsylvania (OPEIU) (contract termination date June 30, 2015); Security, Police and Fire Professionals of America (SPFPA) (contract termination date August 31, 2017); the Pennsylvania Doctor's Alliance (PDA) (contract termination date June 30, 2016); and the Pennsylvania Social Services Union (PSSU) (contract termination date June 30, 2015). The System has complete autonomy in the negotiation processes for the APSCUF, SCUPA, SPFPA, and OPEIU contracts. However, the System engages in coalition bargaining with the Commonwealth of Pennsylvania on all other labor union contracts. The System has not experienced a work stoppage that resulted in any adverse financial situation.

Accounting Matters

The System's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

As of July 1, 1983, with the enactment of Act 188, the System became responsible for the use of all appropriations for all the Universities. Any funds unexpended at the end of any given fiscal year by any University or the Office of the Chancellor do not lapse to the Commonwealth, but remain in the respective accounts for future use. The presidents have the authority to expend their respective University's allocated funds as they deem proper and necessary, with review by the

Office of the Chancellor. The amount of appropriations granted by the General Assembly and the Governor of Pennsylvania for the next fiscal year is not affected adversely by any cumulative amounts remaining unexpended by the Universities and the Office of the Chancellor from the prior fiscal year appropriations.

The System has contracted with an external firm that, along with System personnel, is analyzing and reconciling the recent student financial awards of Cheyney University of Pennsylvania, a historically black university (HBCU), in cooperation with the U.S. Department of Education. It is anticipated that a payment may be required by Cheyney University and/or the System to the U.S. Department of Education in connection therewith, although an estimate of the amount thereof cannot yet be determined. See Appendix II: 2014 Audited Financial Statements - Management's Discussion and Analysis - Future Economic Factors - Cheyney University and Single Audit Reporting Package, Year Ended June 30, 2014, http://www.passhe.edu/inside/anf/accounting/Financial%20Statements/June%2030,%202014,%20Single%20Audit%20Report.pdf (pages 71-72 and 97-98).

In the opinion of the System's management, there has been no material adverse change in the financial condition of the System since June 30, 2014.

Budgetary Matters

The president of each University is required to submit a projected operating budget for each fiscal year to the Office of the Chancellor. Periodically throughout the fiscal year, each president must submit a rebudget showing actual revenues received and expenditures incurred to date with estimated projections for the remainder of the fiscal year. These financial submissions are one tool that the Office of the Chancellor uses to monitor the financial condition of the respective Universities throughout the year to ensure that deficits are not incurred.

Financial Statements Audit

The financial statements of the System as of and for the year ended June 30, 2014, included in Appendix II of this Official Statement, have been audited by CliftonLarsonAllen LLP, independent auditors, as stated in their report appearing herein.

Legal Matters

It is the opinion of the Chief Counsel to the System that, to the best of his knowledge after reasonable investigation, there is no action, suit, proceeding, or investigation at law or in equity before or by any court, public board, or body, pending or threatened, against or affecting the System, wherein an unfavorable decision, ruling, or finding would materially adversely affect the transactions contemplated by this Official Statement or the validity of the Loan Agreement and the Disclosure Agreement.

Legislative Matters

From time to time, legislation is introduced in the Pennsylvania General Assembly which may affect the System and, therefore, may affect certain portions of the description of the System contained in this Official Statement. The System cannot predict if such legislation or other legislation will be enacted into law now or in the future and, if enacted, how any such legislation may affect the System's ability to perform its obligations with respect to the Bonds.

Contingencies, Commitments, and Concentrations

See financial statements notes 6 and 11 for more information on such matters.

Future Financing

Currently, there are some additional auxiliary and academic-related capital projects (e.g., student housing, recreational centers, and classroom buildings) under feasibility study and/or design. Although academic projects have Commonwealth capital funding available, not all projects are fully funded by capital appropriations. Some of these projects may come to fruition and require financing in future years. The amount to be financed for all projects is expected to be in the range of $75 to $125 million in fiscal year 2015/16. The System is wrapping up its procurement of student housing through its affiliated 501(c)(3) organizations. These affiliates have developed student housing both on and off campus on a nonrecourse project finance basis using tax-exempt and taxable debt. To date, such affiliates have financed and completed approximately 22,413 beds for approximately $1.5 billion of financing. Most housing projects are replacement stock, and some are designed to meet perceived needs for more modern housing options.

Outstanding Indebtedness

As of April 1, 2015, the outstanding indebtedness of the System is as follows:

	Issuance Date	Original Issuance Amount	Current Outstanding Principal	Maturity Date
Series AC	07/07/05	52,650,000	31,095,000	06/15/25
Series AE	07/06/06	103,290,000	75,805,000	06/15/36
Series AF	07/10/07	68,230,000	54,525,000	06/15/37
Series AG	03/27/08	101,335,000	70,505,000	06/15/24
Series AH	07/17/08	140,760,000	119,005,000	06/15/38
Series AI	08/07/08	32,115,000	21,725,000	06/15/25
Series AJ	07/09/09	123,985,000	105,285,000	06/15/39
Series AK	09/03/09	47,310,000	32,240,000	06/15/24
Series AL	07/08/10	135,410,000	90,065,000	06/15/35
Series AM	07/12/11	119,085,000	108,170,000	06/15/36
Series AN	03/30/12	76,810,000	75,365,000	06/15/23
Series AO	07/18/13	30,915,000	29,995,000	06/15/38
Series AP	05/07/14	46,110,000	46,110,000	06/15/24
Total		$1,078,005,000	$859,890,000	

The System has no other existing long-term indebtedness, except for the installment purchase and lease of office equipment, computer equipment, energy conservation equipment, and similar types of acquisitions. See note 3 of the 2014 Audited Financial Statements for further information pertaining to the leases.

Maturities of long-term debt for the current fiscal year, as well as the next five fiscal years, are as follows:

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Series AC*	2,945,000	2,550,000	2,675,000	2,810,000	2,950,000	3,100,000
Series AE*	4,240,000	4,465,000	4,470,000	4,700,000	4,935,000	5,180,000
Series AF	2,305,000	2,420,000	2,540,000	2,670,000	2,805,000	2,945,000
Series AG	10,875,000	11,485,000	12,075,000	11,105,000	6,165,000	—
Series AH	4,220,000	4,435,000	4,655,000	4,890,000	6,680,000	7,005,000
Series AI	1,845,000	1,910,000	1,990,000	2,070,000	2,150,000	2,235,000
Series AJ	4,835,000	5,245,000	5,685,000	6,080,000	6,570,000	6,995,000
Series AK	3,795,000	3,910,000	4,080,000	4,220,000	4,405,000	3,255,000
Series AL	7,710,000	7,935,000	8,000,000	5,955,000	6,525,000	6,845,000
Series AM	4,200,000	4,420,000	4,655,000	4,900,000	4,955,000	5215000
Series AN	4,000,000	8,235,000	9,430,000	9,705,000	14,400,000	21,530,000
Series AO	1,040,000	1,075,000	1,105,000	1,130,000	1,170,000	1,210,000
Series AP	2,685,000	2,940,000	1,200,000	1,240,000	1,275,000	6,775,000
Total	$54,695,000	$61,025,000	$62,560,000	$61,475,000	$64,985,000	$72,290,000

**These bonds are being refunded by the current issue.*

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APPENDIX II

2014 AUDITED FINANCIAL STATEMENTS

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PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION

Pennsylvania's
STATE SYSTEM
of Higher Education

FINANCIAL STATEMENTS
JUNE 30, 2014

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

Table of Contents

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13 and the schedules of funding progress for OPEB on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
September 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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

The State System financial statements comprise:

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

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

FINANCIAL HIGHLIGHTS

In fiscal year 2013/14, the State System received $412.8 million in General Fund **appropriations** from the Commonwealth, the same amount as received in fiscal years 2012/13 and 2011/12. This also is the same level of funding the State System received in fiscal year 1997/98—16 years ago.

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

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

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

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

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

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

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

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

The Board approved a $5 increase to the **tuition technology fee (**$368 annually) for full-time resident undergraduate students and an $8 increase ($558 annually) for full-time nonresident undergraduate students. All funds raised by the technology fee are used to directly benefit student learning. Universities have used the funds to install new computer labs and to design multimedia classrooms, among other projects.

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

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

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

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

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

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

THE FINANCIAL STATEMENTS

Balance Sheet

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

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

- *Assets* include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation.

- *Deferred Outflows of Resources*, which is defined as a consumption of net position that applies to future periods, reports the deferred loss on bond defeasance.

- *Liabilities* include payments due to vendors and students; the balance of bonds payable; and liabilities such as workers' compensation (the State System is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees).

