

**The William Paterson University
of New Jersey**

(A Component Unit of the
State of New Jersey)

Financial Statements and
Management's Discussion and Analysis

June 30, 2014 and 2013



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The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Table of Contents

June 30, 2014 and 2013

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statement of Net Position - University	16
Statement of Revenues, Expenses, and Changes in Net Position - University	17
Statement of Cash Flows - University	18
Statement of Financial Position - Foundation	19
Statement of Activities - Foundation	20
Statement of Cash Flows - Foundation	21
Notes to Financial Statements	22



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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, 2014 and 2013, 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 and is 4%, 7%, and 2%, respectively, of the assets, net position and revenues of the University. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2014 and 2013, 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.

Emphasis of Matter

As disclosed in Notes 1 and 14 to the financial statements, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013 to conform with accounting principles generally accepted in the United States of America. The University restated its beginning July 1, 2012, Net Position for this adoption.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 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.

Baker Tilly Viechow Krause, LLP

Clark, New Jersey
November 21, 2014

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

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, 2014 and 2013, and its changes in financial position for the fiscal years then ended with selected comparative information for the year ended June 30, 2012. 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 GASB Statement No. 65 (GASB 65) relating to deferred inflows and outflows in the current reporting period, resulting in the restatement of certain amounts for fiscal year 2013. The restated numbers are contained within assets and net position in the Statement of Net Position, and interest on capital asset-related debt in the Statement of Revenues, Expenses, and Changes in Net Position. In addition to the GASB 65 restatement, a reclassification between revenue and expense relating to auxiliary enterprises revenues and expenses is reflected in the Statement of Revenues, Expenses, and Changes in Net Position. Fiscal year 2012 numbers were not restated or reclassified.

Financial Highlights

Net position continued to increase during fiscal year 2014, ending at \$290.8 after increasing \$6.7 million from fiscal year 2013. The increase represents increased investment in capital assets of \$11.9; offset by \$5.2 million decreases in net position restricted for debt service and unrestricted net position.

The increased investment in capital assets during fiscal year 2014 resulted from continued progress on approximately forty capital projects. The most significant was construction of the Pioneer Parking Garage, which was substantially complete by June 30, 2014 and opened to the campus community on September 1, 2014. The groundbreaking and start of construction for the new academic building to house several science, technology, engineering and mathematics ("STEM") disciplines and general purpose classrooms occurred during fiscal year 2014. Otherwise, there was continued progress on the Shea Center renovation, Morrison and Raubinger refurbishing, Cheng Library interior and exterior improvements, the Wightman Gym roof, Hobart Hall annex-music practice room and historic preservation of the Hobart Hall exterior.

Projected cost of the new academic building is \$40.0 million, of which \$30.0 million will be funded by grants provided through the State of New Jersey "Building our Future" Bonds. In fiscal year 2014, the grant for \$30.0 million was secured and \$2.8 million of the grant was expended.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

At June 30, 2013, the University had total net position of \$284 million, an increase of \$0.7 million from \$283.3 million at June 30, 2012. The increase is comprised of \$5.2 million increase in net position as shown in the Statement of Revenues and Expenses, and Changes in Net Position offset by the GASB 65 restatement of \$4.4 million effective July 1, 2012. Ongoing investment in buildings, improvements, and equipment included completion of the Science complex and initial work on the parking garage, both funded by University issued bonds. Refurbishment projects were underway for Morrison and Raubinger Halls, Cheng Library, Hobart Hall Studio, the Shea Center, and various residential halls.

Statements of Net Position

The Statement of Net Position presents a fiscal snapshot of the University at a certain date. Total net position is one indicator of the current financial condition of the University, while a change in net position provides one assessment of whether that financial condition has improved or deteriorated. In addition, there are other nonfinancial factors that are relevant to the University's goals and missions, such as the trend and quality of applicants, first year class size, student retention rates, graduation rates, and other statistical data.

