OFFICIAL STATEMENT

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

In the opinion of Bond Counsel, under existing law and assuming continuing compliance by the Pennsylvania Higher Educational Facilities Authority (the "Authority") and the State System of Higher Education (the "System") with the requirements of the federal tax laws, interest on the Series AP Bonds (including any original issue discount properly allocable to the owner of a Series AP Bond) is excluded from the gross income of the holders of the Series AP Bonds for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining "adjusted current earnings". See "TAX EXEMPTION AND OTHER MATTERS" herein. Also, in the opinion of Bond Counsel, under the existing law, interest on the Series AP Bonds is exempt from Pennsylvania personal income tax and corporate net income tax and the Series AP Bonds are exempt from personal property taxes in the Commonwealth. See "TAX EXEMPTION AND OTHER MATTERS" herein.

$46,110,000
PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY
(Commonwealth of Pennsylvania)
Refunding Revenue Bonds
STATE SYSTEM OF HIGHER EDUCATION, SERIES AP

Dated: May 7, 2014 **Due:** June 15, as shown on the inside front cover

The Series AP 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 AP Bonds. Purchase of the Series AP 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 AP Bonds. So long as the Series AP 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 AP Bonds. See "The Series AP Bonds - Book-Entry Only System" herein.

Principal of and interest on the Series AP 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 AP 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, 2014, to the registered owners of record as of the applicable record dates herein described.

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

The Series AP 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 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 AP Bonds described above, nor shall such Series AP 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 AP Bonds described above. The Authority has no taxing power.

The Series AP Bonds are offered when, as and if issued by the Authority and received by the Underwriter subject to the approving legal opinion of Cohen & Grigsby, P.C., Pittsburgh, Pennsylvania, 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 AP Bonds in definitive form will be available for delivery in New York, New York on or about May 7, 2014.

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

Dated: April 22, 2014

$46,110,000
PENNSYLVANIA HIGHER EDUCATIONAL
FACILITIES AUTHORITY
(Commonwealth of Pennsylvania)
Refunding Revenue Bonds
STATE SYSTEM OF HIGHER EDUCATION, SERIES AP

MATURITY SCHEDULE FOR SERIES AP BONDS

Maturity June 15	Amount	Coupon	Price	CUSIP*
2015	$2,685,000	2.000%	101.874	70917SJP9
2016	2,940,000	2.000%	103.031	70917SJQ7
2017	1,200,000	3.000%	106.575	70917SJR5
2018	1,240,000	3.000%	107.397	70917SJS3
2019	1,275,000	4.000%	112.766	70917SJT1
2020	6,775,000	4.000%	112.665	70917SJU8
2021	7,030,000	4.000%	112.479	70917SJV6
2022	7,300,000	5.000%	120.269	70917SJW4
2023	7,650,000	5.000%	120.696	70917SJX2
2024	8,015,000	5.000%	120.711	70917SJY0

PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY

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

MEMBERS OF THE AUTHORITY

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)
Cohen & Grigsby, P.C.
Pittsburgh, Pennsylvania

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 AP 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 AP 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 AP 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

OFFICIAL STATEMENT

$46,110,000
PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY
(Commonwealth of Pennsylvania)
Refunding Revenue Bonds
STATE SYSTEM OF HIGHER EDUCATION, SERIES AP

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 AP (the "Series AP 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 AP 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 The 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 AP Bonds

The Series AP Bonds are being issued by the Authority in the aggregate principal amount of $46,110,000. They will be dated May 7, 2014, and will bear interest from such date, payable June 15 and December 15, commencing December 15, 2014, 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 AP Bonds -- Redemption Provisions"** herein.

The Series AP 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-Eighth Supplemental Indenture of Trust dated as of May 1, 2014 (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 AP 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 AP 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, 2014 there was an aggregate of $903,720,000 in principal amount of Prior Bonds outstanding. See **"Sources of and Security for Payment of the Series AP Bonds"** herein.

The Series AP 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 AP 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-Eighth Supplemental Loan and Security Agreement dated as of May 1, 2014 (collectively, the "Loan Agreement"), the Authority will lend the proceeds of the Series AP 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 AP Bonds

The Series AP 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 AP 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 AP Bonds, nor shall the Series AP 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 AP 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 AP 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 Z maturing after June 15, 2014, (ii) the current refunding of all of the outstanding principal amount of the Authority's State System of Higher Education Revenue Bonds, Series AA maturing after June 15, 2014 and (iii) the financing of contingencies and payment of costs and expenses incident to the issuance of the Series AP Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources:	
Bond Proceeds:	
Par Amount	$46,110,000.00
Net Premium	$6,931,012.70
	$53,041,012.70
Uses:	
Refunding Escrow Deposits	$52,432,178.75
Costs of Issuance[1]	$608,833.95
	$53,041,012.70

[1] Includes fees and expenses of Bond Counsel, the Financial Advisor, the Authority, the Trustee, Underwriter's Discount, rating agency fees, printing fees, and miscellaneous fees and expenses.

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 AP 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 AP 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 AP 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 AP Bonds, and further details with respect thereto are not being provided.

The Series AP Bonds are being issued under the Act pursuant to a resolution of the Authority adopted on April 3, 2014 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 AP 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 AP Bonds. See **"Sources of and Security for Payment of the Series AP 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 his present employment, 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 with a bachelor's degree in accounting. He 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 AP BONDS

Description of the Series AP Bonds

The Series AP Bonds shall be dated May 7, 2014, 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, 2014, at the rates set forth on the inside of the cover page hereof. The Series AP Bonds shall be subject to redemption prior to maturity as described below.

The Series AP 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 AP 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 AP 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 AP Bonds. See **"Book-Entry Only System"** below.

Principal of and interest on the Series AP 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 AP 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 AP Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Series AP Bonds. Purchases of beneficial interests in the Series AP 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 AP 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 AP 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 AP Bonds.

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Series AP Bonds (the "Bond Depository"). The Series AP 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 AP Bonds, each in the aggregate principal amount of the Series AP 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 AP Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series AP 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 AP 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 AP Bonds, except in the event that use of the book-entry system for the Series AP Bonds is discontinued.

To facilitate subsequent transfers, all Series AP 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 AP 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 AP Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series AP 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 AP Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series AP Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond Documents. For example, Beneficial Owners of the Series AP Bonds may wish to ascertain that the nominee holding the Series AP 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 AP 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 AP 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 AP Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series AP 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 AP 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 AP BONDS, THE AUTHORITY AND THE TRUSTEE WILL TREAT CEDE & CO. AS THE ONLY REGISTERED OWNER OF THE SERIES AP BONDS FOR ALL PURPOSES UNDER THE INDENTURE, INCLUDING RECEIPT OF ALL PRINCIPAL OF AND INTEREST ON THE SERIES AP BONDS, RECEIPT OF NOTICES, AND VOTING.

The Trustee will pay principal of and interest on the Series AP 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 AP 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 AP 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 AP 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 AP 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 AP 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 AP Bonds to any nominee or Direct Participant having Series AP Bonds credited to its account or (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Series AP Bonds.

Notwithstanding any other provision described herein or contained in the Indenture to the contrary, so long as any Series AP Bond is registered in the name of the nominee of DTC, all payments with respect to the principal of and interest on such Series AP 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 AP 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 AP BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC, OR ITS NOMINEE, CEDE & CO., AS REGISTERED BONDOWNER.

Redemption Provisions

The Series AP Bonds are subject to redemption as follows:

Extraordinary Optional Redemption: The Series AP 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 AP 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 AP 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 AP 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 AP Bonds to be redeemed. Any defect in the notice or the mailing thereof with respect to any Series AP Bond will not affect the validity of the redemption as to any other Series AP Bonds. No further interest will accrue on the principal of any Series AP 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 AP 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 AP Bonds.