- *Deferred Inflows of Resources*, which is defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance.

- *Net Position*, which was previously referred to as *Net Assets* or *Fund Balance*, is the sum of Assets plus Deferred Outflows of Resources less Liabilities less Deferred Inflows of Resources.

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

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* reports the revenues earned and the expenses incurred during the fiscal year. The result is reported as an increase or decrease in net position.

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

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

Statement of Cash Flows

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

Net Position

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

- *Net investment in capital assets* is the cost of land, buildings, improvements, equipment, furnishings, and library books, net of accumulated depreciation, less any associated debt (primarily bonds payable). This balance is not available for the State System's use in ongoing operations, since the underlying assets would have to be sold in order to use the balance to pay current or long-term obligations. The Commonwealth prohibits the State System from selling university land and buildings without prior approval.

- *Restricted* net position represents the portion of balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. *Nonexpendable* restricted net position represents corpuses of endowments and similar arrangements in which only the associated investment income can be spent. *Expendable* restricted net position represents the portion of restricted funds that is available for expenditure as long as any external purpose and time restrictions are met.

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

  Unrestricted net position reflects two unfunded liabilities:

  - The liability for **postretirement benefits** for employees who participate in the State System health care plan increased by $73.4 million to $1.01 billion for the year ended June 30, 2014. Because this liability is expected to be realized gradually over time, and because of its size, the universities fund it only as it becomes due.

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

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

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

(in millions)

Balance Sheet

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

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

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

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

(in millions)

Student Financial Aid

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

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

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

- Employer share of **employee health care** costs increased $9.9 million over fiscal year 2012/13, for a total increase of 8.5%. This follows an increase of 2.9% ($3.3 million) and a decrease of 6.1% ($7.4 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years.

- Employer share of **annuitant health care** costs increased $8.3 million over fiscal year 2012/13, for a total increase of 6.0%. This follows consecutive increases of 2.2% ($3.0 million) and 6.9% ($8.7 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years. The increases are caused not only by the increase in health care costs, but also by the increase in the number of retirees.

- Employer contributions to **SERS** (Commonwealth of Pennsylvania State Employees' Retirement System), which is a defined benefits pension plan, increased $13.0 million over fiscal year 2012/13, for a total increase of 42.6%. This follows consecutive increases of 48.1% ($9.9 million) and 58.5% ($7.6 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years. The steep increases were instituted by SERS to fund its unfunded actuarial accrued liability, which was $17.9 billion at December 31, 2013, up from $17.8 billion at December 31, 2012. Approximately 40% of the State System's employees are enrolled in SERS.

- Employer contributions to **PSERS** (Public School Employees' Retirement System), which is a defined benefits pension plan, increased 39.3% over fiscal year 2012/13, for a total increase of $1.1 million. This follows consecutive increases of 55.6% ($1.0 million) and 20.0% ($0.3 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years. The steep increases were instituted by PSERS to fund its unfunded actuarial accrued liability, which was $29.5 billion at June 30, 2013, up from $26.5 billion at June 30, 2012. Since only approximately 7% of the State System's employees are enrolled in PSERS, the impact of contribution rate increases from PSERS is far less than the impact from SERS.

- Employer contributions to the **ARP** (Alternate Retirement Plan), which is a defined contribution plan, increased 1.9% over fiscal year 2012/13, for a total increase of $0.8 million. This follows an increase of 2.6% ($1.1 million) and a decrease of 2.1% ($0.9 million) in fiscal years 2012/13 and 2011/12, respectively, over the prior fiscal years. The changes in annual contributions are attributed to fluctuating employee participation. The employer contribution rate (9.29%) has been the same since the plan's inception. Since the ARP is a defined contribution plan, the State System has no liabilities related to future benefits. Approximately 49% of the State System's employees are enrolled in the ARP.

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

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

(in millions)

Salaries, Wages, and Benefits

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

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

(in millions)

Revenues and Gains

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

(in millions)

Expenses and Losses

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

Future Economic Factors

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

Revenue and Enrollment

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

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

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

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

Pension Costs

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

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

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

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

SERS

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

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

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

PSERS

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

Compensation Costs

Compensation requirements for approximately 87% of State System employees are established in eight separate collective bargaining agreements. The compensation components of all existing agreements end by June 30, 2015, for which successor agreements are currently under negotiation; therefore, salary and wage requirements beyond fiscal year 2014/15 are unknown at this time.

Strategic Plan

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

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

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

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

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

Under the plan, the State System will aim to increase the number of undergraduate students over the age of 25 to at least 11,000 and the number of community college transfer students to at least 4,000. It also aims to increase to 53,000 the number of students enrolled in classes offered via distance education, including online. About 9,000 nontraditional students—those over age 25—and 3,300 community college transfers are currently enrolled.

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

- More students now are enrolling in new and existing programs in **science, technology, mathematics, business and finance, and allied health** than are enrolling in education and other public service programs, which were the State System's historic strengths.

- The State System continues to **align academic offerings** with workforce needs and student expectations to ensure an institution's degree offerings are relevant and up-to-date. In fiscal year 2013/14, 39 academic programs were placed in moratorium, 30 were reorganized, and 24 new programs were created—all to meet the evolving interests of students and the changing needs of the Commonwealth.

- Universities are realigning faculty and staff resources, as evidenced through **workforce reductions** via attrition and layoffs and the reassignment of vacancies to higher priority positions. Through a combination of retirements, voluntary separations, and furloughs, the State System had 540 (5%) fewer permanent employees in fall 2013 than in fall 2008, while serving approximately the same number of students.

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

State System universities have "earned" nearly **$380 million** through performance since this program's inception. This initiative has resulted in increased graduation and retention rates, especially among underrepresented student groups; greater diversity among both the student population and all employee groups—executives, faculty, and professional staff; and higher fundraising results for the universities despite a still sluggish economy.

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

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

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

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

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

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

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

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

Moody's Rating and Outlook

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

> *The Aa3 reflects PASSHE's large scale as a system of 14 campuses located throughout the state of Pennsylvania (Aa2, stable) operating in a highly competitive environment, strong unrestricted liquidity and still good cash flow to cover debt service. These strengths are offset by high leverage (including privatized student housing), constrained revenues, and a rigid expense structure due to the largely unionized faculty and staff. The negative outlook reflects earlier and larger than expected declines in enrollment leading to more pressured operations. Cash flow is expected to thin as revenues stagnate and retirement benefit costs and other expenses rise. Should enrollment declines continue to be larger than anticipated and performance deteriorate further despite management's various initiatives to address the system's challenges, the rating could be downgraded.*

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

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

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

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

Pennsylvania's State System of Higher Education

Balance Sheet

(dollars in thousands)

Assets and Deferred Outflows of Resources

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

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Balance Sheet

(dollars in thousands)

Liabilities, Deferred Inflows of Resources, and Net Position

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

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2014 and 2013
(dollars in thousands)

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

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

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

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

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

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

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

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

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

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

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

(dollars in thousands)

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

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2014 and 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Reporting Entity

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

Certain affiliated organizations are included in the State System's financial statements as discretely presented component units. Some of the organizations, such as university student associations, are included because the Board has oversight responsibility for the organizations. The criteria used in determining the organizations for which the State System has oversight responsibility include financial interdependency, the ability to select members of the governing body, the ability to designate management, the ability to influence operations significantly, and accountability for fiscal matters. Other affiliated organizations for which the Board does not have oversight responsibility, such as university foundations and alumni associations, are included when the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the State System, the activity of the organization is significant to the State System universities, and the State System historically has received a majority of these economic resources. Neither the State System nor its universities control the timing or amount of receipts from these organizations. In fiscal year 2013/14, the State System determined that an additional three of its affiliates met the criteria of being discretely presented component units and they are included in the accompanying component unit financial statements.

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

Operating Revenues and Expenses

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

Net Position *(previously Net Assets)*

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

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

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

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

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

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

Cash Equivalents and Investments

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

Accounts and Loans Receivable

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

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

Inventories

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

Capital Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

New Accounting Standards
The State System has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that (a) reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that previously were reported as assets and liabilities; and (b) recognize, as revenues or expenses, certain items that previously were reported as assets and liabilities. As a result, bond issuance costs, which previously were netted against the associated bond discount or bond premium on the balance sheet and amortized over the life of the associated bond payable, now are expensed in the period incurred. The fiscal year 2012/13 bond issuance costs expense of $850,000 is included in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the *2013 Decrease in Net Position*. The June 30, 2012, balance of the deferred bond issuances costs of $6,999,000 is included in the Statement of Revenues, Expenses, and Changes to Net Position as a restatement to the *2013 Net position—beginning of year*.