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, 2014, 2013 and 2012 follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 147,984	\$ 143,982	\$ 136,741
Noncurrent assets:			
Capital assets, net	347,796	335,413	329,110
Other	391	17,215	12,323
Total assets	496,171	496,610	478,174
Liabilities:			
Current liabilities	32,828	33,458	29,569
Noncurrent liabilities	172,565	179,113	165,318
Total liabilities	205,393	212,571	194,887
Net position:			
Net investments in capital assets	176,802	164,898	164,904
Restricted for:			
Student loans	170	175	163
Debt service	6,811	8,462	10,120
Unrestricted	106,995	110,503	108,100
Total net position	<u>\$ 290,778</u>	<u>\$ 284,038</u>	<u>\$ 283,287</u>

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

Assets

Current assets consist primarily of cash and cash equivalents, current portion of restricted deposits held by bond trustees, and accounts receivables. Noncurrent assets consist primarily of capital assets and noncurrent portion of restricted deposits held by bond trustees. 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 the noncurrent portion of bonds payable and other long-term debt.

At June 30, 2014, the University had total assets of \$496.2 million, a decrease of \$0.4 million from \$496.6 million at June 30, 2013. The major components of this change are increases in net capital assets and accounts receivable offset by decreases in restricted deposits held by bond trustees.

At June 30, 2013, the University had total assets of \$496.6 million, an increase of \$18.4 million from \$478.2 million at June 30, 2012. The major components of this change are increases in cash and cash equivalents, total restricted deposits held by bond trustees, total receivables and net capital assets.

Liabilities

At June 30, 2014, the University had total liabilities of \$205.4 million, a decrease of \$7.2 million from \$212.6 million at June 30, 2013. All major components of liabilities decreased during the year with the exception of deferred revenue which increased \$1.5 million. The University made timely principal payments of \$7.6 million on bonds payable and other long term debt.

At June 30, 2013, the University had total liabilities of \$212.6 million, an increase of \$17.7 million from \$194.9 million at June 30, 2012. All major components of liabilities increased during the year. The University made timely principal payments of \$6.3 million on bonds payable and other long term debt, and refinanced \$32.6 million of bonds payable.

The William Paterson University of New Jersey

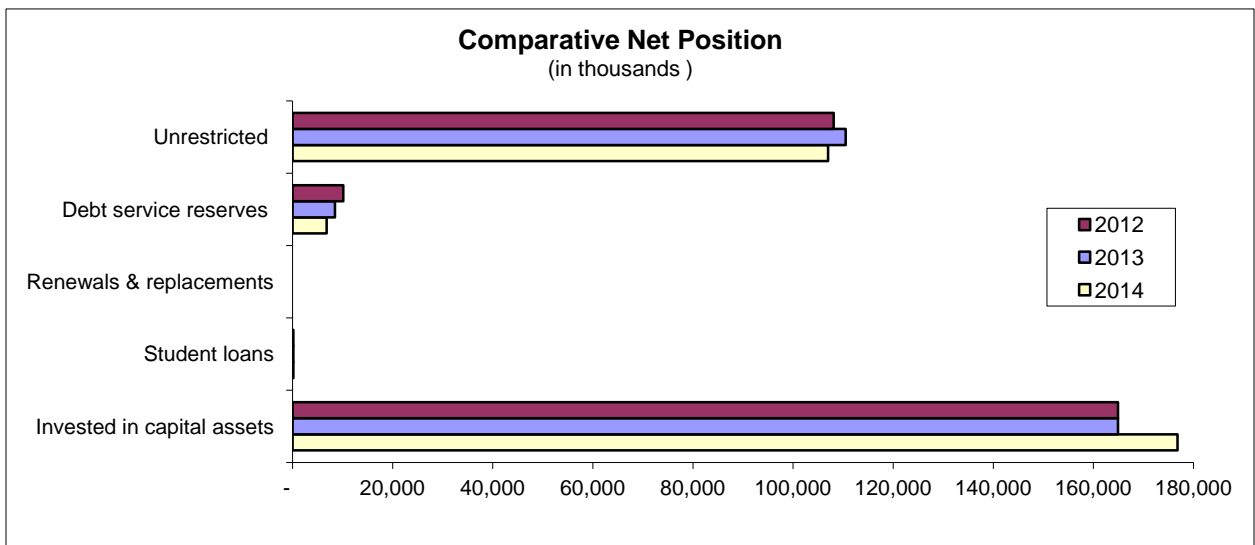
(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