Debt Service Requirements on the Series AP 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 AP Bonds Principal	Interest	Total	Prior Bonds Total Debt Service	Refunded Bonds Debt Service[1]	Total Debt Service
2014				91,932,980.61	1,082,178.75	90,850,801.86
2015	2,685,000	2,141,626.94	4,826,626.94	97,970,807.56	5,364,357.50	97,433,077.00
2016	2,940,000	1,883,450.00	4,823,450.00	101,209,205.06	5,359,342.50	100,673,312.56
2017	1,200,000	1,824,650.00	3,024,650.00	99,327,405.06	3,563,755.00	98,788,300.06
2018	1,240,000	1,788,650.00	3,028,650.00	95,411,516.32	3,564,116.26	94,876,050.06
2019	1,275,000	1,751,450.00	3,026,450.00	95,770,041.32	3,564,678.76	95,231,812.56
2020	6,775,000	1,700,450.00	8,475,450.00	99,984,241.32	9,010,878.76	99,448,812.56
2021	7,030,000	1,429,450.00	8,459,450.00	80,648,247.60	8,995,778.76	80,111,918.84
2022	7,300,000	1,148,250.00	8,448,250.00	77,513,691.34	8,987,097.50	76,974,843.84
2023	7,650,000	783,250.00	8,433,250.00	74,601,135.08	8,965,885.00	74,068,500.08
2024	8,015,000	400,750.00	8,415,750.00	78,359,675.06	8,952,225.00	77,823,200.06
2025				49,433,487.56		49,433,487.56
2026				45,740,973.84		45,740,973.84
2027				39,478,303.84		39,478,303.84
2028				37,191,552.58		37,191,552.58
2029				32,893,621.26		32,893,621.26
2030				28,504,383.76		28,504,383.76
2031				24,263,158.76		24,263,158.76
2032				18,926,583.76		18,926,583.76
2033				18,929,058.76		18,929,058.76
2034				13,428,350.00		13,428,350.00
2035				11,625,250.00		11,625,250.00
2036				8,990,550.00		8,990,550.00
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	$46,110,000.00	$14,851,976.94	$60,961,976.94	$1,329,336,982.95	$67,410,293.79	$1,322,888,666.10

[1] Includes the debt service being refunded from Series Z and Series AA

SOURCES OF AND SECURITY FOR PAYMENT OF THE SERIES AP BONDS

The Series AP 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 AP 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 AP 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 AP 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 AP 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 AP Bonds.

CERTAIN BONDHOLDERS' RISKS

The Series AP 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 AP 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; 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.

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 the State System of Higher Education: "Commonwealth Appropriations"** for a discussion of such appropriations.

Proposed Legislation

In March 2014, two state senators introduced legislation in the Pennsylvania State Senate which would allow universities which are members of the State System to, among other things, transfer out of the State System if they meet certain criteria. No similar legislation has been introduced in the State House. In order to be enacted into law, the proposed legislation would have to be introduced in the State Senate and the State House, referred to the appropriate State Senate and State House committees, referred out of each committee for consideration by the applicable legislative body, passed by both the State Senate and the State House and signed into law by the Governor. As a result, the System cannot predict if such legislation or other legislation might be adopted now or in the future which would affect the State System.

LEGALITY FOR INVESTMENT

Under the Act, the Series AP 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 AP 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 AP 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 Cohen & Grigsby, P.C., Bond Counsel, under existing law, the Series AP Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Series AP Bonds is exempt from Pennsylvania personal income tax and corporate net income tax.

Federal Tax Exemption

In the opinion of Bond Counsel, under existing law and assuming continuing compliance by the Authority and the System with the requirements of the federal tax laws, interest on the Series AP Bonds (including any original issue discount properly allocable to the owner of a Series AP Bond) is excluded from the gross income of the holders of the Series AP Bonds for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining "adjusted current earnings". The Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Series AP Bonds in order for interest on the Series AP Bonds to be and remain excludable from gross income for purposes of federal income taxation. Examples include: the requirement that the Authority rebate certain excess earnings on proceeds and amounts treated as proceeds of the Series AP Bonds to the United States Treasury; restrictions on investment of such proceeds and other amounts; and restrictions on the ownership and use of the facilities financed with proceeds of the Series AP Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Authority and the System subsequent to issuance of the Series AP Bonds to maintain the exclusion of interest on the Series AP Bonds from gross income for federal income taxation purposes. Failure to comply with such requirements could cause the interest on the Series AP Bonds to be included in gross income retroactive to the date of issuance of the Series AP Bonds. The opinion of Bond Counsel delivered on the date of issuance of the Series AP Bonds is conditioned on compliance by the Authority and the System with such requirements, and Bond Counsel has not been retained to monitor compliance with requirements such as described above subsequent to the issuance of the Series AP Bonds.

Original Issue Discount. In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of any Series AP Bond sold at an original issue discount (an "OID Bond"), to the extent properly allocable to each owner of such OID Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price or principal due at maturity of such OID Bond over its initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such OID Bonds was sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of an OID Bond during any accrual period generally equals (i) the issue price of such OID Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such OID Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (iii) any interest payable on such OID Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes and will increase the owner's tax basis in such OID Bond. Purchasers of any Series AP Bond at an original issue discount should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and with respect to state and local tax consequences of owning such Series AP Bonds.

Original Issue Premium. An amount equal to the excess of the purchase price of a Series AP Bond over its stated redemption price or principal due at maturity constitutes a premium on such Series AP Bond. Those maturities of Series AP Bonds sold at such a premium are referred to herein as an "OIP Bond". A purchaser of an OIP Bond must amortize any premium over such OIP Bond's term using constant yield principles, based on the OIP Bond's yield to maturity. As premium is amortized, the purchaser's basis in such OIP Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of such OIP Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Series AP Bond at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes, and with respect to state and local tax consequences of owning such Series AP Bonds.

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 AP Bonds. Owners of the Series AP Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series AP 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 AP Bonds.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds will be passed upon by Cohen & Grigsby, P.C., Pittsburgh, Pennsylvania, Bond Counsel. See **Appendix I: "Certain Information Concerning the State System of Higher Education: "The Board of Governors."** 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" with an outlook of "negative" and "AA" with an outlook of "negative", respectively, to the Series AP 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 AP 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 AP Bonds, or in any way contesting or affecting the validity of the Series AP 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 AP 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 AP 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, 2014. 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, to EMMA notice of the occurrence of any of the following events with respect to the Series AP 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 or events affecting the tax-exempt status of the Series AP Bonds, (7) modifications to rights of holders of the Series AP Bonds, if material, (8) Series AP Bond calls, if material, and tender offers, (9) defeasances, (10) release, substitution or sale of property securing repayment of the Series AP 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 AP 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 AP 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 AP 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 AP 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 AP 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 made all required filings under its continuing disclosure agreements.

UNDERWRITING

The Series AP Bonds are being purchased for reoffering by Robert W. Baird & Co., Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Series AP Bonds at an aggregate purchase price of $52,635,870.40 (consisting of the par amount of $46,110,000 plus net original issue premium of $6,931,012.70 and less Underwriter's Discount of $405,142.30) over the aggregate of the initial offering prices for the Series AP Bonds set forth on the inside cover page of this Official Statement. 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 AP Bonds to the public. Series AP Bonds may be offered and sold to other dealers (including Series AP 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 AP Bonds. The receipt of a fee by RBC Capital Markets, LLC is contingent upon the issuance of the Series AP 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.

