

**The William Paterson University of  
New Jersey**

(A Component Unit of the  
State of New Jersey)

Financial Statements and  
Supplementary Information and  
Single Audit Reports and Schedules

June 30, 2016 and 2015



**BAKER TILLY**

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# The William Paterson University of New Jersey

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(A Component Unit of the State of New Jersey)

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## **Independent Auditors' Report**

Board of Trustees  
The William Paterson University of New Jersey

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The William Paterson University of New Jersey, a component unit of the State of New Jersey, (the "University") and its discretely presented component unit as of and for the years ended June 30, 2016 and 2015, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the William Paterson University of New Jersey Foundation, Inc. (the "Foundation") which is a discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditor. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 audits and the report of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of The William Paterson University of New Jersey and its discretely presented component unit as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows for the years 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 4 through 17 and Schedule of the University's Proportionate Share of the Net Pension Liability and Schedule of University Contributions on pages 51 and 52 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*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedules of expenditures of federal and State of New Jersey awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of New Jersey, Department of Treasury, OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, respectively, are presented for purposes of additional analysis and are not a required part of the University's basic financial statements.

The schedules of expenditures of federal and State of New Jersey awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the University's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the University's 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 University's basic financial statements or to the University's 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 schedules of expenditures of federal and State of New Jersey awards are fairly stated, in all material respects, in relation to the University's basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016 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.

*Baker Tilly Virchow Krause, LLP*

Iselin, New Jersey  
November 28, 2016

# **The William Paterson University of New Jersey**

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(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2016 and 2015

## **Introduction**

The following management's discussion and analysis ("MD&A") provides a comprehensive overview of the financial position of William Paterson University of New Jersey (the "University") at June 30, 2016 and 2015, and its changes in financial position for the fiscal years then ended with selected comparative information for the year ended June 30, 2014. Since management's discussion and analysis is designed to focus on current activities, it should be read in conjunction with the University's basic financial statements and footnotes, which follow this section.

The basic financial statements consist of the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements focus on the financial condition of the University, the changes in financial position, and cash flows of the University as a whole.

The University adopted Governmental Accounting Standards Board ("GASB") Statement No. 68 and No. 71, both of which provided financial reporting guidance relating to pensions in fiscal year 2015. In 2016, GASB 72 was adopted, which provided fair value application guidance and related disclosures.

## **Financial Highlights**

The University's financial position remains strong with total assets of \$517.4 million, an increase of \$13.3 million from fiscal year 2015. Total liabilities were \$366.6 million as of June 30, 2016, an increase of \$31.6 million from fiscal year 2015, with a corresponding decrease in net position of \$7.8 million resulting in net position of \$159.5 million as of June 30, 2016. The unfavorable changes to liabilities and net position relate primarily to entries required under GASB 68 and 71 for the University's proportionate share of State pension liability and expense.

### **GASB Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"); and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date ("GASB 71") -**

These impactful accounting pronouncements were adopted during fiscal year 2015. GASB 68 requires participating employees of multi-employer cost sharing pension plans to report their proportionate share of net pension liability, pension expense, and the related deferred outflows and inflows of resources on their financial statements. The unfavorable impact of the GASB 68 is seen primarily in two sections of the University's financial statements: liabilities and unrestricted net position. The University is reporting \$155.8 million of net pension liability as of June 30, 2016, an increase of \$21.0 million from FY15. Although this liability is now reflected on the University's Statement of Net Position, the State of New Jersey asserts that these are reporting entries only and do not reflect the responsibility for future payment of these liabilities, which remains with the State. These sections of the current year financial statements are impacted:

- *Non-current liabilities:* Net pension liability increased \$21.0 million during fiscal year 2016
- *Deferred outflows and inflows of resources:* Cumulative balances of \$18.2 million and \$9.5 million, respectively as of June 30, 2016
- *Current year operating expense:* Fiscal year 2016 includes \$10.6 million for pension expense associated with State pension plans
- *Unrestricted net position:* The cumulative total of GASB 68 impact to unrestricted net position is (deficit) (\$147.2) million

# The William Paterson University of New Jersey

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Management's Discussion and Analysis

June 30, 2016 and 2015

The investment in capital assets portion of net position, \$205.4 million as of June 30, 2016, increased \$6.3 million from the prior year reflecting significant achievements in connection with the University's capital plan. University Hall was completed under-budget and nine months earlier than originally planned, opening for classes in January, 2016. The projects to renovate Hunziker Hall and Hunziker Wing began shortly after the opening of University Hall.

Other capital projects that were underway during fiscal years 2016 and 2015 include soccer field improvements, other athletic facility improvements (new football field bleachers, pool improvements, Rec Center roof and repairs), Shea Center renovations, Hobart Manor improvements, residence hall modernizations, and roadwork.

The final cost of University Hall was \$34.8 million, 75% of which was funded by grants provided through the State of New Jersey "Building our Future" Bonds. The Hunziker Hall and Hunziker Wing renovations are expected to cost \$30 million. The University was notified September 1, 2016 of a grant award in the amount of \$7.1 million to go towards the Hunziker renovations from the New Jersey Higher Education Capital Facilities Grant Program. New money included in the 2015C bond series of \$20.0 million will also be used to fund the Hunziker renovations, with the remaining \$2.9 million coming from Campus Facilities fees.

For fiscal year 2015, net position ended at \$167.3 million compared to \$290.8 million at June 30, 2014. The sharp reduction reflects the GASB 68 implementation-year impact of \$136.6 million to unrestricted net assets, offset by net revenues over expenses of \$7.2 million for fiscal year 2015. The investment in capital assets portion of net assets increased \$22.3 million, reflecting increased investment in capital projects for the Pioneer Parking Garage, University Hall, Shea Center renovations, and other deferred maintenance projects.

## Statements of Net Position

The Statements of Net Position present the University's financial position as of a certain date, reflecting current and noncurrent assets, deferred outflows of resources, current and noncurrent liabilities, deferred inflows of resources, and total net position reported under three separate classifications.

Assets and liabilities are generally measured using current values. However, capital assets are stated at historical cost less an allowance for depreciation. A summary of the University's assets, liabilities and net position (in thousands) at June 30, 2016, 2015 and 2014 follows:

### Statements of Net Position

	2016	2015	2014
Assets:			
Current assets	\$ 146,653	\$ 137,854	\$ 147,984
Noncurrent assets:			
Capital assets, net	370,431	365,877	347,796
Other	319	382	391
	<u>\$ 517,403</u>	<u>\$ 504,113</u>	<u>\$ 496,171</u>
Deferred outflows	<u>\$ 18,157</u>	<u>\$ 4,222</u>	<u>\$ -</u>

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Management's Discussion and Analysis

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Liabilities:			
Current liabilities	\$ 33,384	\$ 35,278	\$ 32,828
Noncurrent liabilities	<u>333,180</u>	<u>299,734</u>	<u>172,565</u>
Total liabilities	<u>\$ 366,564</u>	<u>\$ 335,012</u>	<u>\$ 205,393</u>
Deferred inflows	<u>\$ 9,514</u>	<u>\$ 6,010</u>	<u>\$ -</u>
Net position:			
Net investments in capital assets	\$ 205,371	\$ 199,084	\$ 176,802
Restricted for:			
Student loans	56	169	170
Debt service	7,400	6,575	6,811
Unrestricted	<u>(53,345)</u>	<u>(38,514)</u>	<u>106,995</u>
Total net position	<u>\$ 159,482</u>	<u>\$ 167,314</u>	<u>\$ 290,778</u>

## Assets

Current assets consist primarily of cash and cash equivalents, restricted deposits held by bond trustees, and accounts receivables. Noncurrent assets consist of capital assets and noncurrent portion of loans receivable. Current liabilities consist primarily of accounts payable and accrued expenses, deferred revenue and current portion of bonds payable and other long-term debt, while noncurrent liabilities consist primarily of bonds payable, net pension liability, and other long-term debt.

At June 30, 2016, the University had total assets of \$517.4 million, an increase of \$13.3 million from \$504.1 million at June 30, 2015. Primary components of the increase were higher capital assets (\$4.6 million) mainly due to completion of University Hall, and increased balance of restricted deposits held by bond trustees (\$15.9 million) for bond proceeds held in a construction cash account relating to the Hunziker Hall and Hunziker Wing renovations. These increases were offset by reduction of the year-end operating cash balance (\$3.0 million) and reduced grants receivable (\$5.0 million) due to the timing of grant receivables for University Hall.

At June 30, 2015, the University had total assets of \$504.1 million, an increase of \$7.9 million from \$496.2 million at June 30, 2014. Primary components of the increase were increased receivables related to State of New Jersey grant funding (\$4.0 million) and the increase in capital assets (\$18.1 million), mainly due to significant progress on University Hall. These increases were offset by reduction of the year-end cash balance (\$11.1 million), and lower balances in restricted deposits held by bond trustees (\$3.4 million).

# **The William Paterson University of New Jersey**

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(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2016 and 2015

## ***Deferred Outflows and Inflows of Resources***

As of June 30, 2016, the deferred outflows of resources and deferred inflows of resources were \$18.2 million and \$9.5 million, respectively. As of June 30, 2015, the deferred outflows of resources and deferred inflows of resources were \$4.2 million and \$6.0 million, respectively.

The deferred outflows and deferred inflows of resources reported in fiscal years 2016 and 2015 are specifically related to the new pension reporting rules under GASB 68 and 71. The University had no other deferred outflows or deferred inflows.

## ***Liabilities***

At June 30, 2016, the University had total liabilities of \$366.6 million, an increase of \$31.6 million from \$335.0 million at June 30, 2015. Decreases in accounts payable (\$1.7 million) and deferred revenue (\$1.1 million) were offset by increased bonds payable (\$12.9 million) and net pension liability (\$21.0 million). The bonds payable increase reflects new money borrowed (\$20.0 million) in the 2015C bond series, and pay-down of bond principal (\$7.1 million) via regularly scheduled debt service. Increase to the net pension liability directly reflects the University's proportionate share of increased State pension liability.

At June 30, 2015, the University had total liabilities of \$335.0 million, an increase of \$129.6 million from \$205.4 million at June 30, 2014. An overall reduction of liabilities (decreases in debt payable, \$7.2 million, and other liabilities, \$0.7 million, offset by increased accounts payable and accrued expenses of \$2.8) was offset by the addition of net pension liability of \$134.8 million in connection with GASB 68. Of the total net pension liability, \$131.5 million represents the cumulative effect of a change in accounting principle (prior years' accumulation of net pension liability).

## ***Net Position***

Net position reflects the residual interest in the University's assets and deferred outflows of resources after the deduction of its liabilities and deferred inflows of resources. Net position consists of three major categories: net investment in capital assets, expendable restricted net assets, and unrestricted net position.

*Net investment in capital assets* - Includes the University's capital assets (property, plant and equipment), net of accumulated depreciation, reduced by the outstanding balances of debt attributable to these assets.

*Expendable restricted net assets* - Assets available for expenditure by the University, but only in accordance with restrictions placed on their use by external entities.

*Unrestricted net position* - Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital or endowment purposes. These assets are available for any lawful purpose of the institution and include resources that may be designated for specific purposes as determined by management or the Board.

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2016 and 2015

## Components of Net Position

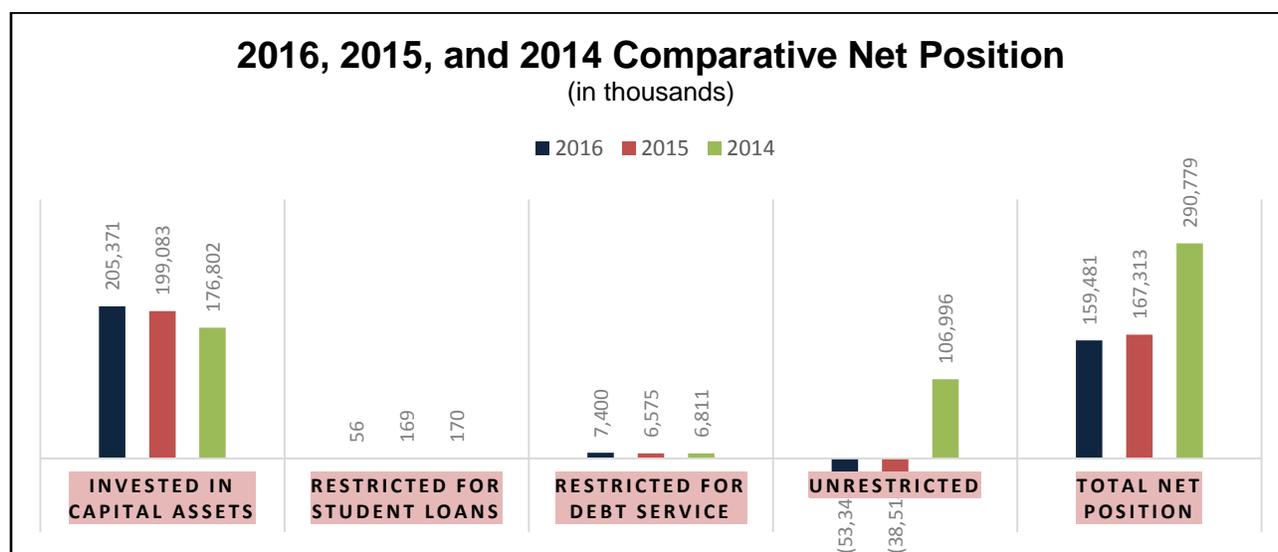
	2016	2015	2014
Invested in capital assets	\$ 205,370,812	\$ 199,083,493	\$ 176,802,354
Expendable restricted:			
Student loans	56,311	169,358	169,981
Debt service	7,400,000	6,575,025	6,810,659
	<u>7,456,311</u>	<u>6,744,383</u>	<u>6,980,640</u>
Unrestricted:			
University unrestricted	93,804,526	98,035,323	106,995,691
Proportionate share of NJ pension liability	(147,150,098)	(136,549,210)	-
	<u>(53,345,572)</u>	<u>(38,513,887)</u>	<u>106,995,691</u>
<b>Total net position</b>	<u><u>\$ 159,481,551</u></u>	<u><u>\$ 167,313,989</u></u>	<u><u>\$ 290,778,685</u></u>

Net position at June 30, 2016, 2015, and 2014 was \$159.5, \$167.3, and \$290.8 million, respectively. From fiscal year 2015 to 2016, net position decreased \$7.8 million and from fiscal year 2014 to 2015 it decreased \$123.5 million.