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. The change in net position measures whether the overall financial condition has improved or deteriorated during the year. Net position consists of three major categories; net investment in capital assets, expendable restricted net assets, and unrestricted net position. Net position at June 30, 2014, 2013, and 2012 was \$290.8 million, \$284.0 million, and \$283.2 million, respectively. Net position increased \$6.7 million during fiscal year 2014 and \$0.8 million during fiscal year 2013. The \$0.8 million increase in fiscal year 2013 represents increase in net position of \$5.2 million as per the Statement of Revenues and Expenses offset by the restatement impact of GASB 65 of \$4.4 million which was effective July 1, 2012.



The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

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, nonoperating, 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. Nonoperating 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 nonoperating revenues. The operating deficit demonstrates the University's dependency on state support, capital grants, and other nonoperating revenues. Nonoperating 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, 2014, 2013 and 2012 follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues:			
Net student revenue	\$ 112,806	\$ 114,762	\$ 116,147
Other	40,381	41,203	42,225
Total operating revenues	153,187	155,965	158,372
Operating expenses	207,480	206,457	204,297
Operating loss	(54,293)	(50,492)	(45,925)
Nonoperating revenues (expenses):			
State appropriations	61,754	60,367	58,025
Other	2,996	3,835	3,036
Interest	(6,716)	(8,854)	(7,128)
Net nonoperating revenues	58,034	55,348	53,933
Capital grants and gifts	2,999	265	731
Increase in net position	6,740	5,121	8,739
Net position, beginning of year	284,039	278,918	274,548 (1)
Net position, end of year	<u>\$ 290,779</u>	<u>\$ 284,039</u>	<u>\$ 283,287</u>

(1) As of July 1, 2012, net position was reduced by \$4.4 million to reflect the removal of deferred financing costs from assets in accordance with GASB Statement No. 65.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