MISCELLANEOUS

All of the summaries of the provisions of the Act, Act 188, the Indenture, the Loan Agreement and of the Series AP 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 AP 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"** herein and, except for that section, 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 AP Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the Series AP 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
THE PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION

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THE PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION

History and Philosophy of the System

The Pennsylvania State System of Higher Education (the "System" or "PASSHE") 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, are members of the Board and 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 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 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 six standing committees which make policy recommendations to the full Board: Academic and Student Affairs; Audit; Executive; External Relations; 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 the Pennsylvania 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 currently has been reorganized and 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 PASSHE'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 PASSHE 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	Dr. F. Javier Cevallos Kutztown University of Pennsylvania
Ms. Geraldine M. Jones (Interim) California University of Pennsylvania	Dr. Michael Fiorentino Jr. Lock Haven University of Pennsylvania
Dr. Michelle R. Howard-Vital Cheyney University of Pennsylvania	Mr. Francis L. Hendricks Mansfield University of Pennsylvania
Dr. Karen M. Whitney Clarion University of Pennsylvania	Dr. John M. Anderson Millersville University of Pennsylvania
Dr. Marcia G. Welsh East Stroudsburg University of Pennsylvania	Dr. George F. "Jody" Harpster (Interim) Shippensburg University of Pennsylvania
Dr. Julie E. Wollman Edinboro University of Pennsylvania	Dr. Cheryl J. Norton Slippery Rock University of Pennsylvania
Dr. Michael A. Driscoll Indiana 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 26.2 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, 2013, 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 $9.0 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 $1.5 billion for renovation of existing academic facilities since 1996, while the Commonwealth has appropriated approximately $1.35 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 $900 million 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; 186 undergraduate and 114 graduate programs are offered in 30 major academic areas. In addition, certification programs are offered in 69 areas. The System awarded 20,041 undergraduate degrees and 5,591 graduate degrees in 2012/13. Education comprised 17.7% and 48.6%, respectively, of the total degrees conferred. The System also awarded 175 doctoral degrees through Indiana and Slippery Rock Universities of Pennsylvania and 406 associate's degrees through all the Universities.

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.

PASSHE 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.

To assist all prospective students, this year PASSHE implemented a Multi-University Electronic Admissions Application (MUEAA), making it easier for prospective students to apply for admission. MUEAA serves as a "one-stop shop" for students, parents, and guidance/school counselors to learn about the 14 PASSHE Universities and their individual and collective program offerings. More importantly, students can apply to more than one PASSHE University with minimal or no redundant data entry. Within its first seven months of operation, more than 82,000 applications have been submitted through the MUEAA, with more than 15,000 students applying to two PASSHE Universities and more than 6,000 students submitting applications to three PASSHE Universities. The MUEAA also enables PASSHE Universities and associated academic departments to have real-time communication with their applicants for purposes of establishing an immediate connection.

The Universities have consolidated their online learning efforts into a single Learning Management System (LMS), Learning Content Management System (LCMS), and around-the-clock end-user helpdesk. The environments chosen are Desire2Learn (D2L) as the supplier-hosted solution for the LMS and Learning Edge's Equella for the LCMS. These environments fully support online, hybrid (face-to-face and online), or traditional face-to-face courses and entire programs. Currently, System Universities offer approximately 113 degree programs via distance education delivery, with approximately 40,000 students participating in at least one distance education course.

In addition, thousands of face-to-face courses use the learning management environment to supplement traditional classroom instruction.

The System maintains a Wide Area Network, or SSHEnet, that provides connectivity between the Universities and the Internet, and connectivity and resource sharing between PASSHE Universities and the Office of the Chancellor. SSHEnet is the main throughway for mission-critical service such as distance education (university to/from D2L and e-College hosting sites); 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); System-wide videoconferencing capabilities used by faculty and staff; and access to Internet 2. The model of aggregating Wide Area Network services provides the opportunity to leverage best pricing from Internet Service Providers and data service providers, as well as to share the costs of gateways to external services. The ongoing operational costs are also reduced significantly by having a few highly skilled staff of network and video engineers to support PASSHE on behalf of all the Universities and the Office of the Chancellor. In 2010, SSHEnet was migrated from ATM technology to Gigabit Ethernet technology. By making this significant change, PASSHE Universities are experiencing higher quality service, improved scalability to meet current service needs, and reduced costs for bandwidth to the Internet. In addition, PASSHE is a charter member in KINBER, the Keystone Initiative for Network Based Education and Research, which received a federal broadband grant for 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 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, anti-plagiarism 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% 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.

	2009/10	2010/11	2011/12	2012/13	2013/14
Headcount					
Undergraduate	100,361	102,974	102,900	100,350	98,396
Graduate	16,574	16,539	15,324	14,121	13,632
Total	116,935	119,513	118,224	114,471	112,028
Full-Time	97,556	100,486	100,459	97,823	95,494
Part-Time	19,379	19,027	17,765	16,648	16,534
Total	116,935	119,513	118,224	114,471	112,028
Full-Time Equivalent					
Undergraduate	97,212	98,453	96,512	94,213	92,457*
Graduate	12,673	12,826	8,754	8,210	7,801*
Total	109,885	111,279	105,266	102,423	100,258*

*Estimate

Applications and Admissions

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

	2009/10	2010/11	2011/12	2012/13	2013/14
Applied	99,828	104,141	101,443	93,084	77,826*
Accepted	61,721	64,060	65,587	61,247	60,862
Enrolled	21,061	21,707	21,812	20,084	19,941
% Accepted	63.4%	61.5%	64.7%	65.8%	78.2%
% Enrolled/Accepted	35.4%	33.9%	33.3%	32.8%	32.8%

*The lower number of applications reported by PASSHE institutions for FY 2013/14 is largely a result of a change implemented by PASSHE 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

	2009/10	2010/11	2011/12	2012/13	2013/14
System Average	$7,325	$7,727	$8,484	$8,733	$9,004

The 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.

	2013/14 Required Fees and Tuition
Selected Private Colleges and Universities	
Washington and Jefferson College	$39,710
Elizabethtown College	$38,200
Juniata College	$37,170
Delaware Valley College	$33,090
Gannon University	$27,546
State-Related Universities (in-state)	
The University of Pittsburgh	$17,100
The Pennsylvania State University	$16,992
Temple University	$14,096
Community Colleges (in-state)	
Community Colleges Average (full-time equivalent course load)	$4,248
Pennsylvania State System of Higher Education (in-state)	
System Average	$9,004

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	2009	2010	2011	2012	2013
1	22.4%	23.8%	22.8%	22.0%	21.1%
2	31.7%	30.7%	31.0%	31.1%	29.4%
3	26.7%	26.1%	26.5%	26.5%	27.2%
4	15.1%	15.3%	15.0%	15.7%	17.0%
5	4.1%	4.1%	4.7%	4.7%	5.3%

Average SAT Scores

	2009	2010	2011	2012	2013
Verbal	517	517	498	492	490
Math	524	526	504	500	497
Total	1,041	1,043	1,002	992	987

Student Financial Aid

Almost 87% of all first-time, full-time, degree-seeking undergraduate students attending PASSHE Universities during academic year 2012/13 received financial aid. Almost 36% of these students received awards from federal grant aid, while 37% received awards from the Commonwealth or local agencies. Twelve 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 PASSHE 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 PASSHE 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% 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**
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
2008/09	$497,168,000

The FY 2013/14 appropriation of $412,751,000 is the same amount as received in FY 2011/12 and FY 2012/13. 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 2014/15 budget. The Governor's budget proposed level funding in appropriation for PASSHE and an increase in the amount received from the realty transfer tax. 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% 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, and $13.6 million in FY 2013/14.

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*.

Pennsylvania State System of Higher Education

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013 and 2012
(dollars in thousands)

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

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 $51.7 million, include the effects of two unfunded liabilities: the liability for postretirement benefits for employees who participate in the System plan totaled $933.7 million for the year ended June 30, 2013 (see financial statements note 5 for more information); and the liability for compensated absences totaled $109.9 million for the year ended June 30, 2013 (see financial statements note 7 for more information). Without the effect of these liabilities, total unrestricted net position would equal $1,095.3 million.

Faculty and Staff

As of October 31, 2013, PASSHE faculty numbered 4,886 full-time members and 1,188 part-time members. Of the full-time faculty members, 3,262 have been awarded tenure, and 993 are tenure-track.