(in thousands)

	2013
Decrease in Net Position, as previously stated	$(14,779)
FY 2012/13 bond issuance costs	850
Decrease in Net Position, restated	$(13,929)

	2013
Net position—beginning of year, as previously stated	$812,727
Unamortized balance of June 30, 2012, bond issuance costs	(6,999)
Net position—beginning of year, restated	$805,728

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

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

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

(2) Deposits and Investments

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

In keeping with its legal status as a system of public universities, the State System recognizes a fiduciary responsibility to invest all funds prudently and in accordance with ethical and prevailing legal standards. Investment decisions are intended to minimize risk while maximizing asset value. Adequate liquidity is maintained so that assets can be held to maturity. High quality investments are preferred. Reasonable portfolio diversification is pursued to ensure that no single security or investment or class of securities or investments will have a disproportionate or significant impact on the total portfolio. Investments may be made in U.S. dollar-denominated debt of high quality U.S. and non-U.S. corporations. Investment performance is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed.

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

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

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

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

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

Modified Duration: The State System denotes interest rate risk, or the risk that changes in interest rates will affect the fair value of an investment, using *modified duration*. *Duration* is a measurement in years of how long it takes for the price of a bond to be repaid by its internal cash flows. *Modified duration* takes into account changing interest rates. The State System maintains a portfolio duration target of 1.8 years with an upper limit of 2.5 years for the intermediate-term component of the operating portion of the investment portfolio. The State System's duration targets are not applicable to its long-term investments.

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

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

State System Pooled Deposits and Investments
June 30, 2014
(in thousands)

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

State System Pooled Deposits and Investments
June 30, 2013
(in thousands)

	Moody's Rating (if applicable)	**Modified Duration** (if applicable)	**Fair Value**
Deposits			
Money market funds			$19,105
Total deposits			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

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

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

University Local Deposits and Investments
June 30, 2014
(in thousands)

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

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

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

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

(*in thousands*)		Fair Value	
Investment	**Currency**	June 30, 2014	June 30, 2013
Deposit	British Pound	$7	$12

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

(3) LEASES

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

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

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

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

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

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

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

(4) PENSION BENEFITS

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

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

SERS provides retirement, death, and disability benefits, and legislative mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefits provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (State System). The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class is selected. Contribution rates for most active members are between 5.0% and 6.25% of their qualifying compensation. New members hired after January 1, 2011, have a one-time election to choose a 9.3% contribution rate. The State System contributed at actuarially determined rates of between 10.46% and 15.12% of active members' annual covered payroll at June 30, 2014. The State System's contributions to SERS for the years ended June 30, 2014, 2013, and 2012, were $43,548,000, $30,490,000, and $20,643,000, respectively, equal to the required contractual contribution. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the SERS website, www.sers.state.pa.us, or by writing to Commonwealth of Pennsylvania, State Employees' Retirement System, 30 North Third Street, Suite 150, Harrisburg, PA 17101.

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

(5) Postretirement Benefits

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

System Plan

Plan Description

Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), Security Police and Fire Professionals of America (SPFPA), Pennsylvania Nurses Association (PNA), and nonrepresented employees participate in a single-employer defined benefits health care plan administered by the State System (System Plan). The System Plan provides eligible retirees and their eligible dependents with health care benefits and tuition waivers at any of the 14 State System universities. Act 188 empowers the Board to establish and amend benefits provisions. The System Plan has no plan assets and no financial report is prepared.

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

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

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

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

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

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

(in thousands)

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

Funded Status and Funding Progress
The funded status of the plan as of July 1, 2013, the most recent actuarial valuation date, was as follows.

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

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

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

In the July 1, 2012, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected rate to be earned on the State System's operating portfolio, and annual health care cost trend rates of 7.8% for pre-Medicare and 6.8% for post-Medicare initially, reduced by decrements to an ultimate rate of 5.0% by 2025. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2013, was 22 years.

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

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

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

(6) Workers' Compensation

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

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

(in thousands)

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

(7) Compensated Absences

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

(in thousands)

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

(8) Bonds Payable

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

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

(9) Rating Actions

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

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

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

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

Principal and interest requirements to maturity are as follows.

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

(10) CAPITAL ASSETS

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

(in thousands)

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

(11) CONTINGENCIES AND COMMITMENTS

Contingencies

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

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

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

Construction Commitments

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

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended June 30, 2014 and 2013
(Unaudited)

Schedule of Funding Progress for the System Plan (OPEB)

(in thousands)

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

Schedule of Funding Progress for the REHP (OPEB)

(in thousands)

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

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

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APPENDIX III

SUMMARY OF LEGAL DOCUMENTS

Appendix III

SUMMARY OF LEGAL DOCUMENTS

Table of Contents

DEFINITIONS OF CERTAIN TERMS

The following definitions apply to the summaries of the Indenture and the Loan Agreement and to terms not otherwise defined in the Official Statement.

"Act" shall mean the Pennsylvania Higher Educational Facilities Authority Act of 1967, Act of December 6, 1967, P.L. 678, as from time to time amended or supplemented.

"Additional Bonds" shall mean Bonds duly executed, authenticated and delivered pursuant to the provisions of the Indenture, but shall not refer to or apply to any bonds issued under any other indenture or resolution of the Authority.

"Administrative Expenses" shall mean those expenses reasonably and properly incurred by the Authority in carrying out its responsibilities and duties, or in providing its services and facilities to the State System, under the Act or the Indenture or pursuant to the Loan Agreement or by the Authority in protecting its rights to indemnification pursuant to the Indenture and shall include the fees and expenses of the Trustee with respect to its duties under the Indenture.

"Annual Administrative Fee" shall mean the annual fee for the general administrative services of the Authority.

"Authority" shall mean the Pennsylvania Higher Educational Facilities Authority.

"Authority Board" shall mean the governing body of the Authority.

"Authorized Officer" of the Authority or the State System shall mean a "Responsible Officer."

"Bond" or "Bonds" shall mean one of the notes or bonds or all of the notes or bonds, as the case may be, to be authenticated and delivered pursuant to the Indenture, including any Bond issued in lieu of or in exchange for such Bond.

"Bond Proceeds Fund" shall mean the special account so designated which is established and created pursuant to the Indenture.

"Bondowner," "owner" or "registered owner" or words of similar import, when used with reference to a Bond, shall mean any person who shall from time to time be the registered owner of any Outstanding Bond.

"Business Day" shall mean a date when the Trustee and the Authority are open for business.

"Certificate" shall mean (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or setting forth matters to be determined pursuant to the Indenture or (ii) the report of an accountant as to audit or other procedures called for by the Indenture.

"Certified Resolution" of the Authority or the State System shall mean a copy of one or more resolutions certified by the Secretary or Assistant Secretary of the Authority or the State System, as the case may be, under its seal to have been duly adopted by the Board of the Authority or the State System board, as the case may be, and to be in effect on the date of such certification.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

"Commonwealth" shall mean the Commonwealth of Pennsylvania.

"Cost" or "Costs" in connection with any Project, shall mean all expenses which are properly chargeable thereto under Generally Accepted Accounting Principles or which are incidental to the financing, acquisition and construction of such Project, including, but without limiting the generality of the foregoing:

(a) amounts payable to contractors and costs incident to the award of contracts;

(b) costs for labor, facilities and services furnished by or for the State System or an institution thereof or the Authority and their employees or others, materials and supplies purchased by the State System or an institution thereof or the Authority or others, and permits and licenses obtained by the State System, an institution thereof, the Authority or others;

(c) engineering, legal, accounting and other professional and advisory fees;

(d) premiums for surety bonds and insurance during construction and costs on account of personal injuries and property damage in the course of construction and insurance against the same;

(e) interest during construction;

(f) the Authority's initial fee and the Annual Administrative Fee and Administrative Expenses during the period prior to completion of any Project;

(g) Costs of issuance of the Bonds;

(h) fees and expenses in connection with the acquisition of real and personal property or rights therein, including premiums for title insurance;

(i) costs of equipment purchased by the State System or an institution thereof and necessary for the completion and proper operation of any Project or property in question;

(j) amounts required to repay temporary loans or advances from other funds of the State System or an institution thereof made to finance the Costs of any Project;

(k) Costs of acquisition of real estate, construction and prior construction and/or site costs and improvements performed by the State System or any institution thereof in anticipation of any Project; and

(l) moneys necessary to fund the Funds created under the Indenture.

"Debt Service" shall mean, with respect to any particular calendar year or Fiscal Year, an amount equal to the sum of (i) all interest payable on the Outstanding Bonds during such calendar year or Fiscal Year, respectively, plus (ii) the principal due on such Bonds during such calendar year or Fiscal Year, respectively.