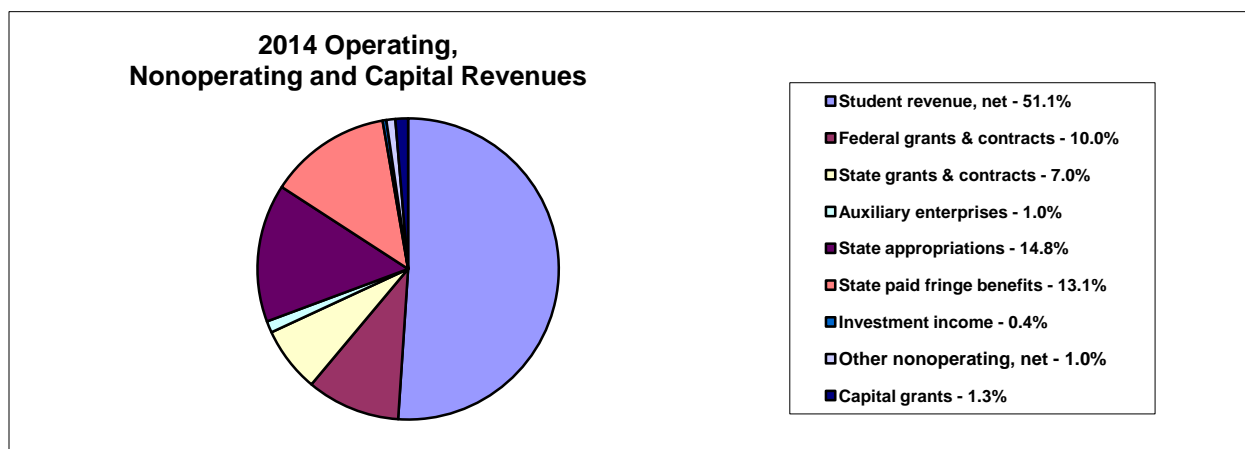
Management's Discussion and Analysis

June 30, 2014 and 2013

Revenues

Revenues are classified as operating, nonoperating, or capital grants and gifts. A summary of the University's revenues (in thousands) for the years ended June 30, 2014, 2013 and 2012 follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues:			
Net student revenues	\$ 112,806	\$ 114,762	\$ 116,147
Federal grants and contracts	22,178	21,449	22,560
State, local and other grants and contracts	15,461	17,649	15,311
Auxiliary enterprises	<u>2,742</u>	<u>2,106</u>	<u>4,354</u>
 Total operating revenues	 <u>153,187</u>	 <u>155,966</u>	 <u>158,372</u>
Nonoperating revenues:			
State appropriations	32,748	32,748	32,748
State paid fringe benefits	29,006	27,619	25,277
Investment income	879	1,628	1,281
Other, including private gifts	<u>2,117</u>	<u>2,207</u>	<u>1,755</u>
 Total nonoperating revenues	 64,750	 64,202	 61,061
 Capital grants and gifts	 <u>3,000</u>	 <u>265</u>	 <u>731</u>
 Total	 <u>\$ 220,937</u>	 <u>\$ 220,433</u>	 <u>\$ 220,164</u>

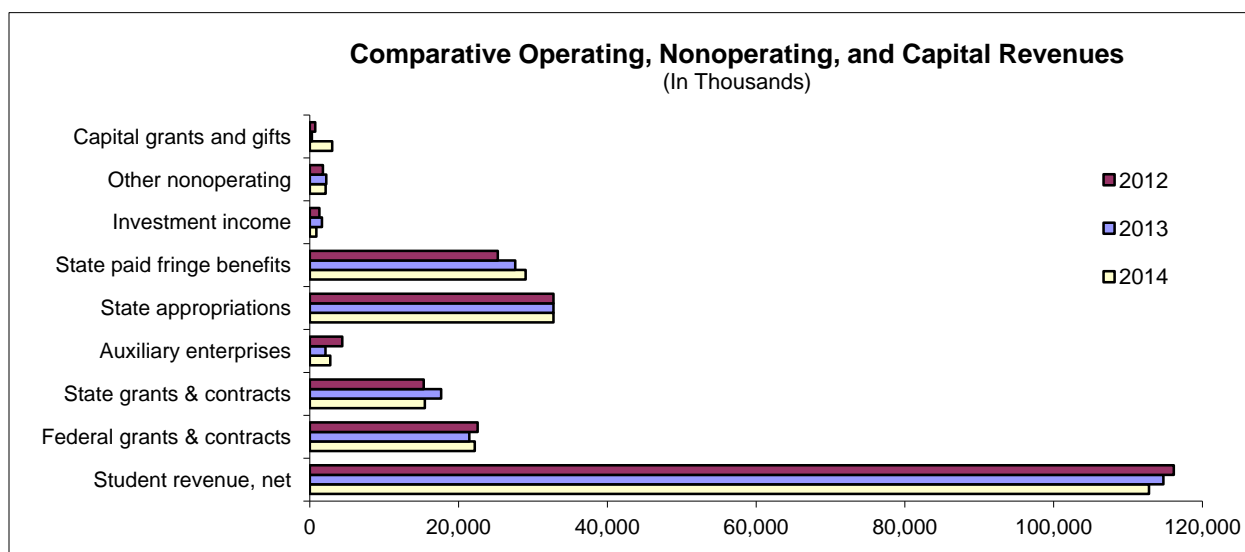


The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013



Operating Revenues

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

Gross student tuition and fees were \$126.8 million, \$126.7 million and \$126.6 million for the years ended June 30, 2014, 2013, and 2012, respectively. This revenue was generated by the following number of students, resident students and meal plan participants:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total enrollment (FTEs):			
Annualized Fall and Spring	8,520	8,529	8,686
Summer II (July-August 2013, 2012 and 2011)	335	325	351
Summer I (May-June 2014, 2013 and 2012)	373	365	383
Winter	89	85	86
Total enrollment	<u>9,317</u>	<u>9,304</u>	<u>9,506</u>
Resident students	<u>2,105</u>	<u>2,165</u>	<u>2,304</u>
Meal Plan participants	<u>1,965</u>	<u>2,020</u>	<u>2,122</u>