The FY16 overall decrease in net position of \$7.8 million, as reported in the Statement of Revenues, Expenses, and Changes in Net Position, consists of the positive financial results during fiscal year 2016 of \$2.8 million offset by \$10.6 million of current year GASB 68 expense.

The \$2.8 million financial results (net of GASB 68) during fiscal year 2016 reflects \$6.9 million capital grant revenue offset by a \$4.1 million deficit from combined operating and non-operating revenues and expenses.

During fiscal year 2015, net position increased \$13.1 million from the prior year (net of GASB 68), reflecting \$15.2 million of capital grant revenue offset by \$2.1 million deficit from combined operating and non-operating revenues and expenses. The GASB 68 impact reduced net position by \$5.1 million, reducing the overall increase to \$8.0 million.



# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2016 and 2015

## Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the fiscal year. Activities are classified as operating, non-operating, or capital grants and gifts. Revenues received and expenses incurred as a result of the university providing goods and services to its students and other constituencies are considered operating. Non-operating revenues are those received for which goods and services are not directly provided. The University's financial reporting model classifies state appropriations and gifts as non-operating revenues. The operating deficit demonstrates the University's dependency on state support, capital grants, and other non-operating revenues. Non-operating activity also includes investment income and expense.

A summary of the University's revenues, expenses, and changes in net position (in thousands) for the years ended June 30, 2016, 2015 and 2014 follows:

### Summary of Revenues, Expenses and Changes in Net Position

	2016	2015	2014
Operating revenues:			
Net student revenue	\$ 110,489	\$ 110,231	\$ 112,806
Other	41,213	40,445	40,381
Total operating revenues	151,702	150,676	153,187
Operating expenses	221,923	216,332	207,480
Operating loss	(70,221)	(65,656)	(54,293)
Nonoperating revenues (expenses):			
State appropriations	60,759	62,520	61,754
Other	2,427	2,824	2,996
Interest expense	(7,664)	(6,926)	(6,716)
Net total nonoperating revenues	55,522	58,418	58,034
Capital grants and gifts	6,867	15,214	2,999
Decrease (increase) in net position	(7,832)	7,976	6,740
Net position, beginning of year	167,314	290,779	284,039
Less: Effect of adoption of GASB No. 68	-	(131,441)	-
Net position, beginning of year as restated	-	159,338	-
Net position, end of year	\$ 159,482	\$ 167,314	\$ 290,779

# The William Paterson University of New Jersey

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Management's Discussion and Analysis

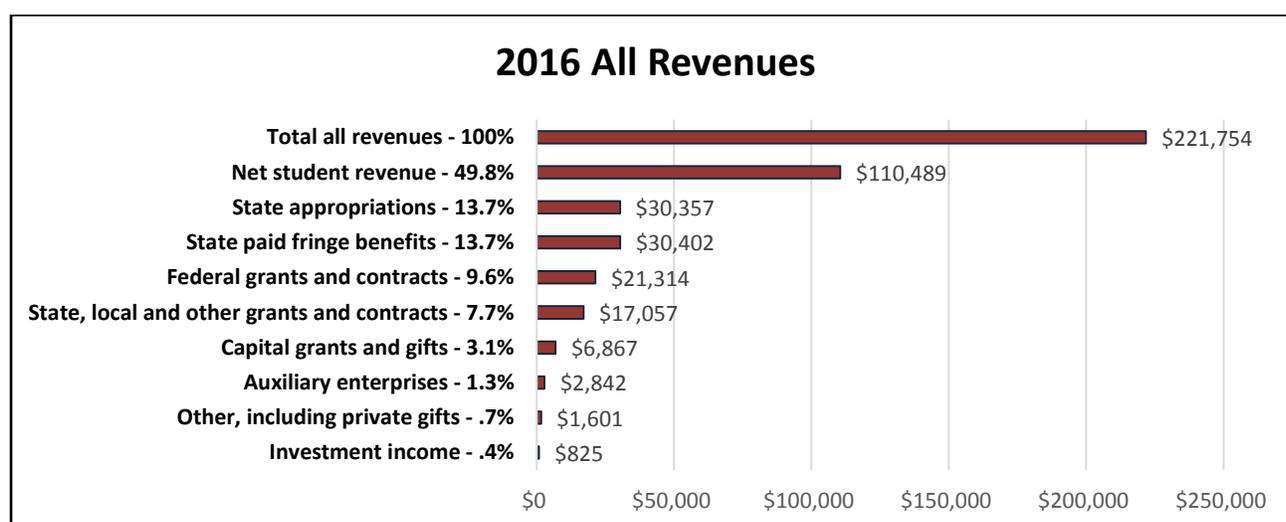
June 30, 2016 and 2015

## Revenues

Revenues are classified as operating, non-operating, or capital grants and gifts. A summary of the University's revenues (in thousands) for the years ended June 30, 2016, 2015 and 2014 follows:

### Operating, Non-operating, and Capital Revenues:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues:			
Net student revenue	\$ 110,489	\$ 110,231	\$ 112,806
Federal grants and contracts	21,314	21,801	22,178
State local and other grants and contracts	17,057	16,647	15,461
Auxiliary enterprises	<u>2,842</u>	<u>1,997</u>	<u>2,742</u>
Total operating revenues	151,702	150,676	153,187
Non-operating revenues:			
State appropriations	30,357	32,748	32,748
State paid fringe benefits	30,402	29,772	29,006
Investment income	825	822	879
Other, including private gifts	<u>1,601</u>	<u>2,002</u>	<u>2,117</u>
Total non-operating revenues	63,185	65,344	64,750
Capital grants and gifts	<u>6,867</u>	<u>15,214</u>	<u>3,000</u>
Total operating, non-operating, and capital revenues	<u>\$ 221,754</u>	<u>\$ 231,234</u>	<u>\$ 220,937</u>

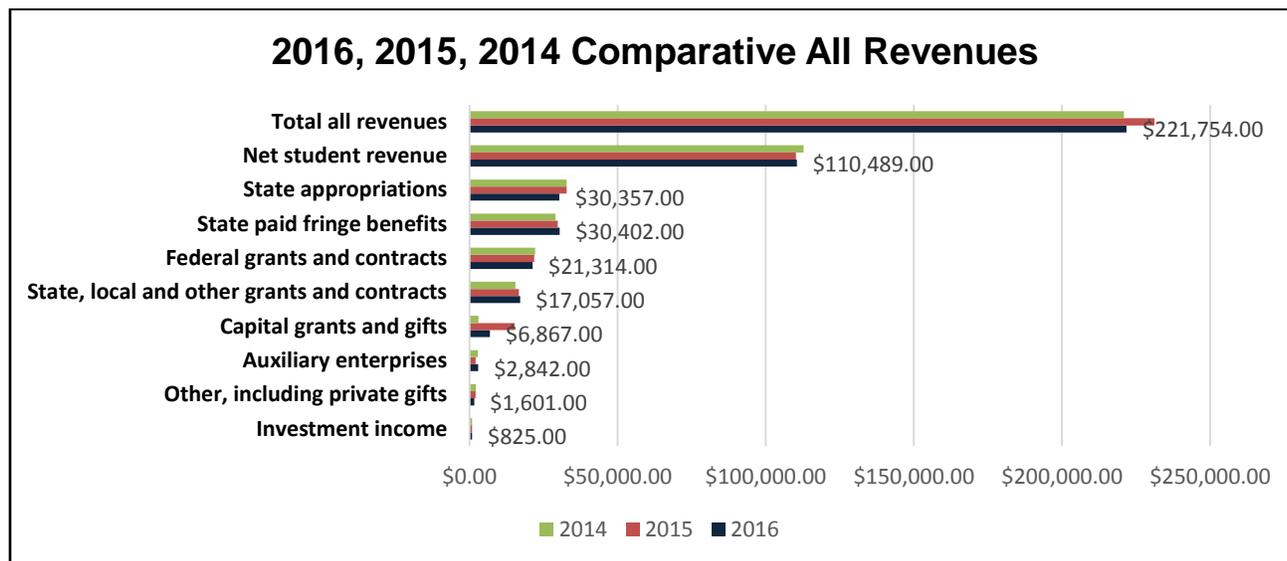


# The William Paterson University of New Jersey

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Management's Discussion and Analysis

June 30, 2016 and 2015



## Operating Revenues

Operating revenues consist of student revenues, government grants and contracts, and auxiliary enterprises.

Gross student tuition and fees were \$125.1 million, \$124.8 million and \$126.8 million for the years ended June 30, 2016, 2015, and 2014, respectively. This revenue was generated by the following number of students, resident students and meal plan participants:

### Student Enrollment:

#### Total Enrollment (FTE's):

	2016	2015	2014
Annualized Fall and Spring	8,218	8,296	8,520
Summer II (July-August 2015, 2014, 2013)	313	314	335
Summer I (May-June 2016, 2015, 2014)	348	354	373
Winter	88	90	89
<b>Total enrollment</b>	<b>8,967</b>	<b>9,054</b>	<b>9,317</b>
Residential students	1,993	2,105	2,105
Meal plan participants	1,911	1,965	1,965

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Net student revenue, comprised of tuition and fees and residence life less scholarship allowances, was \$110.5 million for the year ended June 30, 2016, an increase of \$0.3 million from fiscal year 2015 due to increased student related revenues (tuition, fees, room, board and meals) of \$1.2 million offset by increased student aid and scholarship allowance of \$0.9 million. For the year ended June 30, 2015, net student revenue was \$110.2 million, a decrease of \$2.6 million from fiscal year 2014 representing decreased student related revenues of \$2.8 million offset by parking garage revenue of \$0.2 million (a new revenue stream in fiscal year 2015).

Tuition and fees revenue, a component of net student revenue, was \$125.1 million in fiscal year 2016, \$0.3 million higher than fiscal year 2015. Tuition revenue in fiscal year 2015 was \$124.8 million and was \$2.0 million lower than fiscal year 2014.

Revenues from federal grants and contracts decreased \$0.5 million during fiscal year 2016 to \$21.3 million, while decreasing during fiscal year 2015 by \$0.4 million to \$21.8.

State, local and other grants and contracts increased for the year ended June 30, 2016 by \$0.4 million, reflecting increases in local school partnering arrangements. During fiscal year 2015, state, local and other grants and contracts increased by \$1.2 million, reflecting increases in multiple funding streams by the state of New Jersey.

Revenue from auxiliary enterprises consists of bookstore and vending machine commissions, revenue from athletic programs, facilities rentals, food service sales and other related revenue. Revenue from auxiliary enterprise activities was \$2.8 million for the year ended June 30, 2016, an increase of \$0.8 million from fiscal year 2015 reflecting increases in revenue from professional development-schools \$0.6 million, parking garage revenue \$0.1 million, and hospitality revenues \$0.2 million. For the fiscal year 2015, auxiliary enterprises revenue was \$2.0 million, down \$0.7 million from fiscal year 2014 reflecting a timing change in the recording of food service incentive commissions.

## ***Nonoperating Revenues***

The University's primary source of non-operating revenue is State of New Jersey appropriations for general operations and fringe benefits. The general operations appropriation decreased in fiscal year 2016 to \$30.4 million from \$32.7 million during fiscal years 2015 and 2014. The fringe benefits appropriation was \$30.4 million, \$29.8 million, and \$29.0 million for the years ended June 30, 2016, 2015, and 2014, respectively.

## ***Capital Grants and Gifts***

For the years ending June 30, 2016 and June 30, 2015, \$6.9 million and \$15.2 million, respectively, were received as capital grants under the State of New Jersey "Building our Future" bond issue for partial financing of University Hall.

## **Expenses**

Operating expenses are reported by functional classification in the Statements of Revenues, Expenses and Changes in Net Position. Total operating expenses for the year ended June 30, 2016 was \$221.9 million, an increase of \$5.6 million from fiscal year 2015. Operating expenses include GASB 68 pension expense of \$10.6 million in fiscal year 2016 and \$5.1 million in fiscal year 2015.

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The largest increase during fiscal year 2016 was due to the GASB 68 increase of \$5.5 million. Otherwise in personnel costs, salaries expense was \$1.1 million lower than 2015 and other benefits (non-GASB 68) were \$0.5 million higher than in 2015. During fiscal year 2016, there were increases in equipment expense (non-capitalized) of \$2.1 million and depreciation of \$1.0 million, offset by decreases in accounts receivable write-offs (\$1.2 million), grant expenses (\$.5 million), and utilities (\$.5 million).