"Debt Service Payment" shall mean with respect to any Interest Payment Date, the amount of interest and principal due.

"Depositary" shall mean any bank, trust company, national banking association, savings bank or savings and loan association, the unsecured debt obligations of which are rated at least an "A+" rating with the Rating Agency, selected by the Authority or the Trustee as a depositary of moneys or securities held under the provisions of the Indenture and permitted by law to be a depositary of Authority funds, and may include the Trustee, provided that all amounts held by the Depositary shall be in the name of the Trustee.

"Educational Facility" shall have the same meaning as used in the Act.

"Escrow Deposit Agreement" shall mean the Escrow Deposit Agreement dated as of May 1, 2015, between the Authority and the Bank of New York Mellon Trust Company, N.A., as escrow agent, as acknowledged and executed by the State System.

"Event of Default" shall mean any of the events specified in the Indenture or the Loan Agreement.

"Fiscal Year" shall mean a twelve-month period commencing on the first day of July of any year or any other twelve-month period as the Authority may by resolution determine from time to time, and shall include such shorter or longer period as the Authority shall deem advisable for transitional purposes.

"Fund" shall mean one of the special funds created pursuant to the Indenture.

"Generally Accepted Accounting Principles" shall mean those accounting principles, not contrary to those promulgated by a nationally recognized financial standards body, applicable to the preparation of financial statements of institutions of higher learning or public authorities, as appropriate.

"Indenture" shall mean the Indenture of Trust dated as of June 1, 1985 between the Authority and the Trustee, as previously amended and supplemented, and as further supplemented by the Thirty-Ninth Supplemental Indenture.

"Insurers" shall mean MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York, with respect to the Series AC Bonds and the Series AE Bonds.

"Interest Payment Date" shall mean any date upon which interest on Bonds is due and payable in accordance with their terms.

"Investment Securities" shall mean and include any of the following obligations, to the extent the same are at the time legal for investment of funds of the Authority under the Act, including amendments thereto hereafter made, or under other applicable law:

(1) direct obligations of or obligations guaranteed by the United States of America;

(2) any bond, debenture, note, participation certificate or other similar obligation issued by any of the following agencies: Government National Mortgage Association, Federal Land Bank, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Farm Credit Banks Consolidated Statewide, Tennessee Valley Authority, United States Postal Service, Farmers Home Administration, Export-Import Bank and Federal National Mortgage Association;

(3) any other obligation of the United States of America or any federal agency to the payment of the principal of and interest on which the full faith and credit of the United States of America is pledged which may then be purchased with Authority funds or which are legal investments for savings banks, savings associations, or savings and loan associations in the Commonwealth but only if such investments are rated "AA" or better by the Rating Agency, or, upon the discontinuance of such service, another nationally recognized rating service;

(4) tax-exempt obligations of any state or any instrumentality, agency or political subdivision thereof which are fully secured as to principal and interest by direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and which are rated in the highest rating category by the Rating Agency and which are not by their terms subject to redemption prior to the date on which they are needed for the purposes for which they have been deposited;

(5) direct and general obligations of any state of the United States, to the payment of which the full faith and credit of such state are pledged, but only if such obligations are rated "AA" or better by the Rating Agency, or, upon the discontinuance of such service, another nationally recognized rating service;

(6) deposits in interest-bearing time or demand deposits, or certificates of deposit, with an institution the unsecured deposits of which are rated "AA" or better by the Rating Agency at the time of purchase, or, upon discontinuance of such service, another nationally recognized rating service;

(7) repurchase agreements with an institution rated "A+" or better by the Rating Agency, or, upon discontinuance of such service, another nationally recognized rating service;

(8) commercial paper (except that of the Authority or an affiliate) or finance company paper rated "A-1" by Standard & Poor's Corporation;

(9) investment agreements with an entity whose unsecured debt obligations are rated not less than "AA" by the Rating Agency;

(10) interest bearing time deposits or certificates of deposit (such deposits or certificates of deposit may be in or issued by the Trustee), or other similar banking arrangements with the Trustee or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor, or a savings and loan association, the deposits of which are insured by the Federal Savings and Loan Insurance Corporation or its successor. Each such interest bearing time deposit or certificate shall be fully insured by the United States of America or the federal corporations enumerated above;

(11) certificates of participation, lease and sublease obligations or other similar instruments evidencing the leasing or subleasing of capital assets to any state of the United States whose general obligation bonds are rated "AA" or better by the Rating Agency at the time of purchase, or, upon discontinuance of such service, another nationally recognized rating service; or

(12) shares or certificates in any short-term investment fund, which short-term investment fund invests not less than 98% of its assets in obligations described in subparagraphs (1) through (11) above, including, without limitation, any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates.

"Loan Agreement" shall mean the Loan and Security Agreement dated as of June 1, 1985, between the Authority, as lender, and the State System, as borrower, as previously amended and supplemented and as further supplemented by the Thirty-Ninth Supplemental Loan Agreement.

"Outstanding" when used with reference to Bonds, shall mean, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(1) any Bond canceled by the Trustee or the Authority at or prior to such date;

(2) any Bond (or portion of a Bond) for the payment or redemption of which there shall be held in trust and set aside either:

(a) moneys in an amount sufficient to effect payment when due of the principal or the applicable Redemption Price thereof, together with all accrued interest, or

(b) Investment Securities as described in clauses (1), (2) and (4) of the definition of Investment Securities above in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to provide moneys (whether as principal or interest) in an amount sufficient to effect payment when due of the principal or applicable Redemption Price thereof, together with all accrued interest, or

(c) any combination of (a) and (b) above, and, if such Bond or portion of a Bond is to be redeemed, for which notice of redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(4) any Bond deemed to have been paid as provided in the Indenture.

"Pledged Revenues" shall mean all amounts payable by the State System to the Authority under the Loan Agreement (except those representing the Annual Administrative Fee and Administrative Expenses of the Authority).

"Project" shall mean each individual Educational Facility financed under the Indenture and shall include acquiring, holding, constructing, improvement, maintaining and operating by the State System or an institution thereof, of grounds, premises, buildings, and other property constituting "educational facilities" as defined in the Act and used or useful in providing construction, housing, recreation, or other services related to higher education and related activities, including the financing of the Costs thereof by the Authority and the refinancing by the Authority of the Cost of Educational Facilities previously financed. Project shall also include refunding or redeeming any Outstanding Bonds.

"Rating Agency" shall mean Standard & Poor's Corporation or Moody's Investors Service, Inc. or Fitch Ratings or any successor thereto.

"Record Date" shall mean, with respect to fixed rate issues, the close of business on the fifteenth day of the calendar month preceding an Interest Payment Date if the Interest Payment Date is on the first day of the month and the first day of the month when an Interest Payment Date is on the fifteenth day of a month, and shall mean with respect to variable rate issues, the close of business on the last Business Day preceding an Interest Payment Date, unless a Special Record Date is otherwise defined and provided for in any Supplemental Indenture.

"Redemption Date" shall mean the date upon which any Bond is to be called for redemption pursuant to the Indenture.

"Redemption Fund" shall mean the special fund so designated which is established and created pursuant to the Indenture.

"Redemption Price" shall mean, with respect to any Bond or portion thereof, the amount payable upon redemption thereof, not including interest, if any, accrued to the Redemption Date.

"Resolution" shall mean the resolution or resolutions of the Authority authorizing the issuance of Bonds and the execution and delivery of the Indenture.

"Responsible Officer" shall mean (i) when used with respect to the Authority, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Controller, the Assistant Controller, the Executive Director or any Assistant Executive Director, (ii) when used with respect to the State System, the Chancellor, Vice Chancellor, President, Chairperson, Vice Chairperson or any person designated as an Administrative Officer by Certificate of the State System, and (iii) when used with respect to either the State System or the Authority, as the case may be, any other person designated by certified resolution of the Board of the Authority or the State System to act for any of the foregoing, either generally or with respect to the execution of any particular document or other specific matter, a certified copy of which resolution shall be on file with the Trustee.

"Revenues" shall mean all unrestricted receipts, revenues, income, gains and all other moneys received by the State System from any source, including without limitation, tuition and fee revenues, Commonwealth appropriations and other operating and non-operating revenues required to be recorded as revenue under Generally Accepted Accounting Principles, exclusive of net assets released from restriction, gifts, grants, bequests and donations which are designated by the donor at the time of making as being for specific purposes.

"Revenue Fund" shall mean the special fund so designated which is established and created pursuant to the Indenture.