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

Net student revenue, comprised of tuition and fees and residence life less scholarship allowances was \$112.8 million for the year ended June 30, 2014, a decrease of \$2.0 million from fiscal year 2013 due to decreased room and meals revenue of \$0.7 million and increased scholarships and waivers of \$1.4 million. For the year ended June 30, 2013, net student revenue was \$114.8 million, a decrease of \$1.4 million from fiscal year 2012 representing decreased room and meals revenue of \$1.1 million and increased scholarships of \$0.3 million. Tuition revenue increased \$0.2 million during fiscal year 2014 to \$126.8 million and remained steady between fiscal years 2012 and 2013 at \$126.6 million.

Revenues from federal grants and contracts increased \$0.7 million during fiscal year 2014 to \$22.2 million, while decreasing during fiscal year 2013 by \$1.1 million to \$21.4. State, local and other grants and contracts decreased for the year ended June 30, 2014 by \$2.2 million, reflecting a decrease in the NJ Department of Labor grants, \$2.4 million, offset by new grant funding from HETI for \$0.2 million. During fiscal year 2013, the increase in NJ Department of Labor grants accounted for the bulk of the \$2.3 million increase in state, local, and other grants and contracts.

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 \$2.7 million for the year ended June 30, 2014, an increase of \$0.6 million from fiscal year 2013. For the fiscal year 2013, auxiliary enterprises revenue was \$2.1 million, down \$2.2 million from fiscal year 2012. Of this decrease, \$2.0 million represents a reclassification variance relating to the grossing-down of Pioneer Card inflows which is fully offset in residence life and auxiliary enterprises expenses.

Nonoperating Revenues

The University's primary source of nonoperating revenue is State of New Jersey appropriations for general operations and fringe benefits. The general operations appropriation remained steady at \$32.7 million per year for the fiscal years ended 2014, 2013, and 2012, while the fringe benefits appropriation was \$29.0 million, \$27.6 million, and \$25.3 million for the years ended June 30, 2014, 2013, and 2012, respectively.

Capital Grants and Gifts

For the year ended June 30, 2014, \$2.7 million was received as capital grants under the State of New Jersey "Building our Future" bond issue for partial financing of the new academic building and \$0.3 was received for road maintenance. During the year ended June 30, 2013, \$0.3 was received for road maintenance. For the year ended June 30, 2012, \$0.5 million was received for upgraded energy management systems and \$0.2 million for road maintenance.

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, 2014 was \$207.5 million, an increase of \$1.0 million from fiscal year 2013. The increase represents higher institutional support expenses (\$1.8 million), higher academic support (\$0.5 million), higher depreciation expense (\$0.3 million), and other operating expense increases (\$0.4 million) offset by decreased expenses for instruction (\$1.0 million), utilities and maintenance of plant (\$0.6 million), and residence life operating expenses (\$0.3 million). The \$1.0 million decrease in instruction was the net result of increased salaries and fringe benefits (\$1.7 million) offset by decreased professional services (\$2.6 million) and other costs (\$0.1

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

million). Of the \$2.6 million professional services decrease, \$2.0 million was associated with the decrease in revenue from the NJ Department of Labor grants.

For the year ended June 30, 2013, total operating expenses were \$206.4 million, an increase of \$2.2 million from the \$204.3 million total operating expenses of fiscal year 2012. The primary drivers were increased instruction expense of \$3.6 million for scheduled personnel cost increases and increased professional services relating to the NJ Dept of Labor grant, offset by a \$2.0 million reclassification variance relating to the grossing-down of Pioneer Card inflows (the Pioneer Card variance is fully offset in auxiliary enterprises revenue). Other increases were in student services (\$0.9 million), institutional support (\$0.6 million), residence life (\$2.0 million) and public service (\$0.2 million), while other decreases were in academic support (\$0.3 million), operating and maintenance of plant (\$0.3 million), student aid (\$0.2 million), and depreciation (\$0.6 million).