Functionally, during fiscal year 2016 \$5.6 million increase in operating expenses is primarily associated with instruction (\$1.9 million), institutional support (\$1.1 million), operating and maintenance of plant (\$2.5 million), and depreciation (\$1.0 million); offset by smaller decreases in academic support, public service, student aid, and residence life and auxiliary enterprises.

Total operating expenses for the year ended June 30, 2015 was \$216.3 million, an increase of \$8.9 million from fiscal year 2014. Aside from the implementation-year GASB 68 cost \$5.1 million, the increase represents higher institutional support expenses (\$2.7 million), higher academic support (\$1.2 million), higher depreciation expense (\$0.6 million), higher residential life and auxiliary enterprises expenses (\$0.5 million) and other increases (\$0.6 million); offset by decreased expenses of \$1.8 million.

## Functional vs. Natural Classification of Expenses (without GASB 68)

Exclusive of the impact of GASB 68, the allocation of operating expenses to natural classifications has remained proportionately constant over the years ended June 30, 2016, 2015, and 2014, with salaries at 56-57%, fringe benefits at 15%, supplies and services at 22% and depreciation at 6%. In fiscal year 2016, salaries and fringe benefits (non-GASB 68 related) decreased \$0.6 million and in fiscal year 2015 increased \$3.3 million. The increase in fiscal year 2015 was primarily due to contractual obligations of negotiated arrangements.

Operating expenses are summarized below in functional and natural classifications.

### Operating Expenses

	2016		2015		2014	
<b>Functional Classification</b>						
Instruction	\$ 84,526	40.0 %	\$ 83,977	39.8 %	\$ 84,304	40.6 %
Research	705	0.3	533	0.3	254	0.1
Academic support	17,060	8.1	17,895	8.5	16,668	8.1
Public service	1,309	0.6	1,564	0.7	1,327	0.6
Student services	18,725	8.9	18,816	8.9	18,685	9.0
Institutional support	31,420	14.9	32,383	15.3	29,731	14.3
Operation and maintenance of plant	17,999	8.5	16,444	7.8	16,880	8.1
Student aid	7,467	3.5	8,131	3.8	9,232	4.5
Residence life and auxiliary	18,386	8.7	18,756	8.9	18,282	8.8
Depreciation	13,726	6.5	12,725	6.0	12,117	5.9
Total operating expenses	211,323	<u>100.0 %</u>	211,224	<u>100.0 %</u>	\$ 207,480	<u>100.0 %</u>
GASB 68 impact	10,600		5,108			
	<u>\$ 221,923</u>		<u>\$ 216,332</u>			

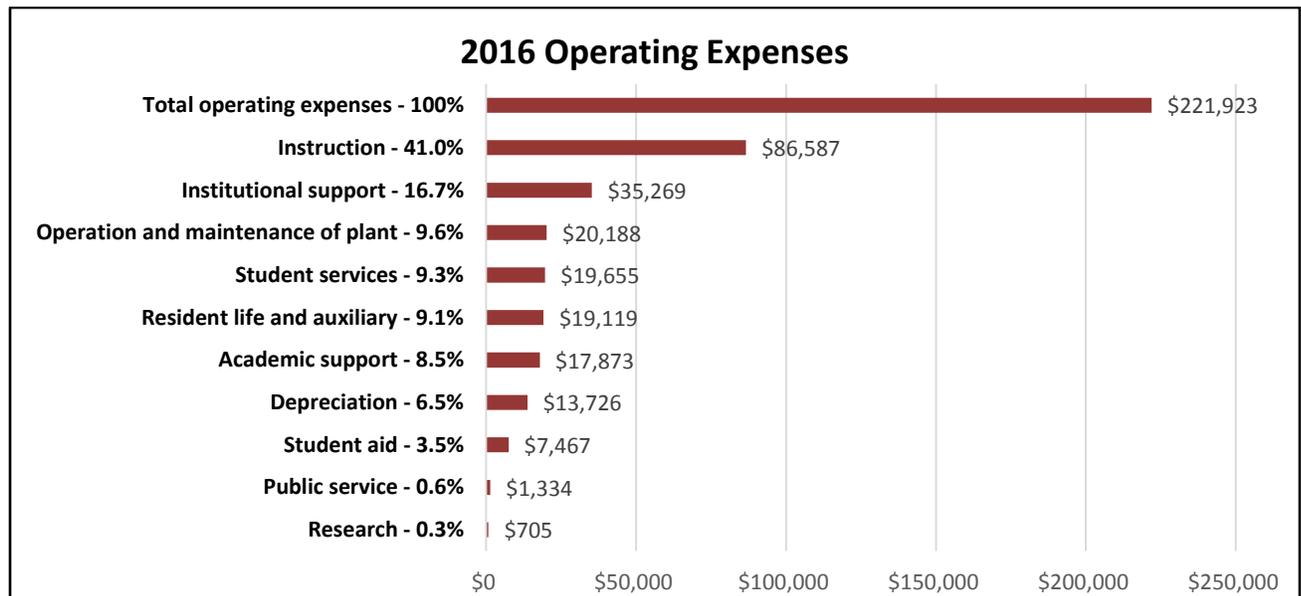
# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2016 and 2015

	2016		2015		2014	
<b>Natural Classification</b>						
Salaries and wages	\$ 118,564	56.1 %	\$ 119,706	56.7 %	\$ 116,876	56.3 %
Fringe benefits	32,747	15.5	32,205	15.2	31,679	15.3
Supplies and services	46,286	21.9	46,588	22.1	46,808	22.6
Depreciation	13,726	6.5	12,725	6.0	12,117	5.8
Total operating expenses	211,323	<u>100.0 %</u>	211,224	<u>100.0 %</u>	\$ 207,480	<u>100.0 %</u>
GASB 68 impact	10,600		5,108			
	<u>\$ 221,923</u>		<u>\$ 216,332</u>			

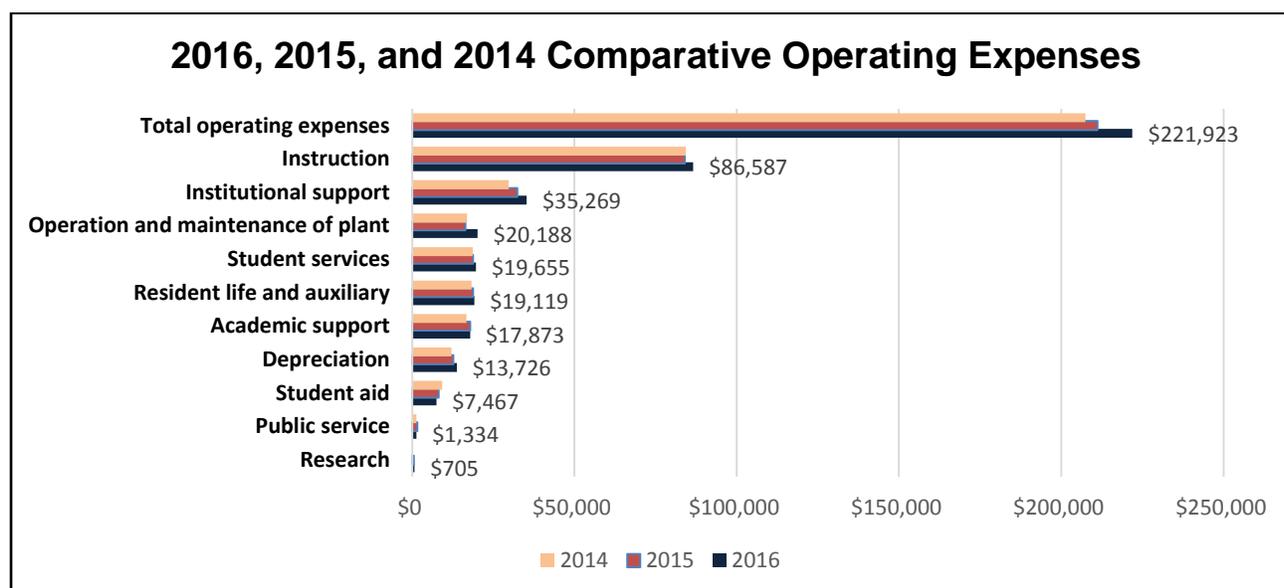


# The William Paterson University of New Jersey

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Management's Discussion and Analysis

June 30, 2016 and 2015



## Non-operating Expense

Non-operating expense consists of interest on capital asset-related debt of \$7.7 million, \$6.9 million, and \$6.7 million for the years ended June 30, 2016, 2015 and 2014, respectively. The \$0.8 million increase in fiscal year 2016 reflects issuance of the 2015C bond series which included \$20 million of new money borrowed for the Hunziker renovations.

## Capital Assets and Debt Activities

At June 30, 2016, the University's investment in capital assets was \$370.4 million, net of accumulated depreciation of \$192.0 million. Debt related to these capitalized assets was \$181.6 million. During the year then ended, the University had total capital additions of \$18.3 million, mainly for completion of University Hall, but also including multiple deferred maintenance projects.

At June 30, 2015, the University's investment in capital assets was \$365.9 million, net of accumulated depreciation of \$178.3 million. Debt related to these capitalized assets was \$168.5 million. During the year then ended, the University had total capital additions of \$30.8 million, including completion of the parking garage, significant progress on the new academic building, the Shea Center renovation, improvements to Hobart Manor, and other capital projects. The University also continued to upgrade its academic and administrative equipment.

The University issued two new bond series within a one-year period, during and just subsequent to FY16. On August 18, 2015, the University issued Series 2015C New Jersey Educational Facilities Authority Revenue Bonds for par value of \$45,695,000. The issue refunded all of the University's 2005E principal balance and provided \$20 million of new money for use towards Hunziker Hall and Hunziker Wing renovations. On July 27, 2016, Series 2016E was issued for a par value of \$60,755,000, partially refunding remaining principal on the 2008C bonds.

During July of 2016, in connection with the Series 2016E issuance, both Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") issued new credit ratings for the University. Moody's affirmed the rating of A2 with negative outlook. Fitch affirmed the University's A+ rating with the outlook revised to negative.

# The William Paterson University of New Jersey

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In June of 2015, just prior to the Series 2015C issuance, Moody's downgraded the University's credit rating to A2 with a negative outlook. This occurred at the same time as the review and downgrade of the other New Jersey State Universities and in connection with the State of New Jersey's review and downgrade that had just taken place. Fitch followed suit in July of 2015 with a downgrade to A+ and outlook stable.

Planning for capital projects in response to new priorities or unanticipated needs is evaluated against the current Facilities Master Plan, which was approved by the Board of Trustees in 2003. As mandated by State statute, the University submits its updated Annual Capital Improvement Program Request. As part of the submission, the Facilities Master Plan is updated to reflect cost escalation, add new deferred maintenance projects and report completed deferred maintenance projects. To keep the Master Plan current, several mini-master plans have been completed. In 2005 an athletic zone plan was developed with a number of major improvements executed over several years. In 2012, the University commissioned a core academic zone master plan concentrated on the six academic buildings in the heart of the campus. The plan, accepted by the University's Board of Trustees in spring 2012, provides the road map to upgrade and/or replace the six original classroom buildings on the campus. The plan provided a foundation for submission of capital project funding applications to the State, resulting in the \$30.0 million grant awarded to WPUNJ for University Hall as well as a \$7.1 million grant awarded for the Hunziker building renovations. In 2014, a residential zone plan was completed and as a result the University is preparing to move forward with a new housing and renovation project to upgrade its residence halls. The University will continue to supplement funding for its capital and deferred maintenance projects with its own funds.

A summary of the University's capital assets (in thousands) at June 30, 2016, 2015 and 2014 follows:

## Capital Assets

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 7,256	\$ 7,256	\$ 7,256
Construction in progress	9,755	28,099	33,718
Infrastructure	18,837	18,338	16,058
Buildings and improvements	479,971	447,614	415,254
Equipment	45,931	42,252	40,694
Artwork	659	570	354
	<hr/>	<hr/>	<hr/>
Total	562,409	544,129	513,334
	<hr/>	<hr/>	<hr/>
Less accumulated depreciation	191,978	178,252	165,538
	<hr/>	<hr/>	<hr/>
Total capital assets, net	<u>\$ 370,431</u>	<u>\$ 365,877</u>	<u>\$ 347,796</u>

# **The William Paterson University of New Jersey**

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(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2016 and 2015

## **Economic Factors that Could Affect the Future**

The University has demonstrated sound, conservative fiscal management as evidenced by the consistent and significant increase of net position over a long term period. Leveling off of enrollment and dependency on State funding are challenges that the University has so far overcome with prudent management and more recently an actively managed strategic plan. The depth of net position reserve provides financial security and flexibility to respond to the business requirements associated with business development and transition.