As of October 31, 2013, PASSHE employed 6,352 full-time staff members and 194 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% of gross salary for Class A and 6.25% 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% of gross salary for Class A-3 and 9.3% 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% to 7.50% of gross salary, depending upon class and hire date. Most employees elected the 7.5% 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% of gross salary for Class T-E and 10.3% 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% 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**
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%
2009/10	2.52%	3.15%		2.39%	9.29%

**There are three different rates for SERS employees, depending on their class. The majority of PASSHE 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, 2014); the Pennsylvania Doctor's Alliance (PDA) (contract termination date June 30, 2012); 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 PDA contract is currently ratified, but has not been finalized. 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.

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, 2013.

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, 2013, 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 State 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 of such legislation may affect the System's ability to perform its obligations with respect to the Bonds.

In March 2014, two state senators introduced legislation in the Pennsylvania State Senate which would allow Universities which are members of the State System to, among other things, transfer out of the State System if they meet certain criteria. No similar legislation has been introduced in the State House. In order to be enacted into law, the proposed legislation would have to be introduced in the State Senate and the State House, referred to the appropriate State Senate and State House committees, referred out of each committee for consideration by the applicable legislative body, passed by both the State Senate and the State House, and signed into law by the Governor. As a result, the System cannot predict if such legislation or other legislation might be adopted now or in the future which would affect the State System.

Contingencies, Commitments, and Concentrations

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

Future Financing

Currently, there are numerous additional auxiliary and academic-related capital projects (e.g., 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 $50 to $75 million in fiscal year 2015/16. The System is continuing to pursue the procurement of student housing through its affiliated 501(c)(3) organizations. These affiliates are developing 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 21,086 beds of housing for approximately $1.4 billion of financing. Some housing projects are replacement stock, and some are designed to meet perceived needs for more modern housing options.

Outstanding Indebtedness

As of April 1, 2014, the outstanding indebtedness of the System is as follows:

	Issuance Date	Original Issuance Amount	Current Outstanding Principal	Maturity Date
Series Z	03/17/04	$71,760,000	$39,300,000	06/15/24
Series AA	07/08/04	28,750,000	15,785,000	06/15/24
Series AC	07/07/05	52,650,000	33,905,000	06/15/25
Series AE	07/06/06	103,290,000	79,835,000	06/15/36
Series AF	07/10/07	68,230,000	56,720,000	06/15/37
Series AG	03/27/08	101,335,000	77,505,000	06/15/24
Series AH	07/17/08	140,760,000	123,025,000	06/15/38
Series AI	08/07/08	32,115,000	23,510,000	06/15/25
Series AJ	07/09/09	123,985,000	109,800,000	06/15/39
Series AK	09/03/09	47,310,000	35,945,000	06/15/24
Series AL	07/08/10	135,410,000	115,880,000	06/15/35
Series AM	07/12/11	119,085,000	112,160,000	06/15/36
Series AN	03/30/12	76,810,000	76,435,000	06/15/23
Series AO	07/18/13	30,915,000	30,915,000	06/15/38
Total		$1,132,405,000	$930,720,000	

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 footnote 3 of the 2013 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:

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Series Z	$1,985,000	$2,055,000	$2,120,000	$410,000	$425,000	$440,000
Series AA	1,750,000	1,145,000	1,195,000	1,245,000	1,300,000	1,360,000
Series AC	2,810,000	2,945,000	2,550,000	2,675,000	2,810,000	2,950,000
Series AE	4,030,000	4,240,000	4,465,000	4,470,000	4,700,000	4,935,000
Series AF	2,195,000	2,305,000	2,420,000	2,540,000	2,670,000	2,805,000
Series AG	7,000,000	10,875,000	11,485,000	12,075,000	11,105,000	6,165,000
Series AH	4,020,000	4,220,000	4,435,000	4,655,000	4,890,000	6,680,000
Series AI	1,785,000	1,845,000	1,910,000	1,990,000	2,070,000	2,150,000
Series AJ	4,515,000	4,835,000	5,245,000	5,685,000	6,080,000	6,570,000
Series AK	3,705,000	3,795,000	3,910,000	4,080,000	4,220,000	4,405,000
Series AL	8,115,000	8,510,000	8,435,000	8,000,000	6,155,000	6,525,000
Series AM	3,990,000	4,200,000	4,420,000	4,655,000	4,900,000	4,955,000
Series AN	1,070,000	4,000,000	8,235,000	9,430,000	9,705,000	14,400,000
Series AO	920,000	1,040,000	1,075,000	1,105,000	1,130,000	1,170,000
Total	$47,890,000	$56,010,000	$61,900,000	$63,015,000	$62,160,000	$65,510,000

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APPENDIX II

2013 AUDITED FINANCIAL STATEMENTS

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PASSHE
Pennsylvania State System of Higher Education

FINANCIAL STATEMENTS
JUNE 30, 2013

UNIVERSITIES OF THE PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION

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

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

TABLE OF CONTENTS

PAGE

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100% percent, 100% percent, and 100% percent, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 PASSHE as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11 and the required supplementary information on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
September 26, 2013

Management's Discussion and Analysis

(Unaudited)

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

Financial Highlights

- In fiscal year 2012/13, PASSHE received $412.8 million in General Fund **appropriations** from the Commonwealth, the same amount as received in fiscal year 2011/12. This is 11.3% less than the General Fund appropriations received in fiscal year 2010/11 and the same level of funding PASSHE received in fiscal year 1997/98—fifteen years ago.

- PASSHE received an $11.7 million Realty Transfer Tax allocation from the Commonwealth's **Key '93** (Keystone Recreation, Park and Conservation) Fund, an increase of $4.9 million, or 71%, from fiscal year 2011/12. With the exception of fiscal years 2010/11 and 2009/10, when no funding was provided, Key '93 funds have provided a consistent revenue stream for university deferred maintenance projects since 1993.

- PASSHE received $65 million in **Commonwealth capital funding**, primarily for renovation or replacement of existing educational and general buildings. With the exception of fiscal years 2010/11 and 2009/10, when the Commonwealth's capital funding for PASSHE was $130 million each year, PASSHE has received $65 million annually in Commonwealth capital funding since fiscal year 2000/01. Annual funding is expected to remain at $65 million for the foreseeable future. The portion of capital appropriations reflected in these statements, representing the furnishings and equipment for the Commonwealth-funded construction projects, totals $14.8 million and $9.7 million in fiscal years 2012/13 and 2011/12, respectively.

- As part of its continuing commitment to reward the universities for demonstrated success and continued improvement in student achievement, university excellence, and operational efficiency, PASSHE's Board of Governors (Board) allocated $36.6 million of PASSHE's appropriations for **performance funding** in fiscal year 2012/13, approximately 2% more than the $35.9 million allocated in fiscal year 2011/12. Performance funding allocated in fiscal year 2010/11 was $35.6 million.

- After 14 years of record growth, PASSHE has experienced an **enrollment decline** in fiscal year 2012/13 for the second year in a row. Fall 2012 enrollment was 114,471, a decrease of 3,753 students, or 3.2%, from fall 2011. Fall 2011 enrollment was 118,224, a decrease of 1,289 students, or 1.1%, from the fall 2010 record enrollment of 119,513. Despite these two years of decline, PASSHE's fall enrollment has increased 40% since fall of 1983, which was PASSHE's first year of operation as a System.

- Of the 114,471 **students** in the fall 2012 enrollment, 97,823 (85%) were full-time and 16,648 (15%) were part-time students; 100,350 (88%) were undergraduate and 14,121 (12%) were graduate students.

- In academic year 2011/12, PASSHE awarded 25,560 **degrees**, comprising 19,439 bachelor's degrees; 5,467 master's degrees; 206 doctoral degrees; and 448 associate's degrees. This compares to 24,672 degrees awarded in academic year 2010/11 and 24,168 degrees awarded in academic year 2009/10.