The allocation of operating expenses to natural classifications has remained proportionately constant over the years ended June 30, 2014, 2013, and 2012, with salaries at 56%, fringe benefits at 15% (14% in 2012), supplies and services at 23% (24% in 2012) and depreciation at 6%. In fiscal years 2014 and 2013, salaries and fringe benefits increased \$2.8 million and \$4.0 million respectively, primarily due to contractual obligations of negotiated arrangements.

Operating expenses are summarized below in functional and natural classifications.

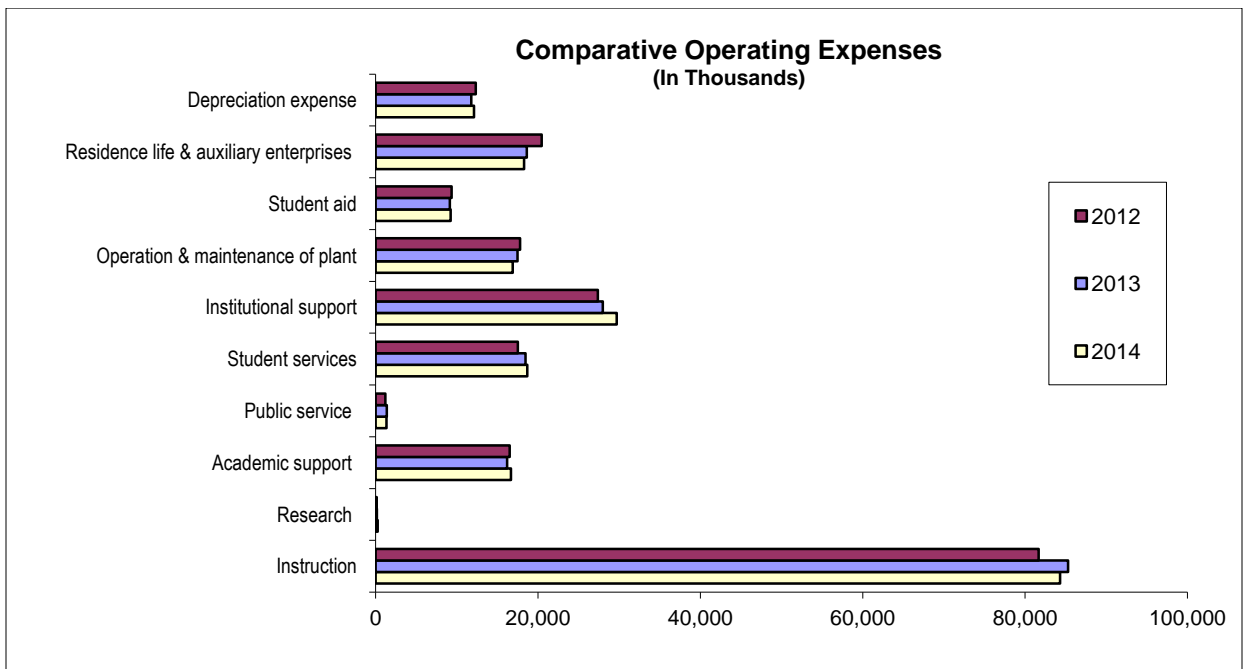
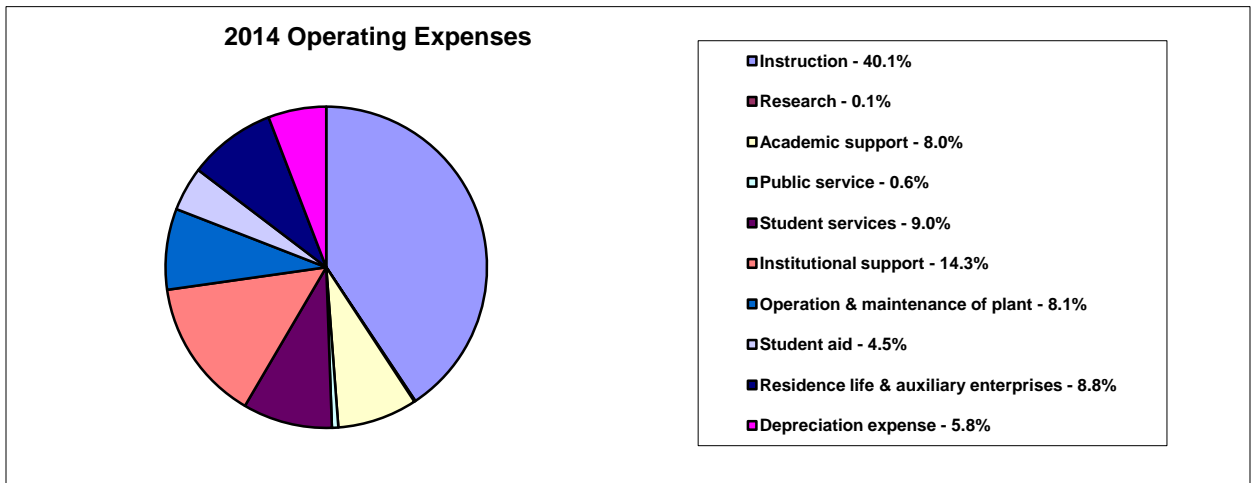
	<u>2014</u>		<u>2013</u>		<u>2012</u>	
Functional Classification						
Instruction	\$ 84,304	40.6 %	\$ 85,305	41.3 %	\$ 81,661	40.0 %
Research	254	0.1	141	0.1	133	0.1
Academic support	16,668	8.1	16,187	7.8	16,517	8.1
Public service	1,327	0.6	1,380	0.7	1,186	0.6
Student services	18,685	9.0	18,457	8.9	17,515	8.5
Institutional support	29,731	14.3	27,980	13.6	27,366	13.4
Operation and maintenance of plant	16,880	8.1	17,471	8.5	17,789	8.7
Student aid	9,232	4.5	9,137	4.4	9,346	4.6
Resident life and auxiliary	18,282	8.8	18,623	9.0	20,454	10.0
Depreciation	12,117	5.9	11,777	5.7	12,330	6.0
Total operating expenses	<u>\$ 207,480</u>	100.0 %	<u>\$ 206,458</u>	100.0 %	<u>\$ 204,297</u>	100.0 %
Natural Classification						
Salaries and wages	\$ 116,876	56.3 %	\$ 115,311	55.9 %	\$ 113,635	55.6 %
Fringe benefits	31,679	15.3	30,426	14.7	28,133	13.8
Supplies and services	46,808	22.6	48,944	23.7	50,199	24.6
Depreciation	12,117	5.8	11,777	5.7	12,330	6.0
Total operating expenses	<u>\$ 207,480</u>	100.0 %	<u>\$ 206,458</u>	100.0 %	<u>\$ 204,297</u>	100.0 %