The State's colleges and universities play a pivotal role in establishing New Jersey as a leader in human, economic and technological development. The financial condition of The William Paterson University of New Jersey is tied to that of the State of New Jersey. A crucial element to the University's future will be the level of appropriations, as there is a direct relationship between the level of State support and the University's ability to control tuition costs. State appropriations received in the year ended June 30, 2016 were \$30.4 million, a decrease of 7.3% from recent prior years. The fiscal year 2015 appropriation of \$32.7 million was approximately the same amount as received in the year ended June 30, 1995 (and fiscal years since then) aside from contractually obligated and state paid fringe benefits which are tied directly to negotiated arrangements. With an expectation of less reliance on state support while understanding its public role in serving the state, the University's goal is to increase student recruitment, enrollment and retention, and diversify its revenues. Mindful of the difficult economic times in the state and the nation, the University carefully monitors its expenditures and has positioned itself so that future tuition and fee increases can be limited while still investing in additional academic and student support resources to handle the growth in enrollment. Annual tuition and fee charges were increased only 2% or less for each of the past five years.

As noted previously, the University adopted a strategic plan in 2012. This plan helps identify the academic programs for growth in enrollment and academic reputation, helps identify student support services to improve student academic profile, retention and graduation rates, and helps identify diversified revenue sources. The University has commenced an implementation plan to attain the goals of the strategic plan and has allocated since 2011 about \$6.4 million for strategic initiatives put forward through a bottoms-up transparent budget process.

The University continues to monitor its financial health with the Board of Trustees' adoption of dashboard indicators, including ratios developed for rating agency analysis of colleges and universities. Other assessment tools such as national surveys are utilized to ensure its delivery of student academic and support services at high level of quality.

While the State has provided relatively stable direct state appropriations for the past three years, the University continues to operate with a lack of sufficient state support. It continues to meet the goals of its mission statement by reviewing opportunities for revenue growth or cost reductions. The University has increased revenue from noncredit courses and external grant funding and from its off-campus program at Mercer County College. The William Paterson University of New Jersey Foundation continues to expand its fund raising efforts as a means to supplement revenue from tuition and state support. The University has expanded and improved its capital facilities to meet growing needs and maintain current standards, while continuing to monitor the increasing operating costs and the increasing demand for institutional scholarships.

Questions concerning any of the information contained in this report or request for additional information should be addressed to William Paterson University Office of the Vice President for Administration and Finance, 300 Pompton Road, Wayne, New Jersey 07470.

**The William Paterson University of New Jersey**

(A Component Unit of the State of New Jersey)

The William Paterson University of New Jersey

Statement of Net Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets and Deferred Outflow of Resources</b>		
Current assets:		
Cash and cash equivalents	\$ 105,410,987	\$ 108,444,714
Restricted deposits held by bond trustees	27,606,526	11,747,702
Receivables:		
Students, less allowance for doubtful accounts of \$1,991,501 in 2016 and \$1,648,000 in 2015	8,212,277	7,626,957
Loans, less allowance for doubtful loans of \$163,600 in 2016 and 2015	948,344	779,036
State of New Jersey	1,122,801	1,093,037
Gifts, grants, and contracts	2,376,617	7,348,550
Other receivables	808,442	814,257
Total receivables	13,468,481	17,661,837
Prepaid expenses	167,317	-
Total current assets	146,653,311	137,854,253
Noncurrent assets:		
Loans, less allowance for doubtful loans of \$57,400 in 2016 and 2015	318,865	382,676
Capital assets, net	370,431,029	365,876,746
Total noncurrent assets	370,749,894	366,259,422
Total assets	517,403,205	504,113,675
Deferred outflow of resources - pension	18,156,707	4,222,497
Total assets and deferred outflow of resources	<u>\$ 535,559,912</u>	<u>\$ 508,336,172</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	17,762,029	19,474,713
Compensated absences	2,939,592	2,825,191
Bonds payable	7,400,000	6,575,000
Other long-term debt	608,686	651,046
Unearned revenue	4,673,542	5,751,823
Total current liabilities	33,383,849	35,277,773
Noncurrent liabilities:		
Bonds payable	170,087,187	157,158,594
Other long-term debt	3,539,448	4,148,134
Compensated absences	2,299,837	2,285,747
U.S. government grants refundable	1,461,235	1,380,228
Net pension liability	155,792,568	134,761,269
Total noncurrent liabilities	333,180,275	299,733,972
Total liabilities	366,564,124	335,011,745
Deferred inflow of resources - pension	9,514,237	6,010,438
<b>Net Position</b>		
Net investment in capital assets	205,370,812	199,083,493
Restricted for:		
Student loans	56,311	169,358
Debt service reserves	7,400,000	6,575,025
Unrestricted	(53,345,572)	(38,513,887)
Total net position	<u>\$ 159,481,551</u>	<u>\$ 167,313,989</u>

See notes to financial statements

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

The William Paterson University of New Jersey

Statement of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Student revenues:		
Student tuition and fees	\$ 125,126,897	\$ 124,833,706
Residence life	20,952,687	20,354,918
Less scholarship allowances	<u>(35,590,926)</u>	<u>(34,958,178)</u>
Net student revenues	110,488,658	110,230,446
Federal grants and contracts	21,313,898	21,800,791
State, local, and other grants and contracts	17,056,855	16,647,077
Auxiliary enterprises	<u>2,842,619</u>	<u>1,997,268</u>
Total operating revenues	<u>151,702,030</u>	<u>150,675,582</u>
<b>Operating Expenses</b>		
Instruction	86,587,026	84,682,086
Research	704,930	533,035
Academic support	17,873,044	18,353,031
Public service	1,334,239	1,574,301
Student services	19,654,897	19,262,188
Institutional support	35,269,604	34,201,023
Operating and maintenance of plant	20,187,876	17,682,973
Student aid	7,466,760	8,130,579
Residence life and auxiliary enterprises	19,119,056	19,187,737
Depreciation	<u>13,726,022</u>	<u>12,724,810</u>
Total operating expenses	<u>221,923,454</u>	<u>216,331,763</u>
Net operating loss	<u>(70,221,424)</u>	<u>(65,656,181)</u>
<b>Nonoperating Revenues (Expenses)</b>		
State of New Jersey appropriations	30,357,000	32,748,000
State of New Jersey paid fringe benefits	30,402,005	29,772,405
Private gifts	1,053,869	1,028,585
Investment income	825,557	822,181
Interest on capital asset-related debt	(7,663,571)	(6,925,828)
Other nonoperating revenues, net	<u>546,826</u>	<u>973,454</u>
Net nonoperating revenues	<u>55,521,686</u>	<u>58,418,797</u>
Loss before other revenues	(14,699,738)	(7,237,384)
<b>Other Revenues</b>		
Capital grants and gifts	<u>6,867,300</u>	<u>15,213,676</u>
(Decrease) increase in net position	(7,832,438)	7,976,292
<b>Net Position, Beginning of Year</b>	<u>167,313,989</u>	<u>159,337,697</u>
<b>Net Position, End of Year</b>	<u>\$ 159,481,551</u>	<u>\$ 167,313,989</u>

See notes to financial statements

**The William Paterson University of New Jersey**

(A Component Unit of the State of New Jersey)

The William Paterson University of New Jersey

Statement of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 87,630,669	\$ 88,138,640
Federal, state, and local grants and contracts	45,890,425	37,091,701
Payments to suppliers	(40,839,772)	(35,845,682)
Payments to employees	(117,931,655)	(120,005,771)
Payments for employee benefits	(16,075,251)	(15,742,936)
Payments for student aid	(7,270,250)	(8,276,496)
Residence life	20,952,687	20,354,918
Auxiliary enterprise	2,842,618	1,997,268
	<u>(24,800,529)</u>	<u>(32,288,358)</u>
Net cash used in operating activities		
<b>Cash Flows from Noncapital Financing Activities</b>		
Private gifts	1,062,169	1,030,050
State of New Jersey appropriations	43,899,596	47,188,736
Other receipts	546,826	973,454
	<u>45,508,591</u>	<u>49,192,240</u>
Net cash provided by noncapital financing activities		
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(18,663,486)	(30,547,712)
Capital appropriations, grants and gifts received	4,319,561	12,665,936
Principal payments on asset related capital debt	(4,479,187)	(7,162,090)
Interest payments on capital asset-related debt	(7,467,145)	(7,183,193)
Increase in restricted deposits held by bond trustees	(34,916,982)	(13,588,699)
Decrease in restricted deposits held by bond trustees	19,058,159	17,007,342
Proceeds from issuance of capital asset related debt	17,581,734	-
	<u>(24,567,346)</u>	<u>(28,808,416)</u>
Net cash used in capital and related financing activities		
<b>Cash Flows Provided by Investing Activities</b>		
Interest received	825,557	822,181
	<u>(3,033,727)</u>	<u>(11,082,353)</u>
Net decrease in cash and cash equivalents		
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>108,444,714</u>	<u>119,527,067</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 105,410,987</u>	<u>\$ 108,444,714</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (70,221,424)	\$ (65,656,181)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for doubtful accounts	(16,631)	(326,844)
State appropriations for fringe benefits	16,671,547	16,462,242
Depreciation expense	13,726,022	12,724,810
Changes in assets, deferred outflow of resources, liabilities and deferred inflow of resources:		
Receivables	6,674,707	(1,819,906)
Deferred outflow of resources - pension	(13,934,210)	(4,222,497)
Accounts payable and accrued expenses	(1,285,848)	2,002,058
Compensated absences	128,491	(571,639)
Unearned revenue	(1,078,281)	(211,120)
Net pension liability	21,031,299	3,320,281
Deferred inflow of resources - pension	3,503,799	6,010,438
	<u>\$ (24,800,529)</u>	<u>\$ (32,288,358)</u>
Net cash used in operating activities		
<b>Supplemental Disclosure of Noncash Financing Activities</b>		
Purchases of property and equipment in accounts payable	<u>\$ 2,874,844</u>	<u>\$ 3,444,309</u>
Debt issue cost	<u>\$ 293,392</u>	<u>\$ -</u>
Payment for current refunding	<u>\$ 29,360,927</u>	<u>\$ -</u>

See notes to financial statements

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

William Paterson University of New Jersey Foundation, Inc.

Statement of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,941,457	\$ 4,114,687
Investments	16,530,909	16,932,111
Promises to give, net	2,499,547	2,184,714
Interest receivable	38,863	60,873
Prepaid expenses and other assets	<u>1,255</u>	<u>1,985</u>
Total assets	<u>\$ 23,012,031</u>	<u>\$ 23,294,370</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 197,555	\$ 21,888
Accrued expenses	13,275	13,000
Grants payable	31,737	91,095
Annuities payable	289,631	344,258
Deferred revenue	18,325	14,100
Refundable advances	<u>350,000</u>	<u>350,000</u>
Total liabilities	<u>900,523</u>	<u>834,341</u>
<b>Net Assets</b>		
Unrestricted	3,392,230	3,937,085
Temporarily restricted	9,123,229	9,570,282
Permanently restricted	<u>9,596,049</u>	<u>8,952,662</u>
Total net assets	<u>22,111,508</u>	<u>22,460,029</u>
Total liabilities and net assets	<u>\$ 23,012,031</u>	<u>\$ 23,294,370</u>

See notes to financial statements

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

William Paterson University of New Jersey Foundation, Inc.

Statement of Activities

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Changes in Unrestricted Net Assets</b>		
Support:		
Scholarship	\$ 6,510	\$ 3,746
Fund-raising	158,565	156,769
Campus activities	107,424	289,710
Development	1,348,151	1,257,177
Capital campaigns	1,350	1,530
Investment activities	(471,856)	167,616
Net assets released from restrictions	<u>2,088,106</u>	<u>1,771,998</u>
Total support	<u>3,238,250</u>	<u>3,648,546</u>
Grants and Expenses:		
Scholarships/grants	1,065,904	683,634
Fund-raising	115,438	131,881
Campus activities	1,184,296	1,353,777
Development	1,401,793	1,270,400
Community activities	13,836	16,365
Capital campaigns	<u>1,838</u>	<u>23,626</u>
Total expenses and other deductions	<u>3,783,105</u>	<u>3,479,683</u>
Change in unrestricted net assets	<u>(544,855)</u>	<u>168,863</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Scholarship	565,533	1,365,452
Fund-raising	257,687	260,090
Campus activities	778,712	862,377
Development	-	14,363
Community activities	19,200	25,190
Capital campaigns	1,570	8,655
Investment activities	18,351	504,327
Net assets released from restrictions	<u>(2,088,106)</u>	<u>(1,771,998)</u>
Change in temporarily restricted net assets	<u>(447,053)</u>	<u>1,268,456</u>
<b>Change in Permanently Restricted Net Assets</b>		
Scholarship	<u>643,387</u>	<u>357,852</u>
(Decrease) increase in net assets	(348,521)	1,795,171
<b>Net Assets, Beginning</b>	<u>22,460,029</u>	<u>20,664,858</u>
<b>Net Assets, Ending</b>	<u>\$ 22,111,508</u>	<u>\$ 22,460,029</u>

See notes to financial statements

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

William Paterson University of New Jersey Foundation, Inc.

