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THE CITY UNIVERSITY OF NEW YORK

Basic Financial Statements, Management's Discussion and
Analysis, and Supplementary Schedule of
Expenditures of Federal Awards

Year ended June 30, 2014

(With Independent Auditors' Reports Thereon)

THE CITY UNIVERSITY OF NEW YORK

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Independent Auditors' Report

The Board of Trustees
The City University of New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of The City University of New York (the University), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University'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 U.S. generally accepted accounting principles; 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 opinions on these financial statements based on our audit. We did not audit the financial statements of 25 of the 74 discretely presented component units, which represent approximately 92%, 92% and 69%, respectively, of the assets, net position, 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 25 discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of The City University of New York as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

November 18, 2014

THE CITY UNIVERSITY OF NEW YORK

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
U.S. Department of Education:		
Student Financial Assistance Cluster:		
Federal Pell Grant Program (including administrative cost allowance of \$755,270)	84.063	\$ 572,079,791
Federal Direct Student Loans (note 4)	84.268	288,966,647
Federal Perkins Loans (note 4)	84.038	3,927,853
Federal Supplemental Educational Opportunity Grants (including administrative cost allowance of \$547,959) (note 3)	84.007	6,888,440
Federal Work-Study Program (including administrative cost allowance of \$577,607) (note 3)	84.033	5,358,711
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	<u>198,350</u>
Total Student Financial Assistance Cluster		877,419,792
U.S. Department of Agriculture:		
Passed through New York State, Department of Health:		
Child and Adult Care Food Program	10.558	186,653
U.S. Department of Homeland Security:		
Passed through New York State, Department of Homeland Security and Emergency Services:		
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	501,975
U.S. Department of Housing and Urban Development:		
Passed through City College 21st Century Foundation:		
Economic Development Initiative-Special Project Grant	14.251	<u>499,386</u>
Total expenditures of federal awards		<u>\$ 878,607,806</u>

See accompanying notes to schedule of expenditures of federal awards.

THE CITY UNIVERSITY OF NEW YORK

Notes to Schedule Expenditures of Federal Awards

Year ended June 30, 2014

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The City University of New York (the University) and has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal awards received by the University but administered by the Research Foundation of The City University of New York (RF-CUNY) are not included in the accompanying schedule of expenditures of federal awards because RF-CUNY files a separate report for the federal awards expenditures it administers on behalf of the University.

(2) Summary of Significant Accounting Policies for Federal Program Expenditures

(a) Student Financial Assistance

The student financial assistance cluster includes those awards that provide general student financial assistance. They include the Federal Pell Grant (Pell), Teacher Education Assistance for College and Higher Education Grants (TEACH), Federal Supplemental Educational Opportunity Grants (FSEOG), and Federal Work-Study (FWS) programs. The University also receives awards to make loans to eligible students under the Federal Perkins Loan Program. In addition, federally guaranteed loans are issued to students of the University under the Federal Direct Student Loan Program.

(b) Other Grant Expenditures

Expenditures for other federal awards are determined using the cost principles and procedures set forth in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under these principles, certain expenditures are not allowable or are limited as to reimbursement.

Expenditures consist of direct and indirect costs. Direct costs are those that can be specifically identified with a particular sponsored project. Indirect costs are the costs of services and resources that benefit sponsored projects as well as nonsponsored projects and activities.

The University and federal agencies use an indirect cost rate to charge facility and administrative costs to particular sponsored projects. The rate is the result of a number of cost allocation procedures that the University uses to allocate its facility and administrative costs to both sponsored and nonsponsored activities. The rate that the University uses to charge indirect costs to federally sponsored projects is subject to review and approval by the U.S. Department of Health and Human Services.

THE CITY UNIVERSITY OF NEW YORK

Notes to Schedule Expenditures of Federal Awards

Year ended June 30, 2014

(3) Institutional Share – FSEOG and FWS

Under the terms of the FSEOG program, the University was required to share 25% of the costs of grants to students. Similarly, under the terms of the FWS program, the University was required to share 25% of the costs of student wages earned. For the year ended June 30, 2014, the University met its cost-sharing requirements for FSEOG and FWS with unrestricted expenditures of \$1,975,361 and \$4,843,171, respectively.

(4) Federal Student Loan Programs

The University is responsible for certain aspects of the Federal Perkins and Nursing Student Loan programs. During the year ended June 30, 2014, the University did not make any loans under the Nursing Student Loan program. The University's basic financial statements include the programs' net position and transactions. The balances of loans outstanding under these programs at June 30, 2014 are presented below:

Student Loan Programs:	
Federal Perkins Loan Program (CFDA # 84.038)	\$ 49,336,856
Nursing Student Loan Program (CFDA # 93.364)	<u>260,304</u>
	<u>\$ 49,597,160</u>

With respect to the Federal Direct Student Loan Program, the University is only responsible for the performance of certain administrative duties; therefore, the net position and transactions for this program are not included in the University's basic financial statements, and it is not practicable to determine the balance of loans outstanding to students of the University under this program at June 30, 2014.