- The Board approved a **tuition rate increase** of $188 (3%) for undergraduate resident students in fiscal year 2012/13. This compares to an increase of $436 (7.5%) in fiscal year 2011/12, primarily due to the reduction in state appropriations. PASSHE's 2012/13 annual tuition rate of $6,428 for full-time, resident, undergraduate students is the lowest of four-year baccalaureate degree programs in the state.

- **Mandatory student fees** set by the universities increased, on average, by 3.8%. These increases, combined with the reduction in enrollment, resulted in tuition and mandatory fee revenue (before discounts) of $1.02 billion, a slight increase over fiscal year 2011/12. This compares to an average student fee increase of 9.4% in fiscal year 2011/12 over the prior year.

- The most common **room and board fees** (included in auxiliary enterprises) set by the universities increased 4.8% and 1.1%, respectively, resulting in revenue of $266.5 million, an increase of $19.6 million, or 7.9%, over fiscal year 2011/12. This compares to a fiscal year 2011/12 increase of 4.7% in room fees and 1.4% in board fees over the prior fiscal year.

- PASSHE's **average cost of attendance** (tuition, mandatory fees, room, and board) of $17,051 in 2012/13 was $809 below the average among all four-year public universities in the United States and $2,503 below the average in the Middle States region (Delaware, Maryland, New Jersey, New York, Pennsylvania, and Washington, D.C.), according to the latest College Board survey.

- PASSHE purchased $139.3 million in **capital assets** in fiscal year 2012/13, including $106.8 million to build or improve academic and auxiliary facilities across all 14 universities.

- During fiscal year 2012/13, $41.9 million of bond principal and $45.5 million of interest was paid, bringing the total outstanding **bond debt** to $899.8 million at June 30, 2013. PASSHE issued no new bonds in fiscal year 2012/13.

The Financial Statements

The *Balance Sheet* reports the balances of the assets, liabilities, and net position of PASSHE as of the end of the fiscal year. (**The term "net position" was formerly referred to as "net assets."** The Governmental Accounting Standards Board, or GASB, changed the terminology to net position effective for the year ending June 30, 2013.) Assets include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation. Liabilities include payments due to vendors and students; the balance of bonds payable; and liabilities such as workers' compensation (PASSHE is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees). The difference between the assets and liabilities is reported as **net position**.

The *Statement of Revenues, Expenses, and Changes in Net Position* reports the revenues earned and the expenses incurred during the fiscal year. The result is reported as an increase or decrease in net position. In accordance with GASB requirements, PASSHE has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public colleges' and universities' **state appropriations are nonoperating revenues**. In addition, GASB requires classification of gifts, Pell grants, investment income and expenses, unrealized gains and losses on investments, interest expense, and losses on disposals of assets as nonoperating. PASSHE classifies all of its remaining activities as operating.

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

Net Position

In accordance with GASB requirements, PASSHE reports three components of net position:

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

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

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

Unrestricted net position reflects two unfunded liabilities:

- The liability for **postretirement benefits** for employees who participate in the PASSHE plan increased by $69.3 million to $933.7 million for the year ended June 30, 2013. Because this liability is expected to be realized gradually over time, and because of its size, the universities fund it only as it becomes due.

- The liability for **compensated absences** increased by $1.7 million to $109.9 million for the year ended June 30, 2013. Similar to the postretirement benefits liability, cash payouts to employees upon termination or retirement for annual and sick leave balances are expected to be realized gradually over time.

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

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

(in millions)

Balance Sheet

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

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

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

- **Investment income** (before investment expenses) for fiscal year 2012/13 was $20.8 million. This represents a decrease of $4.1 million from the prior year, despite an increase in PASSHE's average monthly operating capital of approximately $114 million from the prior year. The decrease in investment income is due to the continuing decline in interest rates. Interest rates decreased over the fiscal year from a high of 1.34% in July 2012 to a low of 0.90% in March 2013, or a 61-basis-point decrease from the prior fiscal year high. The 12-month average interest rate for fiscal year 2012/13 was 22 basis points lower than the average 12-month interest rate for fiscal year 2011/12.

- Universities spent $704.5 million on **instruction**, or 36.6% of total operating expenses, in fiscal year 2012/13. This represents an increase of $21.1 million, or 3.1%, over fiscal year 2011/12.

- **Financial aid** to students in the form of waivers and scholarships was $286.9 million in fiscal year 2012/13, a decrease of $14.7 million from the previous year. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), PASSHE reported $211.2 million of financial aid as *scholarship discounts and allowances* (netted against tuition and fees) and $74.5 million as *student aid* expense in fiscal year 2012/13. $1.2 million of financial aid was reported in Auxiliary enterprises. Following is the breakdown of scholarship discounts and allowances and waivers in fiscal years 2012/13 and 2011/12:

(in millions)

Student Financial Aid

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

- **Interest expense** on capital asset-related debt was $38.8 million, a decrease of $2.8 million over fiscal year 2011/12.

- According to the Pennsylvania Department of Labor and Industry, PASSHE is the 14th largest employer in the state, with more than 13,000 employees. **Salaries and benefits** totaled $1.3 billion in fiscal year 2012/13. Compared to fiscal year 2011/12, salary and wage expenses increased by $15.5 million, or 1.8%, while benefit expenses increased by $19.8 million, or 4.9%, for an overall increase of $35.3 million:

  - Employer share of **employee health care** costs increased 2.9% over fiscal year 2011/12, for a total increase of $3.3 million. This follows consecutive decreases of 6.1% ($7.4 million) and 1.5% ($1.8 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years.

  - Employer **annuitant health care** costs increased 2.2% over fiscal year 2011/12, for a total increase of $3.0 million. This follows consecutive increases of 6.9% ($8.7 million) and 7.8% ($9.1 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years. The increases are caused not only by the increase in health care costs, but also by the increase in the number of retirees.

- Employer contributions to **SERS** (Commonwealth of Pennsylvania State Employees' Retirement System), which is a defined benefits pension plan, increased 48.1% over fiscal year 2011/12, for a total increase of $9.9 million. This follows consecutive increases of 58.5% ($7.6 million) and 28.0% ($2.8 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years. The steep increases were instituted by SERS to fund its enormous and growing unfunded actuarial accrued liability, which was $17.8 billion at December 31, 2012, up from $14.7 billion at December 31, 2011. Approximately 40% of PASSHE's employees are enrolled in SERS.

- Employer contributions to **PSERS** (Public School Employees' Retirement System), which is a defined benefits pension plan, increased 55.6% over fiscal year 2011/12, for a total increase of $1.0 million. This follows consecutive increases of 20.0% ($0.3 million) and 56.3% ($0.5 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years. The steep increases were instituted by PSERS to fund its enormous and growing unfunded actuarial accrued liability, which was $26.5 billion at June 30, 2012, up from $19.7 billion at June 30, 2011. Since only approximately 7% of PASSHE's employees are enrolled in PSERS, the impact of contribution rate increases is far less than the impact from SERS.

- Employer contributions to the **ARP** (Alternate Retirement Plan), which is a defined contribution plan, increased 2.6% over fiscal year 2011/12, for a total increase of $1.1 million. This follows a decrease of 2.1% ($0.9 million) and an increase of 3.8% ($1.6 million) in fiscal years 2011/12 and 2010/11, respectively, over the prior fiscal years. The changes in annual contributions are attributed to fluctuating employee participation. The employer contribution rate (9.29%) has been the same since the plan's inception. Since the ARP is a defined contribution plan, PASSHE has no liabilities related to future benefits. Approximately 49% of PASSHE's employees are enrolled in the ARP.

- The total cost for **all other employee benefits**, such as Social Security and workers' compensation, increased by a total of $1.5 million, or 1.6% more than fiscal year 2011/12, compared to a decrease of $2.3 million in fiscal year 2011/12, or 2.4%, over fiscal year 2010/11.