Statement of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (348,521)	\$ 1,795,171
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Realized loss (gain) on sale of investments	23,891	(872,478)
Unrealized loss on investments	768,297	459,415
Bad debts expense	-	70,000
Change in operating assets and liabilities:		
Promises to give	(314,833)	(608,420)
Interest receivable	22,010	(12,937)
Prepaid expenses and other assets	730	3,860
Accounts payable	175,667	(195,128)
Accrued expenses	275	400
Grants payable	(59,358)	81,189
Annuities payable	(54,627)	(3,664)
Deferred revenue	4,225	8,200
	<u>217,756</u>	<u>725,608</u>
Net cash provided by operating activities	<u>217,756</u>	<u>725,608</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(4,058,018)	(6,840,482)
Proceeds from disposition of investments	<u>3,667,032</u>	<u>5,623,365</u>
	<u>(390,986)</u>	<u>(1,217,117)</u>
Net cash used in investing activities	<u>(390,986)</u>	<u>(1,217,117)</u>
Net decrease in cash and cash equivalents	(173,230)	(491,509)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>4,114,687</u>	<u>4,606,196</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,941,457</u>	<u>\$ 4,114,687</u>

See notes to financial statements

# **The William Paterson University of New Jersey**

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(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

## **1. Nature of Operations**

### **Organization**

The William Paterson University of New Jersey (the "University") is a comprehensive public, coeducational institution of higher education located in the Township of Wayne and Boroughs of Haledon and North Haledon, Passaic County, New Jersey. The University was founded in 1855 as the Paterson Normal School and was granted University status in June 1997. The University offers 51 undergraduate, 24 masters, two doctoral and three post baccalaureate certificate programs in five colleges: Arts and Communication; Business; Education; Humanities and Social Sciences; and Science and Health. For the fall semester of the 2015 - 2016 and 2014 - 2015 academic years, approximately 9,400 and 9,600, respectively, part time and full time undergraduate students, and approximately 1,500 and 1,400, respectively, part time and full time graduate students attended the University. The University's mission includes maintaining a tradition of leadership in general education and multiculturalism, and a commitment to promoting student success, academic excellence, diversity, and community outreach with opportunities for lifelong learning.

The University is recognized as a public institution by the State of New Jersey (the "State"). Under the law, the University is an instrumentality of the State with a high degree of autonomy. State of New Jersey appropriations are the University's largest sources of nonoperating revenue. The University is economically dependent on these appropriations to carry on its operations. The University is considered a component unit of the State for financial reporting purposes. Accordingly, the University's financial statements are included in the State's Comprehensive Annual Financial Report.

### **Reporting Entity**

The operations of William Paterson University of New Jersey Foundation, Inc. (the "Foundation") are included in the accompanying basic financial statements as a discretely presented component unit.

The University has determined the Foundation should be included in the University's financial statements as a discretely presented component unit. A component unit is a legally separate organization for which the University is financially accountable or closely related.

The Foundation is a legally separate corporation with an independent board of trustees and acts primarily as a fund raising entity to provide additional funding to support the educational goals of the University. The Foundation has received a determination letter from the Internal Revenue Service that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC").

Since the economic resources received or held by the Foundation are entirely or almost entirely for the direct benefit of the University or its constituents, and the University is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the Foundation and the economic resources are significant to the University, the Foundation is therefore discretely presented in the University's basic financial statements.

# The William Paterson University of New Jersey

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(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

As of June 30, 2016 and 2015, the University has a receivable of \$219,992 and \$191,976, respectively, from the Foundation. For the years ended June 30, 2016 and 2015, the University recognized revenue of \$2,291,108 and \$2,138,347, respectively, as Foundation gifts and grants. A copy of the financial statements of the Foundation can be obtained from the Office of Institutional Advancement, 300 Pompton Road, Wayne, New Jersey 07474.

The Foundation is a private not-for-profit organization that reports under Financial Accounting Standards Board Accounting Standards Codification. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The University classifies for accounting and reporting purposes into the following net position categories:

- *Net investment in capital assets:* Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted:* Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to the stipulations or that expire by the passage of time.
- *Unrestricted:* Net position not subject to externally imposed stipulations that may be designated for specific purposes by action of management or the Board of Trustees. Substantially all unrestricted net position is designated for academic and other programs and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

### Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. The University reports as a business type activity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

### 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 and disclosure 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.

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

## Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short term investments deposited in the State of New Jersey Cash Management Fund (the "Fund") which has an average maturity of less than 90 days.

## Restricted Deposits Held by Bond Trustees

Restricted deposits held by bond trustees are recorded in the financial statements at fair value, which is based on quoted market price and consist of money market accounts, U.S. Treasury obligations, and government issues.

## Receivables

Student receivables consist of tuition and fees charged to current and former students. State of New Jersey receivables and gifts, grants, and contracts receivables are amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants and contracts and other miscellaneous sources. Loans receivable consist of funds loaned to students under federal loan programs.

Receivables are reported at net realizable value. Receivables 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 University's historical losses and periodic review of individual accounts.

## Capital Assets

Capital assets are recorded at historical cost. Donated capital assets are recorded at fair value at the date of donation. Capital assets, with the exception of land, artwork and construction in progress, are depreciated on the straight line method over their estimated useful lives as follows:

	<u>Useful Lives</u>
Infrastructure	25 to 50 years
Building and improvements	15 to 45 years
Equipment	5 to 10 years

In accordance with the University's capitalization policy, only those items with a cost of more than \$5,000 (excluding computer hardware which has a threshold of \$1,000) are capitalized. Net interest costs on debt related to construction in progress are capitalized.

## Revenue Recognition

Revenues from student tuition and fees and residence life are presented net of scholarships applied to student accounts and are recognized in the period earned. Other payments made directly to students are presented as student aid and are included in operating expenses in the period incurred. Student tuition and fees and deposits collected in advance of the fiscal year are recorded as unearned revenue in the accompanying financial statements, and totaled \$3,866,988 at June 30, 2016 and \$3,504,851 at June 30, 2015.

# **The William Paterson University of New Jersey**

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(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

Grants and contracts revenue is comprised mainly of funds received from grants from the Federal government, State of New Jersey and local sources and is recognized upon meeting the eligibility requirements for recognition which is generally as the related expenses are incurred. Amounts received from grants which have not yet been earned under the terms of the agreements are included in deferred revenue in the accompanying financial statements and totaled \$806,554 at June 30, 2016 and \$2,246,973 at June 30, 2015.

Revenue from State of New Jersey appropriations is recognized in the fiscal year during which the State of New Jersey appropriates the funds to the University.

## **Scholarship Allowances**

Student tuition and fees and residence life revenues are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for tuition and services provided by the University and the amount that is paid by students and/or third parties making payments on students' behalf. To the extent that revenues from such programs are used to satisfy tuition and fees and other student services, the University has recorded a scholarship allowance.

## **Classification of Revenue and Expense**

The University's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that serve the University's principal purpose and generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Examples include (a) student tuition and fees and residence life, net of scholarship allowances, (b) auxiliary enterprises, and (c) most Federal, State, local and other grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State of New Jersey appropriations, net investment income and gifts.

Interest expense is reported as a nonoperating activity.

## **Compensated Absences**

The liability is calculated based upon employees' accrued vacation leave as of the statement of net position date, an estimated vested amount for accrued sick leave and the estimated cost of Alternative Benefit Plan ("ABP") salary and sick leave. Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from University service prior to retirement are not entitled to payments for accumulated sick leave balances. Prior to 1991, the State of New Jersey reimbursed the University for payments made to retiring employees for accrued sick leave; however, from 1991 through the current fiscal year, the State of New Jersey did not make such reimbursements. The University paid \$144,476 and \$187,079 in sick leave payments for employees who retired during the years ended June 30, 2016 and 2015, respectively.

# The William Paterson University of New Jersey

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(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

## New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to enhance the comparability of financial statements by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value on a government's financial position. The University adopted Statement No. 72 for its fiscal year 2016 financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability equal to the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information ("RSI") about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The University is required to adopt Statement No. 75 for its fiscal year 2018 financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain implementation issues related to (1) the presentation of payroll-related measures in required supplementary information; (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and, (3) the classification of payments made by employers to satisfy employee contribution requirements. The University is required to adopt Statement No. 82 for its fiscal year 2017 financial statements.

University management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the University's financial statements.

## Income Taxes

The University is exempt from federal income taxes under IRC Section 115.

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

### 3. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and money market accounts	\$ 104,162,909	\$ 107,199,669
State of New Jersey Cash Management Fund	<u>1,248,078</u>	<u>1,245,045</u>
Total	<u>\$ 105,410,987</u>	<u>\$ 108,444,714</u>

Custodial credit risk associated with the University's cash and cash equivalents include uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the University's name. The University's bank deposits as of June 30, 2016 and 2015 were partially insured by the Federal Depository Insurance Corporation ("FDIC") in the amount of \$250,000. Bank balances in excess of insured amounts of \$103.9 million in 2016 and \$106.9 million in 2015, are collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes. Chapter 64 of Title 18A allows banking institutions to cover total public funds on a deposit in excess of federal insurance.

The University participates in the Fund wherein amounts also contributed by other State entities are combined into a large scale investment program. The carrying amount of cash and cash equivalents in the Fund was \$1.2 million as of June 30, 2016 and 2015, which represented the amount on deposit with the Fund. These amounts are collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes, but not in the University's name.

The Cash Management Fund is unrated and has a maturity of less than ninety days. Statutes of the State of New Jersey and Regulations of the State Investment Council authorize the University to invest in obligations of the U.S. Treasury, foreign governments, agencies and municipal or political subdivisions of the State, commercial paper, bankers acceptances, revenue obligations of public authorities, debt instruments of banks, collateralized notes and mortgages, certificates of deposit, repurchase agreements, equity and convertible equity securities, and other common types of investment securities. Investee institutions and organizations are prescribed by the statutes and regulations based on such criteria as minimum capital, dividend paying history, credit history, and other evaluation factors.

### 4. Restricted Deposits Held by Bond Trustees

Restricted deposits held by bond trustees include restricted accounts held by financial institutions, under the terms of various obligations. The restricted deposits held by bond trustees under bond indenture agreements are maintained for the following:

	<u>2016</u>	<u>2015</u>
Project and construction fund	\$ 16,575,104	\$ 1,739,521
Debt service fund for principal and interest	11,029,476	10,008,078
Excess rental pledge	<u>1,946</u>	<u>103</u>
	<u>\$ 27,606,526</u>	<u>\$ 11,747,702</u>

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

Assets held under bond indenture agreements are not governed by the University's investment policies, but rather by the investment policies of New Jersey Educational Facilities Authority (the "Authority"). As of June 30, 2016 and 2015, restricted deposits held by bond trustees were invested in the following, all of which have maturity dates of less than one year:

	<u>2016</u>	<u>2015</u>
Money market accounts	\$ 4,522,003	\$ 9,431,683
U.S. treasury bills	<u>23,084,523</u>	<u>2,316,019</u>
Total	<u>\$ 27,606,526</u>	<u>\$ 11,747,702</u>

The University's restricted deposits held by bond trustees are subject to various risks. Among these risks are interest rate risk and credit risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy requires that the overall average quality rating of the portfolio's domestic fixed income holdings will be at least "AA", as rated by the Standard and Poor's or Moody's rating agency.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- Money market accounts are recorded at the quoted cost which approximates fair value.
- U.S. treasury bills are valued at closing price reported on the active market on which the individual securities are traded or for identical assets.

	<u>June 30, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment Type				
Money market accounts	\$ 4,522,003	\$ -	\$ -	\$ 4,522,003
U.S. treasury bills	<u>19,583,578</u>	<u>3,500,945</u>	<u>-</u>	<u>23,084,523</u>
Total	<u>\$ 24,105,581</u>	<u>\$ 3,500,945</u>	<u>\$ -</u>	<u>\$ 27,606,526</u>
	<u>June 30, 2015</u>			
Investment Type				
Money market accounts	\$ 9,431,683	\$ -	\$ -	\$ 9,431,683
U.S. treasury bills	<u>2,316,019</u>	<u>-</u>	<u>-</u>	<u>2,316,019</u>
Total	<u>\$ 11,747,702</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,747,702</u>

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

## 5. Capital Assets

Capital asset activity for the years ended June 30 is comprised of the following:

	<b>Beginning Balance July 1, 2015</b>	<b>Acquisition and Other Increases</b>	<b>Dispositions and Other Decreases</b>	<b>Ending Balance June 30, 2016</b>
Depreciable assets:				
Infrastructure	\$ 18,338,025	\$ 498,615	\$ -	\$ 18,836,640
Buildings and improvements	447,613,673	32,582,819	(225,000)	479,971,492
Equipment	42,252,020	3,453,867	225,000	45,930,887
Total depreciable assets	<u>508,203,718</u>	<u>36,535,301</u>	<u>-</u>	<u>544,739,019</u>
Less accumulated depreciation on:				
Infrastructure	8,521,024	515,014	-	9,036,038
Buildings and improvements	135,009,040	10,747,964	-	145,757,004
Equipment	34,721,520	2,463,044	-	37,184,564
Total accumulated depreciation	<u>178,251,584</u>	<u>13,726,022</u>	<u>-</u>	<u>191,977,606</u>
Depreciable assets, net	<u>329,952,134</u>	<u>22,809,279</u>	<u>-</u>	<u>352,761,413</u>
Nondepreciable assets:				
Land	7,255,914	-	-	7,255,914
Artwork	569,880	89,000	-	658,880
Construction in progress	28,098,818	14,737,438	(33,081,434)	9,754,822
Total nondepreciable assets	<u>35,924,612</u>	<u>14,826,438</u>	<u>(33,081,434)</u>	<u>17,669,616</u>
Total capital assets, net	<u>\$ 365,876,746</u>	<u>\$ 37,635,717</u>	<u>\$ (33,081,434)</u>	<u>\$ 370,431,029</u>