**Independent Auditors' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Trustees
The City University of New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of The City University of New York (the University) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 18, 2014. Our report includes a reference to other auditors who audited the financial statements of 25 of the 74 discretely presented component units, as described in our report on the University's financial statements. The financial statements of those 25 discretely presented component units were not audited in accordance with *Government Auditing Standards*.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters did not include the Research Foundation of The City University of New York, a blended component unit of The City University of New York. We have issued a separate report on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for this entity. The findings, if any, included in that report are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of University's internal control. Accordingly, we do not express an opinion on the effectiveness of University's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 18, 2014

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Trustees
The City University of New York:

Report on Compliance for Each Major Federal Program

We have audited The City University of New York's (the University) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's financial statements include the operations of the Research Foundation of The City University of New York, a blended component unit of the University, which received federal awards which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2014. Our audit, described below, did not include the operations of the Research Foundation of The City University of New York because we have issued a separate report in accordance with OMB Circular A-133 for this entity. The findings, if any, included in that report are not included herein.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

The University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected

to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of The City University of New York as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise The City University of New York's basic financial statements. We issued our report thereon dated November 18, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Date

THE CITY UNIVERSITY OF NEW YORK

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

(a) Unmodified opinions were issued on the financial statements of the business-type activities and the aggregate discretely presented component units of The City University of New York (the University) as of and for the year ended June 30, 2014, which collectively comprise the University's basic financial statements.

(b) Significant deficiencies in internal control disclosed by the audit of the financial statements of the University as of and for the year ended June 30, 2014: **None reported**

Material weaknesses: **No**

(c) The audit disclosed no instances of noncompliance which are material to the financial statements of the University as of and for the year ended June 30, 2014.

(d) Significant deficiencies in internal control disclosed over major federal programs: **2014-001**

Material weaknesses: **No**

(e) An unmodified opinion was issued on the University's compliance with its major federal programs for the year ended June 30, 2014.

(f) There was one audit finding (2014-001) which was required to be reported under Section 510(a) of OMB Circular A-133 for the year ended June 30, 2014.

(g) The University's major federal programs are:

- Student Financial Assistance Cluster (CFDA numbers 84.063, 84.268, 84.038, 84.007, 84.033 and 84.379)
- Economic Development Initiative – Special Project Grant (CFDA number 14.251)

(h) The dollar threshold used to distinguish between type A and type B programs was \$300,000 for the year ended June 30, 2014.

(i) The University qualified as a low-risk auditee under Section 530 of OMB Circular A-133 for the year ended June 30, 2014.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

No findings which are required to be reported.

THE CITY UNIVERSITY OF NEW YORK

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(3) Findings and Questioned Costs Relating to Federal Awards

Finding Number: 2014-001 – Enrollment Reporting

Federal Programs

U.S. Department of Education:

Student Financial Assistance Cluster:

Federal Direct Student Loans – CFDA number 84.268

Federal Pell Grant Program – CFDA number 84.063

Compliance Requirement

Special Tests and Conditions (Enrollment Reporting)

Criteria

Under the Pell grant and loan programs, institutions must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) (*OMB No. 1845-0002*) mailboxes sent by ED via National Student Loan Data System (NSLDS) (*OMB No. 1845-0035*). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every 2 months, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to FFEL Program loan holders by ED. Enrollment Reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence. As explained in the *NSLDS Enrollment Reporting Guide*, the Enrollment Reporting roster file is due within 30 days from the creation of the file that is placed in the institution's SAIG (Pell, 34 CFR section 690.83(b)(2); FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Condition and Effect

The Colleges submit enrollment information to NSLDS according to a schedule. For each submission, the College's student roster as of that date is sent to the National Student Clearinghouse who then submits the student roster to NSLDS.

We noted that changes in enrollment information for four students was not submitted within the required time frame by LaGuardia Community College and the School of Professional Studies. Enrollment changes not reported in a timely manner could impact the timeliness of the student's repayment status.

THE CITY UNIVERSITY OF NEW YORK

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Cause

The University uses the services of the National Student Clearinghouse (NSC) to report enrollment changes to NSLDS. NSC indicated that due to a system error, there was a delay in reporting to NSLDS.

Context

For four out of 119 students sampled who received a Direct Loan or Pell Grant and whose enrollment status had changed during the year, the change was not reported to NSLDS timely, and therefore, the student enrollment information was not accurate. For the changes that were not submitted within the required time frame, the delays in reporting to NSLDS were between 128 and 178 days.

Questioned Costs

There are no known questioned costs related to this finding.

Recommendation

We recommend that the colleges report all student enrollment changes timely to the NSC. Additionally, we recommend that the University implement procedures to ensure that the NSC is timely submitting the student roster changes to NSLDS by following up on submitted changes in a timely manner in order to limit the days past due.

View of Responsible Officials

Both LaGuardia Community College and the School of Professional Studies reported these student status changes timely to the National Student Clearinghouse (NSC), but according to the President of NSC, as stated in a letter to CUNY, NSC had computer systems problems that caused the late reporting to NSLDS. NSC took full responsibility for the problem and stated that they have taken steps to prevent recurrence of the problem. Although the large volume of data the units of the University are required to transmit to NSLDS necessitates our reliance on NSC as our servicer, the schools understand that it is their obligation to timely report student enrollment status changes to NSLDS and will continue to do everything reasonably possible to ensure that NSC meets their obligation to the University.