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

(in millions)

Salaries, Wages, and Benefits

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

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

(in millions)

Revenues and Gains

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

(in millions)

Expenses and Losses

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

Future Economic Factors

- The **Commonwealth** ended fiscal year 2012/13 with General Fund collections that were $56.9 million, or 0.2%, more than estimated. The Governor's Program Policy Guidelines for preparation of the 2014/15 Commonwealth budget states that "the Pennsylvania economy is growing very modestly and a number of factors are restraining its growth. The commonwealth budget, which is highly dependent on a growing economy, faces additional challenges, such as increased pension obligations, wage and benefit increases, debt service and medical and entitlement costs. These mandated cost drivers will consume virtually all revenue growth. Therefore, agencies should not assume funding increases for the 2014-15 fiscal year."

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

- The Commonwealth has continued its commitment to fund PASSHE's deferred maintenance projects with a Realty Transfer Tax allocation from the **Key '93** funds. PASSHE has received $13.6 million from this revenue stream in fiscal year 2013/14, a 16.2% increase from the $11.7 million received in fiscal year 2012/13. Key '93 funds are derived from the Realty Transfer Tax; the actual amount received is an estimate and may be adjusted based upon the health of the real estate market.

- The Board approved a $194 (3.0%) **increase in tuition** for the 2013/14 academic year. This sets the new rate for full-time, resident, undergraduate students at $6,622, the lowest among all four-year colleges and universities in Pennsylvania.

- With an undergraduate population made up of almost 90% Pennsylvania residents—and the majority of those being traditional-age students enrolling right out of high school—PASSHE's enrollment historically has been closely tied to the state's demographic trends. Based on estimates from the National Center for Education Statistics, there were about 2,200 fewer **high school graduates** in Pennsylvania in spring 2012 than in spring 2011, a drop of about 2%. This continuing downward trend, which is especially pronounced in western Pennsylvania, is expected to continue for the next three years before leveling off.

- PASSHE universities are retooling to meet changing student demographics, new program content needs, and the rapid evolution of how, where, when, and by whom courses and programs are offered. PASSHE is proactively responding by **realigning programs and resources**. PASSHE is committed to ensuring relevance in programs, reducing costs through collaboration, and focusing resources on what students want and what the Commonwealth needs.

    - More students now are enrolling in new and existing programs in science, technology, mathematics, business and finance, and allied health than are enrolling in education and other public service programs, which were PASSHE's historic strengths. PASSHE continues to **align academic offerings** with work force needs and student expectations. Over the past five years, the Board created 56 new academic programs, placed 158 programs in moratorium, discontinued 40 programs, and reorganized 90 programs.

    - Universities are realigning faculty and staff resources, as evidenced through **work force reductions** via attrition and layoffs and the reassignment of vacancies to higher priority positions. Through a combination of retirements, voluntary separations, and furloughs, PASSHE had 600 fewer permanent positions in fall 2012 than in fall 2009, a trend that is continuing.

    - PASSHE's **strategic emphasis** adds value as the universities work together to attract, educate, and graduate students via greater collaboration across institutions. For example, new this fall is a multiuniversity electronic admissions application that showcases PASSHE's program offerings, assists prospective students in applying to multiple PASSHE universities, and should result in increased admissions applications. Pathways for entry for nontraditional and returning adult students include articulation agreements in 25 areas of study with Pennsylvania's 14 community colleges, and efforts are underway to assist these students in developing "prior learning portfolios" for college credit in conjunction with the Center for Adult and Experiential Learning.

- In fiscal year 2012/13, SERS (State Employees' Retirement System) continued its steep increases in employer **pension contribution rates** that are anticipated to persist through fiscal year 2014/15 and remain high for the foreseeable future. The most predominant employer-paid SERS rates for PASSHE employees rose 44% in 2013/14, and are anticipated to increase 30% in 2014/15. A similar pattern is occurring with PSERS (Public School Employees' Retirement System). The contribution rate for the ARP (Alternative Retirement Plan) remains unchanged.

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

SERS

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

PSERS

- o At June 30, 2012, PSERS' actuarial accrued pension liability of $85.6 billion was only 69.1% funded, down from 75.1% funded at June 30, 2011, and 79.2% funded the previous year.
- o The actuarial value of PSERS' assets was $59.1 billion at June 30, 2012, compared to $59.3 billion at June 30, 2011, and $59.8 billion the previous year.
- o $26.5 billion of the PSERS' actuarial pension liability was unfunded at June 30, 2012, compared to $19.7 billion unfunded at June 30, 2011, and $15.7 billion the previous year. This is debt already incurred and cannot be eliminated by reducing future benefits.
- o The 2012 employer contributions were only 27% of the actuarially calculated Annual Required Contribution.
- o PASSHE's employees represent approximately 0.4% of reported member salaries covered under PSERS.

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

  What could make the rating go up (not for the foreseeable future given the downgrade):
  - o Substantial decline in the OPEB liability from benefits restructuring.
  - o Consistently favorable operating performance and strong cash flow generation.
  - o Increased student demand with higher nonresident student enrollment.

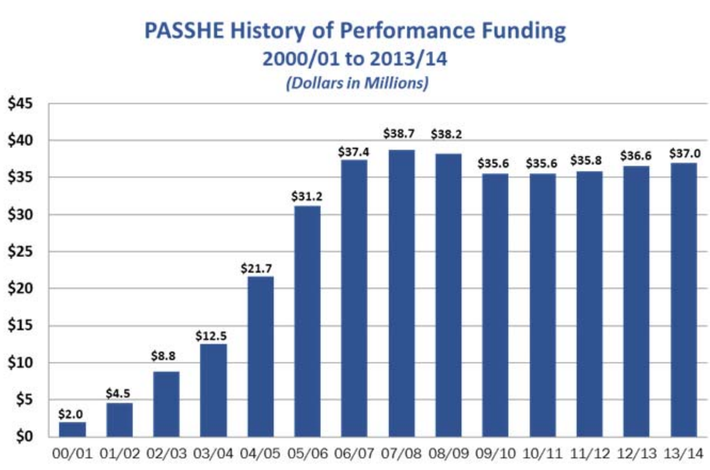
  What could make the rating go down:
  - o Stagnant or declining tuition revenues from continued enrollment declines or downward pressures on tuition increases.
  - o Failure to respond to enrollment declines.
  - o The rising OPEB and pension costs.
  - o Failure to achieve significant gains in union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

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

institutions to performance expectations. PASSHE has more than a decade of experience in this area, having introduced performance funding in 2000/01 and having grown it into a national model. PASSHE continues to be one of the few public university systems in the nation to voluntarily implement this type of performance program. Many of the measures PASSHE uses closely align with the general goals for performance-based funding that were included in the report of the Governor's advisory commission, which was issued in fall of 2012. They include:

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

PASSHE universities have "earned" nearly **$340 million** through performance since this program was instituted. This initiative has resulted in increased graduation and retention rates, especially among underrepresented student groups; greater diversity among both the student population and all employee groups—executives, faculty, and professional staff; and higher fundraising results for the universities despite a still sluggish economy.



PASSHE is committed to funding its performance program at a level equal to 2.4% of the Educational and General (E&G) budget. The Board allocated **$36.98 million** in performance funding for fiscal year 2013/14, an increase of $0.4 million over fiscal year 2012/13.

- Construction of **PennREN** (Pennsylvania Research and Education Network), a 1,600-mile high-speed fiber-optic network across the Commonwealth, was completed in February 2013. PennREN provides network connectivity between both public and private higher education institutions, provides opportunities for partnerships with K-12 schools, increases access to national and federal research centers to enhance student learning, and promotes the use of telemedicine and use of electronic medical records. As the Keystone Initiative for Network Based Education and Research (KINBER) continues to grow in membership, opportunities for education collaboration, information sharing, and economic development will be realized.