## The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

	<u>Beginning Balance July 1, 2014</u>	<u>Acquisition and Other Increases</u>	<u>Dispositions and Other Decreases</u>	<u>Ending Balance June 30, 2015</u>
Depreciable assets:				
Infrastructure	\$ 16,058,248	\$ 2,279,777	\$ -	\$ 18,338,025
Buildings and improvements	415,253,532	32,360,141	-	447,613,673
Equipment	<u>40,694,239</u>	<u>1,568,980</u>	<u>(11,199)</u>	<u>42,252,020</u>
Total depreciable assets	<u>472,006,019</u>	<u>36,208,898</u>	<u>(11,199)</u>	<u>508,203,718</u>
Less accumulated depreciation on:				
Infrastructure	8,011,579	509,445	-	8,521,024
Buildings and improvements	125,016,915	9,992,125	-	135,009,040
Equipment	<u>32,509,479</u>	<u>2,223,240</u>	<u>(11,199)</u>	<u>34,721,520</u>
Total accumulated depreciation	<u>165,537,973</u>	<u>12,724,810</u>	<u>(11,199)</u>	<u>178,251,584</u>
Depreciable assets, net	<u>306,468,046</u>	<u>23,484,088</u>	<u>-</u>	<u>329,952,134</u>
Nondepreciable assets:				
Land	7,255,914	-	-	7,255,914
Artwork	354,355	215,525	-	569,880
Construction in progress	<u>33,717,970</u>	<u>29,020,765</u>	<u>(34,639,917)</u>	<u>28,098,818</u>
Total nondepreciable assets	<u>41,328,239</u>	<u>29,236,290</u>	<u>(34,639,917)</u>	<u>35,924,612</u>
Total capital assets, net	<u>\$ 347,796,285</u>	<u>\$ 52,720,378</u>	<u>\$ (34,639,917)</u>	<u>\$ 365,876,746</u>

As of June 30, 2016, estimated costs to complete the projects classified as construction in progress are approximately \$33.5 million. Additional costs of all projects will be funded by University revenues, capital grants, and available construction funds from Bond proceeds. For the years ended June 30, 2016 and 2015, the University capitalized interest expense of \$-0- and \$115,090, respectively, as construction in progress in the accompanying statements of net position. As of June 30, 2016 and 2015, the University has received capital grants of approximately \$6.9 million and \$15.2 million, respectively, which is recorded in capital grants and gifts on the statement of revenues, expenses, and changes in net position.

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

## 6. Accounts Payable and Accrued Expenses

As of June 30, 2016 and 2015, accounts payable and accrued expenses consist of the following:

	<u>2016</u>	<u>2015</u>
Vendors	\$ 4,056,928	\$ 5,196,100
Capital projects	2,874,844	3,444,309
Accrued salaries and benefits	7,200,782	7,401,254
Accrued interest	3,629,475	3,433,050
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 17,762,029</u>	<u>\$ 19,474,713</u>

## 7. Long-Term Debt

### Bonds Payable

The University has financed capital assets through various revenue bonds issued through the Authority for the acquisition, construction and renovation of residence halls, the University Commons and academic facilities. As of June 30, 2016 and 2015, the following obligations to the Authority are outstanding:

	<u>Interest Rates</u>	<u>2016</u>	<u>2015</u>	<u>Current Portion</u>
New Jersey Educational Facility Authority:				
Revenue Bonds:				
Series 2005 E Revenue Bonds, due serially to 2031	3.75 - 5.00%	\$ -	\$ 32,040,000	\$ -
Series 2008 C Revenue Bonds, due serially to 2039	3.25 - 5.00	76,000,000	78,175,000	2,260,000
Series 2012 C Revenue Bonds, due serially to 2043	2.00 - 5.00	32,225,000	32,690,000	480,000
Series 2012 D Revenue Bonds, due serially to 2029	2.00 - 5.00	16,115,000	17,085,000	1,000,000
Series 2015 C Revenue Bonds, due serially to 2033	2.00 - 5.00	45,695,000 *	-	3,660,000
		<u>170,035,000</u>	<u>159,990,000</u>	<u>7,400,000</u>
Add amounts representing net premiums		<u>7,452,187</u>	<u>3,743,594</u>	<u>-</u>
Total		<u>\$ 177,487,187</u>	<u>\$ 163,733,594</u>	<u>\$ 7,400,000</u>

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

\* On August 18, 2015 the University issued \$45,695,000 in series 2015 C revenue refunding bonds. Out of the bonds, \$27,035,000 were issued with an average interest rate of 2.645% for a current refunding of \$29,360,927 of outstanding series 2005 E revenue bonds with an average interest rate of 4.375%. The refunding was undertaken to reduce total debt service payments by \$2,757,558 over the next 15 years and resulted in an economic gain of \$2,173,380.

## Other Long-Term Debt

As of June 30, 2016 and 2015, the following other obligations were outstanding:

	<u>Interest Rates</u>	<u>2016</u>	<u>2015</u>	<u>Current Portion</u>
NJ Educational Facilities Authority Higher Education Equipment Leasing Fund (ELF) 2014A	5.00%	\$ 273,647	\$ 334,104	\$ 63,639
Higher Education Capital Improvement Fund Series 2005A, due serially to 2020	3.00 - 5.00	1,598,728	2,028,555	452,048
Higher Education Capital Improvement Fund Series 2006A, due serially to 2023	4.00 - 4.50	2,144,503	2,154,391	10,338
Higher Education Capital Improvement Fund Series 2002 A, due serially to 2023	4.00 - 4.75	27,711	27,711	-
Dormitory Safety Trust Fund Series 2001 A, due serially to 2016	4.80	-	11,729	-
Dormitory Safety Trust Fund Series 2001 B, due serially to 2016	6.08	-	57,862	-
Bank of America Public Capital Corp, due serially to 2018	1.68	103,545	184,828	82,661
Total		<u>\$ 4,148,134</u>	<u>\$ 4,799,180</u>	<u>\$ 608,686</u>

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

## Future Principal and Interest Payments

The following is a schedule of future minimum principal maturities and interest payments on the University's bonds payable and other long-term debt as of June 30, 2016:

	<u>Principal</u>	<u>Interest</u>
Years ending June 30:		
2017	\$ 8,008,686	\$ 7,231,544
2018	8,079,744	6,920,808
2019	8,375,982	6,588,552
2020	8,707,918	6,204,366
2021	<u>7,974,084</u>	<u>5,834,877</u>
2017 - 2021 subtotal	41,146,414	32,780,147
2022 - 2026	40,136,720	23,920,531
2027 - 2031	37,065,000	15,689,975
2032 - 2036	28,670,000	8,957,394
2037 - 2041	24,970,000	2,070,800
2042 - 2043	<u>2,195,000</u>	<u>39,025</u>
Total	<u>\$ 174,183,134</u>	<u>\$ 83,457,872</u>

## 8. Summary of Changes in Noncurrent Liabilities

Activity in long-term liabilities for the year ended June 30, 2016 is comprised of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 163,733,594	\$ 47,236,053	\$ 33,482,460	\$ 177,487,187	\$ 7,400,000
Other long-term debt	4,799,180	-	651,046	4,148,134	608,686
Compensated absences	5,110,938	7,556,010	7,427,519	5,239,429	2,939,592
U.S. government grants refundable	<u>1,380,228</u>	<u>81,007</u>	<u>-</u>	<u>1,461,235</u>	<u>-</u>
Total	<u>\$ 175,023,940</u>	<u>\$ 54,873,070</u>	<u>\$ 41,561,025</u>	<u>\$ 188,335,985</u>	<u>\$ 10,948,278</u>

Activity in noncurrent liabilities for the year ended June 30, 2015 is comprised of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 170,276,093	\$ -	\$ (6,542,499)	\$ 163,733,594	\$ 6,575,000
Other long-term debt	5,418,771	-	(619,591)	4,799,180	651,046
Compensated absences	5,682,577	6,853,003	(7,424,642)	5,110,938	2,825,191
U.S. government grants refundable	<u>1,346,042</u>	<u>34,186</u>	<u>-</u>	<u>1,380,228</u>	<u>-</u>
Total	<u>\$ 182,723,483</u>	<u>\$ 6,887,189</u>	<u>\$ (14,586,732)</u>	<u>\$ 175,023,940</u>	<u>\$ 10,051,237</u>

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## 9. Retirement Plans

### Plan Description - PERS

The State of New Jersey, Public Employees' Retirement System ("PERS") is a cost-sharing multiple - employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the "Division"). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report ("CAFR") which can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provision of PERS.

The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55<sup>th</sup> of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60<sup>th</sup> of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

### Contributions

During the years ended June 30, 2016 and 2015, PERS members were required to contribute 10.0% of their annual covered salary. The State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the University. The State of New Jersey contribution is based upon annual actuarially determined percentages of total compensation of all active members. The State of New Jersey's annual contribution approximates the actuarially determined pension cost for the year. The current percentage is 7.06% of annual covered payroll. The contribution requirements of the plan members and the University are established and may be amended by the State of New Jersey.

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## Employer Contributions

The University is charged for employer contributions through a fringe benefit charge assessed by the State which is included in operating expenses by function and in nonoperating revenues as State of New Jersey paid fringe benefits in the accompanying Statements of Revenues, Expenses and Changes in Net Position. The amount was \$1,972,328.

## Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2016, the University reported a liability of \$146,064,467 for its proportionate share of the PERS net pension liability. The PERS net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PERS total pension liability as of June 30, 2015 to June 30, 2016. The University's proportion of the PERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the University's proportion was .6157%, which was a decrease from its proportion measured as of June 30, 2015 of 0.6237%.

For the year ended June 30, 2016, the University recognized pension expense of \$9,619,048. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of assumptions	\$ 10,704,451	\$ -
Differences between expected and actual experience	2,041,513	-
Changes in proportion	(422,869)	1,804,670
Net difference between projected and actual earnings on pension plan investments	-	(40,909)
University contributions subsequent to the measurement date (prior year)	(950,516)	-
University contributions subsequent to the measurement date (current year)	1,972,328	-
Total	<u>\$ 13,344,907</u>	<u>\$ 1,763,761</u>

\$1,972,328 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:	
2017	\$ 1,283,666
2018	1,283,666
2019	1,283,666
2020	1,283,666
2021	2,197,784
Thereafter	<u>1,847,650</u>
Total	<u>\$ 9,180,098</u>

## Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	3.04%
Salary increases: 2012 - 2021	2.15 - 4.40% based on age
Thereafter	3.15 - 5.40% based on age
Investment rate of return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

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## Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash	5.00 %	1.04 %
U.S. treasuries	1.75	1.64
Investment grade credit	10.00	1.79
Mortgages	2.10	1.62
High yield bonds	2.00	4.03
Inflation-indexed bonds	1.50	3.25
Broad US equities	27.25	8.52
Developed foreign equities	12.00	6.88
Emerging market equities	6.40	10.00
Private equity	9.25	12.41
Hedge funds/absolute return	12.00	4.72
Real estate (property)	2.00	6.83
Commodities	1.00	5.32
Global debt ex US	3.50	-0.40
REIT	4.25	5.12

## Discount Rate

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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## Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 4.9%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.9%) or 1-percentage-point higher (5.9%) than the current rate:

	<b>1% Decrease (3.9%)</b>	<b>Current Discount Rate (4.9%)</b>	<b>1% Increase (5.9%)</b>
University's proportionate share of the net pension liability	\$ 171,186,201	\$ 146,064,467	\$ 125,084,264

### Plan Description - PFRS

The State of New Jersey, Police and Firemen's Retirement System ("PFRS") is a cost-sharing multiple - employer defined benefit pension plan administered by the Division of Pensions and Benefits (the "Division"). For additional information about PERS, please refer to the Division's Comprehensive Annual Financial Report ("CAFR") which can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

The vesting and benefit provisions are set by N.J.S.A. 43:16A. PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service.

The following represents the membership tiers for PFRS:

<b>Tier</b>	<b>Definition</b>
1	Members who were enrolled prior to May 22, 2010
2	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
3	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tiers 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

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## Contributions

During the years ended June 30, 2016 and 2015, PFRS members were required to contribute 10.0% of their annual covered salary. The State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the University. The State of New Jersey contribution is based upon annual actuarially determined percentages of total compensation of all active members. The State of New Jersey's annual contribution approximates the actuarially determined pension cost for the year. The current percentage is 8.62% of annual covered payroll. The contribution requirements of the plan members and the University are established and may be amended by the State of New Jersey.

## Employer Contributions

The University is charged for employer contributions through a fringe benefit charge assessed by the State which is included in operating expenses by function and in nonoperating revenues as State of New Jersey paid fringe benefits in the accompanying Statements of Revenues, Expenses and Changes in Net Position. The amount was \$359,837.

## Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2016, the University reported a liability of \$9,728,101 for its proportionate share of the PFRS net pension liability. The PFRS net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PFRS total pension liability as of June 30, 2015 to June 30, 2016. The University's proportion of the PFRS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the University's proportion was .2266%, which was a decrease from its proportion measured as of June 30, 2015 of 0.2597%.