"Series AC Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AC, issued under the Indenture.

"Series AE Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AE, issued under the Indenture.

"Series AF Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AF, issued under the Indenture.

"Series AG Bonds" shall mean the Authority's Refunding Revenue Bonds, State System of Higher Education, Series AG, issued under the Indenture.

"Series AH Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AH, issued under the Indenture.

"Series AI Bonds" shall mean the Authority's Refunding Revenue Bonds, State System of Higher Education, Series AI, issued under the Indenture.

"Series AJ Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AJ, issued under the Indenture.

"Series AK Bonds" shall mean the Authority's Refunding Revenue Bonds, State System of Higher Education, Series AK, issued under the Indenture.

"Series AL Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AL, issued under the Indenture.

"Series AM Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AM, issued under the Indenture.

"Series AN Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AN, issued under the Indenture.

"Series AO Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AO, issued under the Indenture.

"Series AP Bonds" shall mean the Authority's Refunding Revenue Bonds, State System of Higher Education, Series AP, issued under the Indenture.

"Series AQ Bonds" shall mean the Authority's Refunding Revenue Bonds, State System of Higher Education, Series AQ, issued under the Indenture.

"Series AQ Project" shall mean the issuance of the Authority's Series AQ Bonds and the application of the proceeds to the costs included in the "Project" as defined in and for purposes of the forepart of this Official Statement.

"Sinking Fund Payment" shall mean, as of any particular date of calculation, the amount required to be paid in all events on a single future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by reason of the maturity of a Bond.

"State System of Higher Education" or "State System" or "System" shall mean the State System of Higher Education, a body corporate and politic constituting a public corporation and governmental instrumentality consisting of institutions of higher education recognized by the Board of Education of the Commonwealth.

"Supplemental Indenture" shall mean any indenture supplemental to or amendatory of the Indenture, executed and delivered by the Authority and effective in accordance with the Indenture.

"Thirty-Ninth Supplemental Indenture" shall mean the Thirty-Ninth Supplemental Indenture of Trust dated as of May 1, 2015 between the Authority and the Trustee and under which the Series AQ Bonds will be issued.

"Thirty-Ninth Supplemental Loan Agreement" shall mean the Thirty-Ninth Supplemental Loan and Security Agreement dated as of May 1, 2015 between the Authority and the State System.

"Trustee" shall mean The Bank of New York Mellon Trust Company, N.A., or its successor or successors, as successor trustee under the Indenture.

"Trust Estate" shall mean the security for the Bonds granted to the Trustee by the Authority in the granting clauses under the Indenture.

SUMMARY OF LEGAL DOCUMENTS

The following are summaries of certain provisions of the Loan Agreement and the Indenture. The summaries should not be regarded as full statements of the documents themselves or of the portions summarized. For complete statements of the provisions thereof, reference is made to the documents in their entireties, copies of which will be available for inspection at the principal corporate trust office of the Trustee.

THE LOAN AGREEMENT

The Loan Agreement, as previously supplemented and as further supplemented by the Thirty-Ninth Supplemental Loan Agreement, was entered into between the Authority, as lender, and the State System, as borrower.

The Projects

The State System shall use the proceeds of the Bonds in accordance with the Loan Agreement to undertake the Projects, including the Series AQ Project, from time to time authorized thereunder and under the Indenture.

Agreement to Lend; Use of Bond Proceeds

Under the Loan Agreement, the Authority agrees to make, solely from the proceeds of Bonds, and the State System agrees to accept, the loans of Bond proceeds to finance the Costs of Projects. The State System agrees to accept disbursement of the proceeds of such loans to be used in the manner provided in the Indenture, including the construction and/or renovation, improvement and installation of the Projects and the making of all payments required by the Loan Agreement as and when the same shall become due.

Loan Repayments and Additional Sums

The Loan Agreement is a general obligation of the State System and the full faith and credit of the State System is pledged to the payment of all sums due thereunder. The State System shall pay to the Trustee, as assignee of the Authority, for deposit in the Revenue Fund created under the Indenture, the following amounts in immediately available funds: (a) with respect to fixed rate issues, fifteen days prior to an Interest Payment Date, and with respect to variable rate issues, no later than one day prior to an Interest Payment Date, an amount which is sufficient to pay interest on the Bonds to be paid on the next Interest Payment Date (taking into account as a credit against such installments, any amounts representing accrued and capitalized interest on deposit in any account of the Bond Proceeds Fund and moneys on deposit in the Revenue Fund for such purpose) and (b) principal of the Bonds due (at stated maturity or through sinking fund redemption) and (c) in each year, the State System shall pay directly to the Authority its Annual Administrative Fees and, when due, the Authority's Administrative Expenses incurred from time to time in connection with the Projects, as provided in the Indenture.

In lieu of the portion of the loan repayments payable with respect to principal of the Bonds becoming due (at stated maturity or through sinking fund redemption) on the next following principal or sinking fund payment date, the State System, or at its direction, the Authority, may purchase on the open market Bonds of the maturity becoming due and present such Bonds to the Trustee for cancellation. The Bonds so presented to the Trustee shall be credited to the principal amount of the next payment due thereunder at 100% of the principal amount of such Bonds.

The State System may make advance payments as required or permitted by the Loan Agreement. So long as any of the Bonds remain Outstanding, the obligation of the State System to pay sums due under the Loan Agreement shall be absolute and unconditional and shall not be suspended, abated, reduced, abrogated, waived, diminished or otherwise modified in any manner or to any extent whatsoever, regardless of any rights of setoff, recoupment or counterclaim that the State System might otherwise have against the Authority or the Trustee or any other party or parties and regardless of any contingency, act of God, event or cause whatsoever and notwithstanding any circumstances or occurrence that may arise or take place after the date of the Loan Agreement.

Concerning the Projects

The State System will undertake and proceed to complete any Projects financed by the Authority under the Loan Agreement with all reasonable dispatch and will use its best efforts to complete or cause the completion of such component parts to take place on or before the dates specified in the Indenture or as soon thereafter as may be practicable, except for delays incident to strikes, riots, acts of God or the public enemy or any delay beyond the reasonable control of the State System; but if for any reason the State System's undertakings with respect to any Project shall not be completed by such dates there shall be no resulting diminution in or postponement of the loan repayments required to be made by the State System under the Loan Agreement.

The State System shall enforce any construction contracts and purchase orders relating to a Project and will cause the State System's undertakings with respect to such Project to be completed substantially in accordance with any plans and specifications which may have been prepared therefor.

The State System agrees to obtain, or cause to be obtained, in connection with the construction of any Project, a surety bond or bonds covering performance of contracts and payment for labor and materials. Such bonds shall be executed by responsible surety companies and shall be in amounts aggregating not less than 100% of the contract price. The State System shall have the exclusive right to receive the proceeds of such bonds.

The State System will not do or refrain from doing any act whereby any surety on any bond may be released in whole or in part from any obligations assumed by it or from any agreement to be performed by it under any surety bond and the State System will comply with all present and future laws, acts, rules, regulations, orders, and requirements lawfully made relating to any acquisition or construction undertaken in accordance with the Loan Agreement.

The State System may amend the plans and specifications, if any, at any time prior to the completion date thereof, including amendments which change the proposed allocation of moneys in the account established for the State System in the Bond Proceeds Fund among components of such Project or which delete components of its undertakings under the Loan Agreement with respect to the Project. No such changes shall be made, and no amendment shall be made to the plans and specifications, if any, which shall so modify the State System's undertakings with respect to a Project that they fail to qualify as Educational Facilities eligible for assistance by the Authority under the Act.

The State System is also required to maintain builder's risk insurance (or equivalent coverage) upon work done or materials furnished (except excavations, foundations and other structures not customarily covered), worker's compensation insurance, employer's liability insurance and public liability, comprehensive automobile liability insurance and property insurance with respect to construction of new facilities.

Costs of Projects

The State System shall direct to the Trustee requisitions for payment of proper Costs with respect to the Projects in accordance with the procedures established in the Indenture; provided, however, that the State System shall not submit any requisition which, if paid, would result in the proceeds of the Bonds being used other than to pay the Costs of the State System's undertakings with respect to a Project.

Completion of Projects

Under the Loan Agreement, the State System is obligated to complete its undertakings with respect to Projects at its own expense regardless of the adequacy of the moneys allocated to the State System in any particular account established in the Bond Proceeds Fund under the Indenture or the adequacy of other moneys made available to the State System by the Authority. The Authority makes no warranty, either express or implied, that the amounts to be deposited pursuant to the Indenture in any account established for the State System in the Bond Proceeds Fund will be sufficient to complete payment of the Costs of any Projects. The State System agrees that if, after exhaustion of the moneys allocated to the State System in the account established for the State System in the Bond Proceeds Fund and any other moneys made available by the Authority, the State System should pay any portion of the Costs of a Project, it shall not be entitled to any reimbursement therefor from the Authority, the Trustee or the owners of any of the Bonds, nor shall it be entitled to any diminution in or postponement of the amounts payable under the Loan Agreement.