- On July 1, 2013, at the direction of the Board of Governors' Audit Committee, PASSHE implemented an **Incident Reporting System** to collect and record both anonymous and self-identified complaints of potential fraud, waste, abuse, and ethical matters related to the PASSHE organization. An external contractor was hired to provide the incident reporting services to PASSHE, and the Office of Internal Audit and Risk Assessment will be responsible for managing the incident reporting operation.

- Former PASSHE Chancellor Dr. John C. Cavanaugh accepted a position in Washington, D.C., effective March 1, 2013. In August 2013, the PASSHE Board of Governors selected **Mr. Frank T. Brogan** to serve as PASSHE's Chancellor beginning October 1, 2013. Within the last two years, new presidents have taken office at East Stroudsburg, Edinboro, Indiana, Lock Haven, Slippery Rock, Mansfield, and Millersville Universities of Pennsylvania. Interim presidents are serving at California and Shippensburg Universities of Pennsylvania.

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

Pennsylvania State System of Higher Education

Balance Sheet

(dollars in thousands)

Assets

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

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

Balance Sheet

(dollars in thousands)

Liabilities and Net Position

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

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013 and 2012
(dollars in thousands)

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

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

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

(dollars in thousands)

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

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

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

(dollars in thousands)

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

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

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

See accompanying notes to financial statements.

Pennsylvania State System of Higher Education

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

(dollars in thousands)

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

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Reporting Entity

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

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

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

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

Net Position *(formerly referred to as Net Assets)*
PASSHE maintains the following classifications of net position. The term "net position" has replaced the term "net assets" as required by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Net investment in capital assets (previously referred to and the same as "Invested in capital assets, net of related debt"; the terminology was changed by GASB in Statement No. 63): Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

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

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

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

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

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

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

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

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

Capital Assets
Land and buildings at the 14 university campuses acquired or constructed prior to its creation on July 1, 1983, are owned by the Commonwealth and made available to the universities of PASSHE. Since PASSHE neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed using capital funds appropriated by the Commonwealth after June 30, 1983, and made available to the universities.

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

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

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

Impairment of Capital Assets
Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2013 and 2012.

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

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

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

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

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

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

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

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

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

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

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

(2) Deposits and Investments

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

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

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

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

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

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

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

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

On June 30, 2013 and 2012, the carrying amount of PASSHE's demand and time deposits and certificates of deposit for all funds was $35,935,000 and $23,761,000, respectively, compared to bank balances of $36,437,000 and $22,470,000, respectively. The difference is caused primarily by items in transit. Of the bank balances, $6,065,000 and $3,529,000, respectively, were covered by federal government depository insurance or collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions; $1,547,000 and $2,302,000, respectively, were uninsured and uncollateralized; and $28,825,000 and $16,639,000, respectively, were uninsured and uncollateralized, but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

The carrying values (fair values) of deposits and investments for PASSHE's pooled funds in M&T Bank on June 30, 2013 and 2012, follow.

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

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

PASSHE Pooled Deposits and Investments
June 30, 2012
(in thousands)

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

Of the investments noted above at June 30, 2013 and 2012, $17,071,000 and $36,525,000, respectively, were held by a trustee to be used for projects funded under the Pennsylvania Higher Educational Facilities Authority/State System of Higher Education bond issues (note 9). Investments are made subject to the restrictions of the bond indenture and may be liquidated only for the payment of costs associated with the projects described in the bond indenture.

The carrying values (fair values) of local university deposits and investments on June 30, 2013 and 2012, follow.

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

	Moody's Rating (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

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

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

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

(in thousands)

Investment	Currency	Fair Value June 30, 2013	Fair Value June 30, 2012
Deposit	British Pound	$12	$44

The universities are beneficiaries of trust funds held by others with an approximate fair value of $3,870,000 and $3,608,000 on June 30, 2013 and 2012, respectively. Since the universities have neither possession nor control of these trusts, the principal is not included in the accompanying balance sheet.

(3) Leases

Total rent expense for PASSHE operating leases amounted to $8,292,000 and $7,773,000 for the years ended June 30, 2013 and 2012, respectively.

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

(in thousands)

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

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
2014	$7,092	$5,973
2015	5,995	5,626
2016	4,950	5,369
2017	3,140	5,271
2018	1,660	5,179
Thereafter	41,535	53,001
Total minimum lease payments	$64,372	80,419
Amount representing interest on capital leases		23,537
Present value of net minimum capital lease payments		$56,882

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

(in thousands)

Year	Beginning Balance	Capital Lease Additions	Capital Lease Payments	Ending Balance
2012	$46,436	$13,259	$4,175	$55,520
2013	$55,520	$10,345	$8,983	$56,882

(4) Pension Benefits

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

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

SERS provides retirement, death, and disability benefits, and legislative-mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefits provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (PASSHE). The contribution rate for both active members and PASSHE depends upon when the active member was hired and what benefits class is selected. Contribution rates for most active members are between 5.0% and 6.25% of their qualifying compensation. New members hired after January 1, 2011, have a one-time election to choose a 9.3% contribution rate. PASSHE contributed at actuarially determined rates of between 8.43% and 10.51% of active members' annual covered payroll at June 30, 2013. PASSHE's contributions to SERS for the years ended June 30, 2013, 2012, and 2011, were $30,490,000, $20,643,000, and $13,032,000, respectively, equal to the required contractual contribution. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Commonwealth of Pennsylvania, State Employees' Retirement System, P.O. Box 1147, Harrisburg, PA 17108.

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

(5) Postretirement Benefits

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

System Plan

Plan Description

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

Funding Policy

The contribution requirements of plan members and PASSHE are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the health care benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring university as they are granted. PASSHE paid premiums of $42,975,000 and $38,729,000 for the fiscal years ending June 30, 2013 and 2012, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2013:

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

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

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

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

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

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

Funded Status and Funding Progress
The funded status of the plan as of July 1, 2012, the most recent actuarial valuation date, was as follows.

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

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

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

In the July 1, 2012, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected rate to be earned on PASSHE's operating portfolio, and annual health care cost trend rates of 8.0% for pre-Medicare and 7.0% for post-Medicare initially, reduced by decrements to an ultimate rate of 5.0% by 2025. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2012, was 23 years.

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

Funding Policy
The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2012/13, PASSHE contributed $265 for each current active employee per biweekly pay period. PASSHE made contributions of $25,638,000, $23,228,000, and $20,069,000 for the fiscal years ending June 30, 2013, 2012, and 2011, respectively, equal to the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(6) Workers' Compensation

PASSHE is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, PASSHE universities must pay up to $100,000; for claims occurring on or after July 1, 1995, PASSHE universities must pay up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all PASSHE universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the universities contributed $1,854,000 and $2,004,000 to the Reserve Fund during the years ended June 30, 2013 and 2012, respectively.

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

(in thousands)

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

(7) Compensated Absences

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

(in thousands)

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

(8) Termination Benefits

In March 2013, the Board approved a Voluntary Retirement Incentive Program for APSCUF employees meeting certain age and service requirements. Eligible faculty who indicated their intent to retire by May 31, 2013, and eligible coaches who indicated their intent to retire by June 28, 2013, qualified for a cash incentive payout of between $10,000 and $30,000, depending on base salary and years of service. A total of 135 eligible PASSHE employees accepted the offer by signing a release and settlement agreement releasing PASSHE from all legal claims related to their employment and retirement. For the year ended June 30, 2013, PASSHE recorded an expense of $3,609,000 for the cash incentive and $219,000 for associated Social Security and Medicare taxes, for a total expense of $3,828,000. The cash incentive is not eligible for retirement benefits.

(9) Bonds Payable

Bonds payable on June 30, 2013 and 2012, consisted of several outstanding tax-exempt revenue bond series issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuance, PASSHE entered into a loan agreement with PHEFA under which PASSHE has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of PASSHE. The bonds were issued to provide funds to undertake various capital projects at the universities or to advance refund certain previously issued bonds. Activity for the various bond series for the years ended June 30, 2013 and 2012, was as follows.