For the year ended June 30, 2016, the University recognized pension expense of \$405,199. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 967,260	\$ -
Changes in proportion	(448,121)	1,703,231
Differences between expected and actual experiences	-	36,807
Net difference between projected and actual earnings on pension plan investments	26,239	-
University contributions subsequent to the measurement date (prior year)	(315,912)	-
University contributions subsequent to the measurement date (current year)	359,837	-
Total	<u>\$ 589,303</u>	<u>\$ 1,740,038</u>

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\$359,837 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:		
2017	\$	(428,429)
2018		(428,429)
2019		(428,429)
2020		(428,429)
2021		(186,054)
Thereafter		<u>(99,033)</u>
Total	\$	<u>(1,998,803)</u>

## Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	3.04%
Salary increases: 2012 - 2021	2.60 - 9.48% based on age
Thereafter	3.60 - 10.48% based on age
Investment rate of return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and one year using Projection Scale BB for male service retirements with adjustments for mortality improvements from the base year based on Projection Scale BB. Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables projected fourteen years using Projection Scale BB for female service retirements and beneficiaries with adjustments for mortality improvements from the base year of 2014 based on Projection Scale BB.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

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## Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits; the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PFRS's target asset allocation as of June 30, 2015 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash	5.00 %	1.04 %
U.S. treasuries	1.75	1.64
Investment grade credit	10.00	1.79
Mortgages	2.10	1.62
High yield bonds	2.00	4.03
Inflation-indexed bonds	1.50	3.25
Broad US equities	27.25	8.52
Developed foreign equities	12.00	6.88
Emerging market equities	6.40	10.00
Private equity	9.25	12.41
Hedge funds/absolute return	12.00	4.72
Real estate (property)	2.00	6.83
Commodities	1.00	5.32
Global debt ex US	3.50	-0.40
REIT	4.25	5.12

## Discount Rate

The discount rate used to measure the total pension liability was 5.79% and 6.32% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made based on the average of the last five years of contributions made in relation to the last five years of actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2045. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2045, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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## Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 5.79%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.79%) or 1-percentage-point higher (6.79%) than the current rate:

	1% Decrease (4.79%)	Current Discount Rate (5.79%)	1% Increase (6.79%)
University's proportionate share of the net pension liability	\$ 11,712,535	\$ 9,728,101	\$ 8,115,248

### Plan Description - TPAF

The State of New Jersey, Teachers' Pension and Annuity Fund ("TPAF") is a cost sharing multiple-employer defined benefit pension plan with a special-funding situation, by which the State of New Jersey (the State) is responsible to fund 100% of the employer contributions, excluding any local employer early retirement incentive ("ERI") contributions. TPAF is administered by the State of New Jersey, Division of Pensions and Benefits (the "Division"). For additional information about TPAF, please refer to Division's Comprehensive Annual Financial Report ("CAFR") which can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

The following represents the membership tiers for TPAF:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

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Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit, and tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	2.50%
Salary increases:	
2012 - 2021	Varies based on experience
Thereafter	Varies based on experience
Investment rate of return	7.90%

Mortality rates were based on the RP-2000 Health Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA from the base year of 2000 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to account for future mortality improvement.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2012.

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## Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2016 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
US cash	5.00 %	0.53 %
US government bonds	1.75	1.39
US credit bonds	13.50	2.72
US mortgages	2.10	2.54
US inflation-indexed bonds	1.50	1.47
US high yield bonds	2.00	4.57
US equity market	27.25	5.63
Foreign-developed equity	12.00	6.22
Emerging markets equity	6.40	8.46
Private real estate property	4.25	3.97
Timber	1.00	4.09
Farmland	1.00	4.61
Private equity	9.25	9.15
Commodities	1.00	3.58
Hedge funds - multi-strategy	4.00	4.59
Hedge funds - equity hedge	4.00	5.68
Hedge funds - distressed	4.00	4.30

## Discount Rate

The discount rate used to measure the total pension liability was 4.13% and 4.68% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefits payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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## Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the State as of June 30, 2015 calculated using the discount rate as disclosed above as well as what the State's net pension liability would be if it was calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

<u>As of June 30, (rates used)</u>	<u>At 1% Decrease</u>	<u>At Current Discount Rate</u>	<u>At 1% Increase</u>
2015 (3.13%, 4.13%, 5.13%)	\$ 75,559,915,440	\$ 63,577,864,440	\$ 53,254,610,440
2014 (3.68%, 4.68%, 5.68%)	\$ 64,722,984,539	\$ 53,813,067,539	\$ 44,738,870,539

## Special Funding Situation

The employer contributions for local participating employers are legally required to be funded by the State in accordance with N.J.S.A 18:66-33. Therefore, these local participating employers are considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the University. The University's portion of the nonemployer contributing entities' total proportionate share of the net pension liability was \$9,575,278 as of June 30, 2015 and \$10,050,848 as of June 30, 2014. The University records their proportionate share of the pension expense as a revenue and expense in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The amount was \$584,657 in 2016.

## Alternate Benefit Program Information

ABP provides the choice of six investment carriers, all of which are privately operated defined contribution retirement plans and is administered by the NJ Division of Pensions and Benefits. The University assumes no liability for ABP members other than payment of contributions. ABP provides retirement and death benefits for or on behalf of these full time professional employees and faculty members electing to participate in this retirement program. Participation eligibility as well as contributory and noncontributory requirements are established by the State of New Jersey Retirement and Social Security Law. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits vest after the completion of one year of service. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting. Participating University employees are required to contribute 5% and may contribute a voluntary additional contribution of salary up to the maximum Federal statutory limit, on a pretax basis. Employer contributions are 8%. During the year ended June 30, 2016, ABP received employer and employee contributions of \$5,696,663 and \$3,624,718, respectively, which were based on participating employee salaries of approximately \$71,208,292. During the year ended June 30, 2015, ABP received employer and employee contributions of \$5,727,930 and \$3,614,318, respectively, which were based on participating employee salaries of approximately \$72,286,360. Employer contributions to ABP are paid by the State of New Jersey and the University and are reflected within operating expenses by function and within nonoperating revenues as State of New Jersey paid fringe benefits in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

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## Supplemental Alternative Benefit Program

The Supplemental Alternative Benefit Program is a defined contribution, supplemental 403(b) plan, established for employees who are members of the Alternate Benefit Program and whose base salary exceeds the current plan limit of \$141,000 for employer contributions. Vesting occurs immediately. Employees may not contribute to the plan and employer contributions are at the discretion of the University. Contributions of \$115,866 and \$74,435 were made in fiscal year 2016 and 2015, respectively.

## Postemployment Benefits Other than Retirement Plans

The State of New Jersey is legally responsible for contributions to the other post-employment benefits plan that covers the employees of the University. Since the employees of the University are employees of the State of New Jersey, the liability for other postemployment benefits will be reported by the State of New Jersey, rather than by the University.

## 10. Commitments and Contingencies

The University has entered into several noncancelable leases for certain computer equipment, which have been classified as operating leases. In addition, the University entered into a contract to permit a third party to install, operate and maintain solar photovoltaic facilities on certain University properties. In exchange, the University will purchase all electricity generated by the facilities at a set price. Total rent expense was \$1,617,070 and \$1,141,409 in 2016 and 2015, respectively.

The future estimated minimum annual commitments are as follows:

	<u>Amount</u>
Years ending June 30:	
2017	\$ 1,386,890
2018	1,175,891
2019	647,274
2020	705,893
2021	<u>705,893</u>
2017 - 2021 subtotal	4,621,841
2022 - 2026	2,726,829
2027 - 2031	<u>73,739</u>
Total	<u>\$ 7,422,409</u>

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Notes to Financial Statements

June 30, 2016 and 2015

The University is a party to various legal actions arising in the ordinary course of business. While it is not possible at this time to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the University's financial position.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The University's management believes disallowances, if any, will be immaterial.

Union contracts were effective through June 30, 2015 and are currently being negotiated. The management believes that any adjustment from the negotiation will not have a material effect on the accompanying financial statements.

## 11. State of New Jersey Paid Fringe Benefits

The State of New Jersey, through separate appropriations, pays certain fringe benefits (principally pension and postretirement medical benefits and FICA taxes) on behalf of the University's employees. Such benefits were \$30,402,005 and \$29,772,405, for the years ended June 30, 2016 and 2015, respectively, and are included in nonoperating revenues as State of New Jersey paid fringe benefits and in operating expenses by function in the accompanying statements of revenues, expenses, and changes in net position.

## 12. Unrestricted Net Position

As of June 30, 2016 and 2015, unrestricted net position consist of funds that have been designated as follows:

	<u>2016</u>	<u>2015</u>
Academic and other programs	\$ 19,894,130	\$ 22,136,130
Quasi-endowment	10,594,310	10,593,476
Capital programs:		
Renewal and replacement - nonauxiliary	33,181,366	37,178,169
Renewal and replacement - auxiliary	30,134,719	28,127,548
Net pension liability	<u>(147,150,097)</u>	<u>(136,549,210)</u>
Total	<u>\$ (53,345,572)</u>	<u>\$ (38,513,887)</u>

# **The William Paterson University of New Jersey**

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(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2016 and 2015

## **13. Risk Management**

The University is exposed to various risks of loss. The University participates in a consortium with nine other New Jersey colleges and universities to purchase property insurance. Buildings and equipment are fully insured on an all risk replacement basis to the extent that losses exceed \$100,000 per occurrence, with a per occurrence limit of \$1,500,000,000. Coverage for theft of money and securities provides for the actual loss in excess of \$75,000 with a per loss limit of \$5,000,000.

All liability risk and employee benefit exposure, including tort, auto and trustees and officers' liability workers' compensation, unemployment, disability, life insurance and employee retirement plans, are self-funded programs maintained and administered by the State of New Jersey (the "State"). As an agency of the State, the University's liability is subject to all provisions of the New Jersey Tort Claims Act, the New Jersey Contractual Liability Act and the availability of appropriations. The Tort Claims Act provides for payment of claims under the Act against the State or its employees for which the State is obligated to indemnify against tort claims, which arise out of the performance of their duties.

All insurance policies are renewed annually. All State self-funded programs are statutory with an annual appropriation provided by the legislature. There has been no decrease in coverage during the current year. There have been no settlements in excess of insurance coverage in the past three years.

The University may be the subject of employment related lawsuits not covered by the Tort Claims Act. The University retains the risk for any such settlements and has not made any payments in the past three years.

## **14. Subsequent Event**

On July 27, 2016, the University issued Series 2016E New Jersey Educational Facilities Authority Revenue Bonds for par value of \$60,755,000 and premium of \$8,822,321. The proceeds will be used to finance the advance refunding of a portion of the University's 2008C bonds and associated issuance costs. The refunding was undertaken to reduce total debt service payments by \$8.8 million over the next 22 years and resulted in an economic gain of \$6.6 million.

## The William Paterson University of New Jersey

### Schedule of the University's Proportionate Share of the Net Pension Liability

Year Ended June 30, 2016 and 2015

	<u>PERS</u>	<u>2016</u> <u>PFRS</u>	<u>TPAF</u>
University's proportion of the net pension liability	0.6157306825 %	0.2265683030 %	-
University's proportionate share of the net pension liability	\$ 146,064,467	\$ 9,728,101	\$ 9,575,278
University's covered-employee payroll	\$ 27,512,246	\$ 1,806,376	\$ 389,620
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	530.91%	538.54%	2457.59%
		<u>2015</u>	
University's proportion of the net pension liability	0.6237086082 %	0.2596863260 %	-
University's proportionate share of the net pension liability	\$ 125,534,480	\$ 9,226,789	\$ 10,050,848
University's covered-employee payroll	\$ 27,170,262	\$ 1,189,806	\$ 366,714
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	462.03%	775.49%	2740.79%

# The William Paterson University of New Jersey

## Schedule of University Contributions

Year Ended June 30, 2016 and 2015

	2016	
	PERS	PFRS
Contractually required contribution	\$ 1,972,328	\$ 359,837
Contributions in relation to the contractually required contribution	(1,972,328)	(359,837)
Contribution deficiency (excess)	\$ -	\$ -
University's covered-employee payroll	\$ 27,512,246	\$ 1,806,376
Contributions as a percentage of covered-employee payroll	7.17%	19.92%

	2015	
Contractually required contribution	\$ 950,516	\$ 315,912
Contributions in relation to the contractually required contribution	(950,516)	(315,912)
Contribution deficiency (excess)	\$ -	\$ -
University's covered-employee payroll	\$ 27,170,262	\$ 1,189,806
Contributions as a percentage of covered-employee payroll	3.50%	26.55%