Additional Projects

In the event that the State System should wish to undertake an additional Project with unused balances in the account established for the State System in the Bond Proceeds Fund (whether because of the deletion of a component of the State System's undertakings with respect to the Project or otherwise), the State System may provide for the payment of the Costs of such additional Project from the unused balances in such account in the Bond Proceeds Fund, provided that it shall comply with the foregoing requirements with respect to changes in a Project, and provided further that both an Officer's Certificate of the Authority to the effect that the additional Project is duly authorized under the Act and applicable Authority resolutions shall have been delivered.

Assignment to Trustee

The Authority shall assign the Loan Agreement and all sums payable under the Loan Agreement (other than amounts representing payments of the Authority's Annual Administrative Fees and Administrative Expenses and amounts representing the Authority's rights to indemnification pursuant to the Loan Agreement), to the Trustee, in trust, to be held and applied pursuant to the provisions of the Indenture. The State System (1) consents to the assignment to the Trustee and accepts notice thereof; (2) agrees to pay directly to the Trustee all such sums without any defense, set-off or counterclaim arising out of any default on the part of the Authority under the Loan Agreement or any transaction between the State System and the Authority; and (3) agrees that the Trustee may exercise all rights granted the Authority thereunder.

Additional Authority Financing

If the State System shall deem it necessary or advisable that additional Projects be undertaken, or if it is deemed necessary by the State System to refund Outstanding Bonds or obtain additional financing for the completion of a Project, the State System may request the Authority to provide a loan for all or part of Costs thereof. Upon receipt of a request of the State System, the Authority shall use its best efforts to provide such money from available sources under the Indenture or through the issuance of Additional Bonds or other evidences of indebtedness of the Authority.

Certain Additional Covenants of the State System

The State System represents and covenants in the Loan Agreement that it is (i) a body corporate and politic constituting a public corporation and governmental instrumentality; (ii) organized and operated exclusively for educational purposes; and (iii) not for pecuniary profit. The State System agrees that it shall not perform any act nor enter into any agreement which shall change such status.

The State System covenants that it will preserve and maintain its existence as a public corporation under the laws of the Commonwealth, and to the extent permitted by law at any given time, remain free from Federal, state and local income, property, franchise and other taxes, and preserve and maintain its authority to operate the Projects.

The State System covenants that it will maintain the necessary accreditation to enable it to maintain its authority to operate its constituent educational institutions as institutions of higher education in the Commonwealth within the meaning of the Act.

The State System covenants that throughout the term of the Loan Agreement:

(i) it will take whatever actions are necessary to continue to be organized and operated in a manner which will preserve and maintain the exemption from federal income taxation of the State System; and

(ii) it will not perform any acts nor enter into any agreements which shall cause any revocation or adverse modification of such federal income tax status of the State System; and

(iii) it will not carry on or permit to be carried on in any Project (or with Bond proceeds or the proceeds of any loan refinanced with Bond proceeds) any trade or business the conduct of which would cause the interest paid by the Authority on the Bonds to be subject to Federal income tax in the hands of the owners thereof; and

(iv) it will not take any action or permit any action to be taken on its behalf, or cause or permit any circumstances within its control to arise or continue, if such action or circumstances would cause the interest paid by the Authority on the Bonds to be subject to Federal income tax in the hands of the owners thereof; and

(v) neither it nor any person related to it within the meaning of the Code, pursuant to an arrangement, formal or informal, will purchase the Bonds in an amount related to the total amount payable under and secured by the Loan Agreement.

The State System covenants that it shall not pledge more than twenty percent (20%) of its Revenues to secure any indebtedness it may incur or guaranties it may undertake without simultaneously granting such a lien for the benefit of the Bonds.

The State System further covenants that:

(a) during the term of the Loan Agreement it will not initiate any proceedings or take any action whatsoever to dissolve or liquidate or to terminate its existence as a public corporation or otherwise dispose of all or substantially all of its assets, or the Projects, either in a single transaction or in a series of related transactions, except as provided in the Loan Agreement.

(b) it shall pay or cause to be paid to the public officers charged with the collection thereof, promptly as the same become due, all taxes (or contributions or payments in lieu thereof).

(c) it will, at its own expense, keep and maintain or cause to be kept and maintained the Projects in good order, repair and operating condition.

(d) all actions taken by the State System to acquire and carry out the Projects, including the making of contracts or the entering into of purchase orders, have been and will be in full compliance with all pertinent laws, ordinances, rules, regulations and orders applicable to the State System.

(e) it will keep accurate records and books of account with respect to the revenues and expenses of the State System in accordance with generally accepted accounting principles and, within 150 days after the end of each Fiscal Year during the term of the Loan Agreement, provide a statement of revenue and expenses to the Authority and the Trustee.

(f) the Authority, by its duly authorized representatives, at reasonable times, and for purposes of determining compliance with the Loan Agreement and confirming the progress and completion of a Project, may inspect any part of a Project.

Events of Default and Remedies

"Events of Default" as defined in the Loan Agreement include the State System's failure:

(a) to make payments required under Section 4.01 thereof relating to payment of the principal of and interest on Bonds when the same shall become due and payable;

(b) to make any other payment required thereunder and such failure continues for 10 days after the Authority or the Trustee gives notice that such other payment is due and unpaid; or

(c) to perform any of its other covenants or to perform any of its obligations under the Loan Agreement and such failure continues for 60 days after the Authority gives the State System notice thereof; provided, however, that if such performance requires work to be done, actions to be taken, or conditions remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 60-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the State System shall commence such performance within such 60-day period and shall diligently and continuously prosecute the same to completion.

An "Event of Default" also occurs if the State System shall become insolvent or unable to pay its debts as they mature, or shall file a voluntary petition seeking reorganization or to effect a plan or other arrangement with creditors, or shall file an answer admitting the jurisdiction of the court and the material allegations of an involuntary petition, pursuant to any act relating to bankruptcy or to any act purporting to be amendatory thereof, or shall be adjudicated bankrupt or insolvent, or shall make an assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its assets, or shall apply for or consent to or suffer the appointment of any receiver or trustee for it or a substantial part of its property or assets; or a proceeding shall be instituted, without the application, approval or consent of the State System pursuant to any act relating to bankruptcy or to any act purporting to be amendatory thereof, seeking (i) adjudication of the State System as bankrupt or insolvent, (ii) reorganization of, or an order appointing any receiver or trustee for a substantial part of the property or assets of the State System, or (iii) issuance of a writ of attachment or any similar process against a substantial part of the property or assets of the State System and any such proceeding shall result in the entry of an order for relief or any such adjudication or appointment shall continue undismissed, or pending and unstayed, for any period of 30 consecutive days.

If any of the foregoing Events of Default shall happen, then and at any time thereafter while such Event of Default is continuing, the Authority may, in addition to its other remedies at law or equity or provided for in the Loan Agreement, if the Trustee shall have declared the principal of any Bonds then Outstanding to be immediately due and payable pursuant to the Indenture, with the prior written consent of the Trustee, declare amounts payable under the Loan Agreement to be immediately due and payable;

then there shall become due and payable under the Loan Agreement as then current damages an amount equal to the principal of all Bonds so declared to be immediately due and payable plus accrued interest to the date of payment of such Bonds and all other amounts then due and payable under the Loan Agreement to the Authority. Until said amounts are paid by the State System, the Authority shall continue to have all of the rights, powers and remedies herein set forth, and the State System's obligations thereunder shall continue in full force and effect.

In addition, the Loan Agreement contains a number of provisions required by the Insurers, including, among other things, the covenant of the State System to provide certain information to the Insurers. Failure to comply with such covenant shall constitute an Event of Default under the Loan Agreement. The State System has entered into certain reimbursement agreements with the Insurers relating to any payments made by the Insurers with respect to the Bonds. Events of Default pursuant to the terms of such reimbursement agreements shall constitute an Event of Default under the Loan Agreement, unless otherwise provided for in such reimbursement agreements.