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

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

Principal and interest requirements to maturity are as follows.

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

(10) Rating Actions

Subsequent to its July 2012 rating action downgrading the Commonwealth from Aa1 to Aa2, Moody's Investors Service, Inc., downgraded PASSHE's outstanding bonds from Aa2 to a rating of Aa3 in October 2012. PASSHE's other major rating agency, Fitch Ratings, took no downgrading action and continues to rate PASSHE's bonds as AA.

(11) Capital Assets

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

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

(12) CONTINGENCIES AND COMMITMENTS

Contingencies

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

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

Construction Commitments

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

(13) SUBSEQUENT EVENTS

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

Required Supplementary Information

Years Ended June 30, 2013 and 2012

(Unaudited)

Schedule of Funding Progress for the System Plan (OPEB)

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2010	$0	$1,315,116	$1,315,116	0%	$554,213	237%
July 1, 2011	$0	$1,373,049	$1,373,049	0%	$570,839	241%
July 1, 2012	$0	$1,420,502	$1,420,502	0%	$566,753	251%

Schedule of Funding Progress for the REHP (OPEB)

(in thousands)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2010	$56,320	$13,674,250	$13,617,930	.41%	$3,786,000	360%
July 1, 2011	$70,740	$12,907,790	$12,837,050	.55%	$3,839,000	334%
July 1, 2012	$71,630	$12,843,700	$12,772,070	.56%	$4,130,000	309%

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APPENDIX III

SUMMARY OF LEGAL DOCUMENTS

APPENDIX III

SUMMARY OF LEGAL DOCUMENTS

TABLE OF CONTENTS

Page

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.

"Account" shall mean one of the accounts created pursuant to the Indenture.

"Act" shall mean the Pennsylvania Higher Educational Facilities Authority Act of December 6, 1967, P.L. 678 No. 318, 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.

"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 fund 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) money 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 money 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 _________ __, 2014, among the Authority, the State System and The Bank of New York Mellon Trust Company, N.A., as escrow agent.

"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-Eighth Supplemental Indenture.

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

"Insured Bonds" shall mean, collectively, the Series Z Bonds, the Series AA Bonds, the Series AC Bonds, the Series AE Bonds and the Series AF 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:

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

(b) 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;

(c) 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;

(d) 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;

(e) 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;

(f) 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;

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

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

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

(j) 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;

(k) 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

(l) shares or certificates in any short-term investment fund, which short-tern investment fund invests not less than 98% of its assets in obligations described in subparagraphs (a) through (k) 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-Eighth 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:

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

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

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

(2) Investment Securities as described in clauses (a), (b) and (d) 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 money (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

(3) any combination of (1) and (2) 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;

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

(d) 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.

"Refunded Bonds" shall mean collectively, the Series Z Bonds maturing after June 15, 2014 and the Series AA Bonds maturing after June 15, 2014.

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

"Series AA Bonds" shall mean the Authority's Revenue Bonds, State System of Higher Education, Series AA, issued under 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, consisting of its Revenue Bonds, State System of Higher Education, Series AO-1 Bonds and its Series AO-2 Bonds (Federally Taxable).

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

"Series AP Bonds Settlement Account" shall mean the special account so designated which is established and created pursuant to the Indenture.

"Series AP Project" shall mean the issuance of the Series AP 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-Eighth Supplemental Indenture" shall mean the Thirty-Eighth Supplemental Indenture of Trust dated as of May 1, 2014, between the Authority and the Trustee and under which the Series AP Bonds will be issued.

"Thirty-Eighth Supplemental Loan Agreement" shall mean the Thirty-Eighth Supplemental Loan and Security Agreement dated as of May 1, 2014, 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-Eighth 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 AP 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 money 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 money 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 money allocated to the State System in any particular account established in the Bond Proceeds Fund under the Indenture or the adequacy of other money 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 money allocated to the State System in the account established for the State System in the Bond Proceeds Fund and any other money 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 requirements of the Loan Agreement 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 use its best efforts to 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:

(a) 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

(b) 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

(c) 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 any Bonds, the interest on which is exempt from Federal income tax, to be subject to Federal income tax in the hands of the owners thereof; and

(d) 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 any Bonds, the interest on which is exempt from Federal income tax, to be subject to Federal income tax in the hands of the owners thereof; and

(e) 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; and

(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 ten (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 sixty (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 sixty-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 sixty-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 thirty (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 Insurer, including, among other things, the covenant of the State System to provide certain information to the Insurer. 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 Insurer relating to any payments made by the Insurer with respect to the Insured 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 shall 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 the Insurer and, if the Indenture must be amended with the Bondowners' consent, by the Bondowners' 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 Insurer under the Loan Agreement without the consent of the Insurer.

THE INDENTURE

The Series AP 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 AP Bonds as well as the Series Z Bonds, the Series AA Bonds, the Series AC Bonds, the Series AE Bonds, the Series AF 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 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 lndenture 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 AP Bonds

Upon the issuance and delivery of the Series AP Bonds, the Authority shall forthwith transfer the proceeds to the Trustee and the Trustee shall deposit the same in the Series AP Bonds Settlement Account of the Bond Proceeds Fund established under the Indenture and the Thirty-Eighth 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 AP Bonds, the Trustee shall make the following transfers or expenditures from the Series AP Bonds Settlement Account: (1) an amount sufficient to accomplish the current refunding of the Refunded Bonds, which amount shall be deposited and distributed in accordance with the Escrow Deposit Agreement, (2) payment of the costs of issuance of the Series AP Bonds, and (3) the balance remaining in the Series AP Bonds Settlement Account shall be transferred to an account of the Revenue Fund for application to the payment of interest on the Series AP Bonds 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 Z Bonds, the Series AA Bonds, the Series AC Bonds, the Series AE Bonds, the Series AF 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, Series AN Bonds, the Series AO Bonds and the Series AP 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. Money 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, and provided that each sinking fund account created for a particular series of Bonds shall be applied and held solely for the particular specified Bonds.

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 as provided in the Indenture. 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 money which shall be represented by obligations or certificates of deposit purchased as an investment of such money. 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

Money 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 in the Indenture, the State System shall give written directions to the Trustee to invest and reinvest the money 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 money 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 in the Indenture, Investment Securities purchased as an investment of money 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 in the Indenture, 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 money 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 money 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, the interest on which is exempt from Federal income tax, from the treatment afforded by subsection (a) of Section 103 of the Code; and has covenanted with respect to the Series AP 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 AP 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 a Responsible Officer of the Authority, shall be fully effective in accordance with its terms:

(a) 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

(b) 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

(c) 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

(d) 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

(e) 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

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

(g) 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 a Responsible Officer of the Authority, 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:

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

(b) 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

(c) 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:

> (a) 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
>
> (b) payment of any installment of interest on any of the Bonds shall not be made as the same shall become due; or
>
> (c) the Authority shall file a petition in bankruptcy or seek a composition of its indebtedness; or
>
> (d) an Event of Default (as defined in the Loan Agreement) under the Loan Agreement; or
>
> (e) 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 (a) through (c) above, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraphs (d) and (e) 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:

> (a) 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;
>
> (b) by bringing suit upon the Bonds;
>
> (c) 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;
>
> (d) 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
>
> (e) 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 (66⅔%) 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 Bondowners, 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 money available for such purpose, in any manner provided by law, the money 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 been 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 money 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 within the meaning of the Indenture 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 in-evocable instructions to publish notice or redemption on said date of such Bonds; (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide money which, together with the money, 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 money 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 include only such obligations as are described in clauses (a), (b) and (d) 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 (a) and (b) 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 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 Insurer

The Indenture contains a number of provisions required by the Insurer with respect to the Insured Bonds. Such provisions, among other things, grant the Insurer 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 with respect to the Insured Bonds.

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