**The William Paterson University of New Jersey**  
**(A Component Unit of the State of New Jersey)**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. Department of Education and US Department of Health and Human Services</b>			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007	\$ 364,197	\$ -
Federal Direct Student Loans	84.268	57,545,974	-
Federal Work-Study Program (including administrative cost allowance of \$36,056)	84.033	357,125	-
Federal Perkins Loan Program (including administrative cost allowance of \$11,344)	84.038	1,337,930	-
Federal Pell Grant Program	84.063	17,737,953	-
Nurse Faculty Loan Program	93.264	257,623	-
Nursing Student Loan Program	93.364	86	-
Teacher Education Assistance for College and Higher Education Grant	84.379	105,298	-
Total Student Financial Assistance Cluster		<u>77,706,186</u>	<u>-</u>
<b>U.S. Department of Education</b>			
School Leadership	84.363	709,616	-
Race to the Top - Early Learning Challenge	84.412	249,268	-
Transition to Teaching	84.350B	32,949	-
Teacher Quality Partnerships Grants	84.336S	62,717	-
College Access Challenge Grant Program	84.378A	145,112	-
English Language Acquisition State Grants	84.365Z	254,294	-
School Improvement Grants	84.377B	145,189	37,022
Total U.S. Department of Education		<u>1,599,145</u>	<u>37,022</u>
<b>National Science Foundation</b>			
Geosciences	47.050	14,895	-
Education and Human Resources	47.076	84,282	-
Passed through Rutgers, the State University (Subcontract # 00003811):			
Education and Human Resources	47.076	27,585	-
Total Education and Human Resources		<u>111,867</u>	<u>-</u>
ARRA - Trans - National Science Foundation	47.082	29,349	-
Total National Science Foundation		<u>156,111</u>	<u>-</u>
<b>U.S. Department of Health and Human Services</b>			
Drug Abuse and Addiction Research Programs	93.279	61,026	-
Substance Abuse and Mental Health services - Projects of Regional and National Significance	93.243	89,041	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	(190)	-
Passed through NJ Dept of Human Services (Contract 13-714-ACDA-0, 14-714-ACDA-0):			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	145,063	-
Total U.S. Department of Health and Human Services		<u>294,940</u>	<u>-</u>
<b>U.S. Department of Justice</b>			
Reduce Domestic Violence, Dating Violence, Sexual Assault and Stalking on Campus	16.525	68,733	-
<b>National Endowment for the Arts</b>			
Promotion of the Arts- Partnership Agreements	45.025	4,800	-
<b>Small Business Administration</b>			
Passed through Rutgers, the State University (Subcontract # 2158):			
Small Business Development Center	59.037	200,074	-
Entrepreneurial Development Disaster Assistance	59.064	41,999	-
Total Small Business Administration		<u>242,073</u>	<u>-</u>
<b>Department of Transportation</b>			
Alcohol Impaired Driving Countermeasures Incentive	20.601	16,739	-
Total Highway Safety Cluster		<u>16,739</u>	<u>-</u>
<b>Department of the Interior National Park Service</b>			
National Park Service Conservation, Protection, Outreach, and Education	15.954	9,625	-
<b>Department of Agriculture Food and Nutrition Service</b>			
Special Supplemental Nutrition Program for Women, Infants and Children; Nutrition Education Innovations	10.586	147,992	-
Total Expenditures of Federal Awards		<u>\$ 80,246,344</u>	<u>\$ 37,022</u>

See notes to schedules of expenditures of federal and State of New Jersey awards

**The William Paterson University of New Jersey  
(A Component Unit of the State of New Jersey)**

Schedule of Expenditures of State of New Jersey Awards  
Year Ended June 30, 2016

State of New Jersey Grantor/Pass-Through Grantor/Program or Cluster Title	State / Account Number	Amount of Funds Received	Grant Period	Fiscal Year and Total Disbursements	Total Grant Expenditures To Date
<b>Student Financial Assistance Cluster</b>					
NJ Department of Treasury:					
Edward J Bloustein Distinguished Scholarship - USP	10-100-074-US11-278	\$ 16,000	Jul. 1, 2015 – Jun. 30, 2016	\$ 16,000	\$ 16,000
Tuition Aid Grant	10-100-074-2405-007	12,259,383	Jul. 1, 2015 – Jun. 30, 2016	12,259,383	12,259,383
N.J. State Gear Up	-	17,325	Jul. 1, 2015 – Jun. 30, 2016	17,325	17,325
NJ Department of State - Commission on Higher Education:					
Educational Opportunity Fund - Academic Year (Article III)	10-100-074-2601-001	508,275	Jul. 1, 2015 – Jun. 30, 2016	508,275	508,275
N.J. Best Scholarship	-	13,000	Jul. 1, 2015 – Jun. 30, 2016	13,000	13,000
N.J. Star Scholarship	-	53,893	Jul. 1, 2015 – Jun. 30, 2016	53,893	53,893
Total Student Financial Assistance Cluster		12,867,876		12,867,876	12,867,876
<b>NJ Department of State - Commission on Higher Education</b>					
Educational Opportunity Fund - Academic Year (Article IV)	2518	248,078	Jun. 1, 2014 – Jul. 31, 2015	173	245,078
Educational Opportunity Fund - Academic Year (Article IV)	2518	251,205	Jun. 1, 2015 – Jul. 31, 2016	251,205	251,205
Educational Opportunity Fund - Summer (Article IV)	2518	222,296	Jun. 1, 2014 – Jul. 31, 2015	15,054	216,868
Educational Opportunity Fund - Summer (Article IV)	2518	226,186	Jun. 1, 2015 – Jul. 31, 2016	198,512	226,186
Educational Opportunity Fund - Summer (Article IV)	2518	226,186	Jun. 1, 2016 – Jul. 31, 2017	1,654	1,654
Gallery Series	100-074-2530-032-6130	19,247	Jul. 1, 2015 – Jun. 30, 2016	19,247	19,247
Shea Center	100-074-2530-032-6130	34,405	Jul. 1, 2015 – Jun. 30, 2016	34,405	34,405
National History Day	HC-PROMINI-2015	29,050	Jan. 1, 2015 - Dec. 31, 2015	20,997	29,050
Mentoring Training	None	74,024	Jan. 1, 2001 - open ended	4,181	65,245
Sheltered English Instruction Project Training	MOU	45,000	Sept. 1, 2015 - Aug. 31, 2016	39,572	39,572
<b>State of New Jersey Secretary of Higher Education</b>					
Building Our Future Bond Act	061-01	30,000,000	Mar. 1, 2014 to Completion	6,867,300	24,830,448
<b>NJ Department of Human Services</b>					
Passed through Passaic Department of Human Services:					
Addiction Services Education Project	15-538-ADA-0-C	21,296	Jan. 1, 2015 - Dec. 31, 2015	19,860	19,860
<b>NJ Department of Labor and Workforce Development</b>					
Skill4Jersey	Multiple	2,964,038	Various	1,367,801	1,776,600
<b>NJ Educational Facilities Authority</b>					
Higher Education Technology Infrastructure Fund	061-04	1,739,521	Jan. 1, 2014 - open	450,927	1,728,499
<b>NJ Department of Health</b>					
NJ Autism Center of Excellence	CAUT14APL004	125,899	Jun. 23, 2014 - Jun. 22, 2016	42,129	84,993

See notes to schedules of expenditures of federal and State of New Jersey awards

**The William Paterson University of New Jersey  
(A Component Unit of the State of New Jersey)**

Schedule of Expenditures of State of New Jersey Awards  
Year Ended June 30, 2016

State of New Jersey Grantor/Pass-Through Grantor/Program or Cluster Title	State / Account Number	Amount of Funds Received	Grant Period	Fiscal Year and Total Disbursements	Total Grant Expenditures To Date
<b>NJ Department of State</b>					
State Appropriation to State Colleges and Universities	10-100-074-2465-001	30,357,000	Jul. 1, 2015 – Jun. 30, 2016	30,357,000	30,357,000
<b>Interdepartmental Accounts</b>					
Fringe Benefits Other than FICA	10-000-000-0000-002	23,046,044	Jul. 1, 2015 – Jun. 30, 2016	23,046,044	23,046,044
FICA State Colleges and Universities Reimbursement Program	10-000-000-0000-003	<u>7,355,961</u>	Jul. 1, 2015 – Jun. 30, 2016	<u>7,355,961</u>	<u>7,355,961</u>
Total Expenditures of State of New Jersey Awards		<u>\$ 109,853,312</u>		<u>\$ 82,959,898</u>	<u>\$ 103,195,791</u>

See notes to schedules of expenditures of federal and State of New Jersey awards

# **The William Paterson University of New Jersey**

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(A Component Unit of the State of New Jersey)

Notes to Schedules of Expenditures of Federal and State of New Jersey Awards

For the Year Ended June 30, 2016

## **1. General**

The accompanying Schedules of Expenditures of Federal and State of New Jersey Awards (the "Schedules") include the activity of all federal and state financial assistance programs of The William Paterson University of New Jersey (the "University"). All federal assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies and non-federal organizations, is included on the Schedule of Expenditures of Federal Awards.

## **2. Basis of Presentation**

The accompanying Schedules of Expenditures of Federal and State of New Jersey Awards summarize the expenditures of the University under programs of the federal and state governments for the year ended June 30, 2016.

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of the University under programs of the federal government for the year ended June 30, 2016 and is presented on the accrual basis of accounting. For the purposes of the Schedule of Expenditures of Federal Awards, federal grants include all grants, contracts, and similar agreements entered into directly between the University and agencies or departments of the federal government and all sub-awards to the University by non-federal organizations pursuant to federal grants, contracts, and similar agreements. The information in the schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the University's basic financial statements.

The accompanying Schedule of Expenditures of State of New Jersey Awards summarizes the expenditures of the University under grant programs of the State of New Jersey for the year ended June 30, 2016 and is presented on the accrual basis of accounting. For the purposes of the Schedule of Expenditures of State Awards, state financial assistance programs include all state appropriation aid, grants, contracts, and similar agreements entered into directly between the University and agencies or departments of the state government. Expenditures of state awards are recorded in accordance with the cost principles established under the State of New Jersey, Department of the Treasury, OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*, and/or under the terms and conditions of particular state grant agreements. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the University's basic financial statements.

# The William Paterson University of New Jersey

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(A Component Unit of the State of New Jersey)

Notes to Schedules of Expenditures of Federal and State of New Jersey Awards

For the Year Ended June 30, 2016

### 3. Other Federal Loan Programs

The following federal loan programs are administered directly by the University, and balances and transactions relating to these programs are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedules. The balances of loans outstanding under these programs as of June 30, 2016 are as follows:

Student Financial Assistance Cluster	
Federal Perkins Loan Program (CFDA # 84.038)	\$ 1,180,734
Nurse Faculty Loan Program (CFDA # 93.264)	249,941
Nurse Student Loan Program (CFDA# 93.364)	<u>86</u>
 Total	 <u>\$ 1,430,761</u>

### 4. Indirect Cost Rate

The University has not elected to use the 10-percent de-minimis indirect cost rate allowed under the Uniform Guidance.

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

Board of Trustees  
The William Paterson University of New Jersey

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 William Paterson University of New Jersey (the "University"), a component unit of the State of New Jersey, and its discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated November 28, 2016. Our report includes a reference to another auditor who audited the financial statements of William Paterson University of New Jersey Foundation as described in our report on the University's financial statements. This report does not include reporting on internal control over financial reporting or compliance and other matters that are reported on separately by the other auditor.

**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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Iselin, New Jersey  
November 28, 2016

**Independent Auditors' Report on Compliance  
for Each Major Federal and New Jersey State  
Program and Report on Internal Control Over  
Compliance Required by the Uniform Guidance  
and the State of New Jersey Department of  
the Treasury OMB Circular 15-08**

Board of Trustees  
The William Paterson University of New Jersey

**Report on Compliance for Each Major Federal and New Jersey State Program**

We have audited The William Paterson University of New Jersey's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the State of New Jersey, Department of the Treasury, OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* that could have a direct and material effect on each of the University's major federal and New Jersey state programs for the year ended June 30, 2016. The University's major federal and New Jersey state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal and New Jersey state 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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and; the State of New Jersey, Department of the Treasury, OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, the Uniform Guidance and New Jersey OMB Circular 15-08 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 and New Jersey state 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 and New Jersey state program. However, our audit does not provide a legal determination of the University's compliance.

### **Opinion on Each Major Federal and New Jersey State 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 and New Jersey state programs for the year ended June 30, 2016.

### **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 types of requirements that could have a direct and material effect on each major federal and New Jersey state 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 and New Jersey state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and New Jersey OMB Circular 15-08, 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 or state 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 or state 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 and state 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance and New Jersey OMB Circular 15-08. Accordingly, this report is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Iselin, New Jersey  
March 1, 2017

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)  
 Schedule of Findings and Questioned Costs  
 June 30, 2016

## Section I - Summary of Auditors' Results

### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?            yes       X       no
- Significant deficiency(ies) identified?            yes       X       none reported

Noncompliance material to financial statements noted?            yes       X       no

### Federal and New Jersey State Awards

Internal control over major programs:

- Material weakness(es) identified?            yes       X       no
- Significant deficiency(ies) identified?            yes       X       none reported

Type of auditors' report issued on compliance for major federal and New Jersey State programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) and New Jersey OMB Circular 15-08?            yes       X       no

Identification of major federal and New Jersey state programs:

CFDA Number(s) or State Program Number	Name of Federal/State Program or Cluster
Federal: 84.007, 84.268, 84.033, 84.038, 84.063, 84.379, 93.264, 93.364	Student Financial Assistance Cluster
State: 10-100-074-US11-278, 10-100-074-2405-007, 10-100-074-2601-001	Student Financial Assistance Cluster
10-100-074-2465-001	State Appropriation to State Colleges and Universities

Dollar threshold used to distinguish between Type A and Type B federal programs: \$750,000

Dollar threshold used to distinguish between Type A and Type B state programs: \$2,488,797

Auditee qualified as low-risk auditee?       X       Yes            no

# **The William Paterson University of New Jersey**

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(A Component Unit of the State of New Jersey)

Schedule of Findings and Questioned Costs

June 30, 2016

## **Section II - Financial Statement Findings**

None.

## **Section III - Federal Award and State Financial Assistance Findings and Questioned Costs**

None.

## **Section IV - Summary of Prior Year Audit Findings**

None.