Amendment of Loan Agreement

The Authority and the State System may execute an appropriate supplement or amendment to the Loan Agreement in connection with the issuance of Additional Bonds as contemplated by the Indenture. In addition, the Authority and the State System may enter into any written amendments to the Loan Agreement as shall not adversely affect the rights of or the security of the owners of the Bonds, only for the following purposes:

(a) to cure any ambiguity, defect, or inconsistency or omission in the Loan Agreement or any amendment thereto;

(b) to grant to or confer upon the Authority any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon it;

(c) to reflect a change in applicable law; or

(d) to provide terms not inconsistent with the Indenture or the Loan Agreement; provided, however, that the Loan Agreement as so amended or supplemented shall provide at least the same security for owners of Bonds issued under the Indenture as the Loan Agreement prior to such amendment.

All other amendments to the Loan Agreement must be approved by the Trustee and consented to by certain of the Insurers and, if the Indenture must be amended with the Bondowners' consent also, in the same manner and to the same extent as is set forth in the Indenture; provided, however, the State System may undertake additional Projects and enter into supplements of the Loan Agreement related to such Projects that do not modify the rights of Insurers under the Loan Agreement without the consent of the Insurers.

THE INDENTURE

The Series AQ Bonds are being issued under and subject to the provisions of the Indenture to which reference must be made for complete details of the terms of the Series AQ Bonds as well as the Series AC Bonds, the Series AE Bonds, the Series AG Bonds, the Series AH Bonds, the Series AI Bonds, the Series AJ Bonds, the Series AK Bonds, the Series AL Bonds, the Series AM Bonds, the Series AN Bonds, the Series AO Bonds, the Series AP Bonds and any other Additional Bonds which may be issued under the Indenture.

Pledge and Assignment

The Bonds are limited obligations of the Authority payable under the Indenture solely from the Trust Estate. Under the Indenture, the Pledged Revenues payable to the Authority from the State System under the Loan Agreement and all income and receipts earned on funds held by the Trustee under the

Indenture have been pledged to the Trustee for the equal and ratable benefit (except as set forth in the Indenture) of the registered owners of all Bonds Outstanding under the Indenture. The rights of the Authority under the Loan Agreement (other than the rights to receive payment of its Annual Administrative Fees and Administrative Expenses and the Authority's right to receive indemnification pursuant to the Loan Agreement) have been assigned to the Trustee to secure the payment of the Bonds and the performance and observance of the covenants in the Indenture.

Disposition of the Proceeds of the Sale of the Series AQ Bonds

Upon the issuance and delivery of the Series AQ Bonds, the Authority shall forthwith transfer the proceeds to the Trustee and the Trustee shall deposit the same in the Settlement Account of the Bond Proceeds Fund established under the Indenture and the Thirty-Ninth Supplemental Indenture to be transferred and applied upon the order of the Authority and approved by the State System. From the proceeds of the Series AQ Bonds, the Trustee shall make the following transfers or expenditures from the Settlement Account: (1) amounts representing accrued interest on the Series AQ Bonds shall be transferred to an account established in the Revenue Fund and applied to the payment of interest on the Series AQ Bonds on the first Interest Payment Date following issuance thereof, (2) an amount (when added to amounts made available by the System, if necessary) required to accomplish the current refunding of the Series AC Bonds maturing after June 15, 2015 and the advance refunding of the Series AE Bonds maturing after June 15, 2015 shall be deposited pursuant to the instructions in the Escrow Deposit Agreement, (3) payment of the costs of issuance of the Series AQ Bonds shall be paid, and (4) the balance remaining shall be transferred to the Series AQ Account of the Revenue Fund for application to the payment of the Series AQ Project in accordance with the procedures established in the Indenture.

Additional Bonds

Under the Indenture, the Authority is authorized to issue, at the request of the State System under the Loan Agreement, Additional Bonds for the purpose of undertaking any additional Projects on behalf of the State System or to refund any prior series of Bonds outstanding under the Indenture. Such Additional Bonds, if issued, will be equally and ratably secured under the Indenture with the Series AC Bonds, the Series AE Bonds, the Series AG Bonds, the Series AH Bonds, the Series AI Bonds, the Series AJ Bonds, the Series AK Bonds, the Series AL Bonds, the Series AM Bonds, the Series AN Bonds, the Series AO Bonds, the Series AP Bonds, and the Series AQ Bonds, except to the extent expressly limited under the Indenture.

Establishment of Funds

The "Bond Proceeds Fund" established under the Indenture shall contain funds deposited therein pursuant to the Indenture and shall be expended only (i) to pay the cost of financing a Project, (ii) to pay Costs of issuance, and (iii) to pay accrued and capitalized interest on Bonds. Under the Indenture, the Trustee is directed to establish separate accounts in which to deposit proceeds of the various series of Bonds. Amounts in the Bond Proceeds Fund or any account established therein shall be held for the benefit of all Bonds Outstanding under the Indenture (other than with respect to any capitalized interest account created for a specific series of Bonds which shall be held and applied solely for the particular specified Bonds).

Payments shall be made from any account of the Bond Proceeds Fund to pay Costs of each Project, but only upon receipt by the Trustee of the requisitions and certifications required by the Indenture. Upon the completion of each Project, evidenced in the manner provided in the Indenture, amounts in the applicable account of the Bond Proceeds Fund may, at the option of the Authority upon the direction of the State System, be transferred to the Revenue Fund to be applied to the payment of Debt Service on the applicable series of Bonds or to the redemption of Bonds or to any other account of the Bond Proceeds Fund to be used to pay costs of additional Projects.

The "Revenue Fund" established under the Indenture shall contain Pledged Revenues of the Authority received by the Trustee under the Loan Agreement. Under the Indenture, the Trustee is directed to establish separate accounts within the Revenue Fund in connection with each series of

Bonds. Moneys in the Revenue Fund are pledged for the equal and ratable benefit of all Bonds Outstanding under the Indenture, except as expressly limited by the Indenture.

The Trustee shall pay out of the Revenue Fund the following amounts in the following order, on the dates specified, for the following purposes (i) on each Interest Payment Date, the amounts required, taking into consideration the amounts otherwise available, for the payment of principal, Sinking Fund Payments, Redemption Price, if any, and interest due on the Outstanding Bonds on such date; (ii) on the Redemption Date or date of purchase of Bonds the amounts required for the payment of accrued interest on Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for; (iii) upon the written direction of the Authority on each Interest Payment Date to the payment of certain fees and expenses of the Trustee, including costs of redemption of Bonds; and (iv) all remaining amounts shall be transferred to the Redemption Fund upon the written direction of the Authority at the request of the State System.

The "Redemption Fund" shall contain amounts which are required to be deposited therein pursuant to the Indenture and any other amounts available therefor and determined by the State System pursuant to the Loan Agreement to be deposited therein subject to the provisions of the Indenture, and the Trustee shall apply all amounts so deposited to the redemption of Bonds. At any time prior to the date upon which notice is given that Bonds are to be redeemed from such amounts, the Trustee shall apply any amounts in the Redemption Fund to the purchase of any of the Bonds which may be redeemed by application of such amounts upon the direction of the Authority at the written direction of the State System. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as the Authority upon written direction of the State System shall from time to time direct.

Deposits

In order to permit any amount to be available for use at the time when needed, amounts held under the Indenture by the Trustee or any Depositary, as such, may if and as directed by the State System, be deposited in the commercial banking department of the Trustee or Depositary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Trustee or Depositary. The Trustee or Depositary shall allow and credit on such amounts at least such interest, if any, as it customarily allows upon similar funds of similar size and under similar conditions or as required by law.

All amounts deposited by the Trustee or Depositary shall be continuously and fully secured (a) by lodging with the Trustee, as custodian, as collateral security, Investment Securities having a market value (exclusive of accrued interest) not less than the amount of such deposit, and (b) in such manner as may then be required by applicable federal or state laws and regulations regarding security for the deposit of public funds provided that in no event shall such security be in an amount less than such deposit. It shall not be necessary, unless required by applicable law, for the Trustee to give security for the deposit of any amounts to the extent that such deposit is insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or their respective successors, or which are held in trust and set aside by them for the payment of the principal or Redemption Price of or interest on any Bonds, or for the Trustee or any Depositary to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys.

All amounts so deposited by the Trustee or Depositary shall be credited to the particular Fund from which such amounts were derived.

Investment of Funds

Moneys in any Fund shall be continuously invested and reinvested and/or deposited and redeposited by the Trustee, as permitted in the Indenture, as the State System shall direct the Trustee in writing. The State System shall consult with the Trustee from time to time as to the investment of amounts in the Funds and Accounts established or confirmed by the Indenture. Except as otherwise provided herein, the State System shall give written directions to the Trustee to invest and reinvest the moneys in said Funds and Accounts in Investment Securities so that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed by the Authority to be so expended. The Investment Securities purchased shall be held by the Trustee and shall be deemed at all times to be part of such Fund or Account, and the Trustee shall keep the Authority and the State System advised as to the details of all such investments.

Except as otherwise provided therein, Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of the Indenture shall be deemed at all times to be a part of such Fund, but the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof may be deposited in the Bond Proceeds Fund during the construction period of any Project and thereafter shall be deposited in the Revenue Fund as Pledged Revenues or shall be credited to the Revenue Fund from time to time as Pledged Revenues and reinvested.

Except as otherwise provided herein, the Trustee shall sell at the best price obtainable with reasonable diligence, or present for redemption or exchange, any Investment Security purchased by it pursuant to the Indenture whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund for which such investment was made. The Trustee shall advise the Authority and the State System in writing, on or before the twentieth day of each calendar month, or as soon as practicable thereafter of all investments held for the credit of each Fund in its custody under the provisions of the Indenture as of the last business day of the preceding month.

Valuation of Funds

In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at the lower of cost or fair market value.

Covenants of the Authority

The Authority shall, among other things, promptly pay solely from the Trust Estate the principal or Redemption Price, if any, of every Bond and all interest thereon. The Authority shall preserve and protect the pledge of the Trust Estate, Pledged Revenues and other assets and revenues.

The Authority shall at all times do and perform all acts and things necessary in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be and remain excludable from the gross income of the recipients thereof and be and remain exempt from such taxation.

The Authority shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Authority to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an “arbitrage bond” as defined in the Code. The Authority shall not permit at any time or times any proceeds of any Bonds or any other funds of the Authority to be used, directly or indirectly, in a manner which would result in the exclusion of any Bond from the treatment afforded by subsection (a) of Section 103 of the Code; and has covenanted with respect to the Series AQ Bonds, to comply with all applicable provisions of the Code as from time to time in effect so as to maintain the federal tax exempt status of the interest payable on the Series AQ Bonds, including, without limiting the generality of the foregoing, the arbitrage rebate provisions of Section 148(f) of the Code to the extent applicable.

Notwithstanding any terms, provisions or covenants to the contrary contained in the Indenture, the Authority shall not be prohibited from issuing obligations not exempt from federal income taxation so long as the tax exempt status of any Bonds Outstanding immediately prior to the issuance of such taxable obligations shall not be adversely affected thereby.

Additional Obligations

The Authority shall not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a superior or equal charge and lien on the revenues and assets pledged under the Indenture, except that Additional Bonds may be issued from time to time pursuant to a Supplemental Indenture of the Authority subsequent to the issuance of the initial issue of Bonds under the Indenture on a parity with the Bonds of such initial issue of Bonds and secured by an equal charge and lien on the revenues and assets pledged under the Indenture and payable equally therefrom (except for certain funds held under the Indenture).

Supplements and Amendments

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture of the Authority may be executed and delivered which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority, shall be fully effective in accordance with its terms:

(1) to close the Indenture against, or to provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds; or

(2) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; or

(3) to add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; or

(4) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Indenture; or

(5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of the Pledged Revenues or of any other revenues or assets; or

(6) to modify any of the provisions of the Indenture in accordance therewith; or

(7) to provide for the issuance of Additional Bonds pursuant to the Indenture.

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture may be entered into, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and the Authority of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

(1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture; or

(2) to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect; or

(3) to provide for additional duties of the Trustee.

Any other modification of or amendment to the Indenture and of the rights and obligations of the Authority and of the owners of the Bonds may be made by a Supplemental Indenture, but only with the written consent of the owners of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given. In case the modification or amendment changes the terms of any Sinking Fund Payment, the written consent of owners of at least two-thirds in principal amount of each of the Bonds entitled to such Sinking Fund Payment is required. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any fiduciary without its written assent thereto.

Upon the written consent of the owners of all the Bonds then Outstanding, the terms and provisions of the Indenture and the rights and obligations of the Authority and the owners of the Bonds may be modified or amended in any respect. However, any provision of the Indenture expressly recognizing or granting rights in or to an Insurer may not be amended in any manner which affects its rights under the Indenture without the Insurer's prior written consent.

Defaults and Remedies

Events of Default, as defined in the Indenture, include, among other things, the following:

(1) the Authority shall default in the payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; or

(2) payment of any installment of interest on any of the Bonds shall not be made as the same shall become due; or

(3) the Authority shall file a petition in bankruptcy or seek a composition of its indebtedness; or

(4) an Event of Default (as defined in the Loan Agreement) under the Loan Agreement; or

(5) the Authority shall fail or refuse to comply with the other provisions of the Indenture, or shall default in the performance or observance of any of the other covenants, agreements, or conditions on its part contained in the Indenture or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds.

Upon the happening and continuance of any Event of Default specified in paragraphs (1) through (3) above, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraphs (4) and (5) above, the Trustee may proceed and, upon the written request of the owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, shall proceed, in its own name to protect and enforce the rights of the Bond owners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bond owners, including the right to require the Authority to receive and collect revenues, including Pledged Revenues, adequate to carry out the covenants and agreements as to, and to require the Authority to carry out any other covenants or agreements with Bond owners and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require the Authority to account as if it were the trustee of an express trust for the owners of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the Bonds; or

(5) by declaring all Bonds due and payable and, if all defaults shall be cured, then with the written consent of the owners of not less than sixty-six and two-thirds percent (66-2/3%) in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences.

Anything in the Indenture to the contrary notwithstanding, upon the happening and continuance of an Event of Default with respect to a particular series of Bonds, if such Bonds are insured by a municipal bond insurance policy, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the such series of Bonds or the Trustee for the benefit of the holders of such series of Bonds under the Indenture.

In the enforcement of any rights and remedies under the Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Authority for principal, Redemption Price, interest or otherwise, under any provisions of the Indenture or a Supplemental Indenture or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bond owners, and to recover and enforce a judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

Upon the occurrence of any Event of Default and upon the filing of a suit or commencement of other judicial proceedings to enforce the rights of the Bond owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers for the Authority, but only with respect to the Trust Estate, pending such proceedings, with such powers as the court making such appointment shall confer.

Limitation on Actions by Bond Owners

Bond owners shall have no right to pursue any remedy under the Indenture unless (a) the Trustee shall have given written notice of an Event of Default, (b) the owners of at least 25% in principal amount of the Bonds then Outstanding shall have requested the Trustee, in writing, to exercise the powers granted under the Indenture or to pursue such remedy, and (c) the Trustee shall have been offered indemnity satisfactory to it against costs, expenses and liabilities.

Removal of Trustee

The Trustee shall be removed by the Authority if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Authority and signed by the owners of a majority in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized. The Authority may remove the Trustee at any time, except during the existence of an Event of Default under the Indenture, for such cause as shall be determined in the sole discretion of the Authority.

Defeasance

If the Authority shall pay or cause to be paid to the owners of the Bonds, the principal or Redemption Price and interest to become due thereon and make all other payments under the Indenture then the pledge of any revenues and assets hereby pledged and all other rights granted thereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Trustee shall pay over and deliver to the Authority all moneys or securities held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

All Outstanding Bonds and all interest installments appertaining to such Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to publish notice or redemption on said date of such Bonds; (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if any, and interest due and to become due on said Bonds on and prior to the redemption Date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty days, the Authority shall have given the Trustee irrevocable instructions to mail notice to the owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Bonds. For purposes of defeasance, Investment Securities shall mean and only such obligations as are described in clauses (1), (2) and (4) of the definition of Investment Securities (to the extent such securities are guaranteed or otherwise secured by the United States of America), or deposits in interest-bearing time or demand deposits or certificates of deposit secured by obligations of the types described in paragraphs (1) and (2) of the definition of Investment Securities.

Notwithstanding anything to the contrary, in the event that the principal and/or interest due on an outstanding series of Bonds shall be paid pursuant to a municipal bond insurance policy, such series of Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Authority to the registered owners shall continue to exist and shall run to the benefit of the Insurer who shall also be subrogated to the rights of such registered owners.

Provisions Relating to the Insurers

The Indenture contains a number of provisions required by the Insurers. Such provisions, among other things, grant the Insurers the right to receive notices of certain events and other information, the right to consent to certain actions and recognition as a third-party beneficiary thereunder.

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State System of Higher Education
Established July 1, 1983
Commonwealth of Pennsylvania

Bloomsburg University

Kutztown University

CAL U

Lock Haven University of Pennsylvania

Cheyney University of Pennsylvania
CU
1837

Mansfield University

Clarion University

Millersville University

Prepare to Serve
ESU
East Stroudsburg University
Founded 1893

Shippensburg University

EU
1857
Edinboro University

Slippery Rock University

IUP

WCU
West Chester University