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013



The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

Nonoperating Expense

Nonoperating expense consists of interest on capital asset-related debt of \$6.7 million, \$8.9 million and \$7.1 million for the years ended June 30, 2014, 2013 and 2012, respectively. Of the \$2.1 million decrease in fiscal year 2014, \$1.9 million is due to the GASB 65 restatement, representing the net increase during fiscal year 2013 to the deferred financing costs asset balance as originally stated. The GASB 65 restatement also explains \$1.9 million of the \$1.7 million variance between fiscal year 2013 and fiscal year 2012 interest on capital asset-related debt, offset by \$0.2 million resulting from refunding portions of the Series 2002E and Series 2004A Revenue Bonds.

Capital Assets and Debt Activities

At June 30, 2014, the University's investment in capital assets was \$347.8 million, net of accumulated depreciation of \$165.5 million. Debt related to these capitalized assets was \$171.7 million. During the year then ended, the University had total capital additions of \$23.6 million, including construction of the parking garage, the academic building, and other capital projects.

At June 30, 2013, the University's investment in capital assets was \$335.4 million, net of accumulated depreciation of \$154.4 million. Debt related to these capitalized assets was \$178.7 million. Total capital additions were \$18.1 million, including construction of the parking garage and related site work, refurbishing of Morrison and Raubinger Halls, upgrade of the Hobart Hall studio, exterior and elevator work on the Cheng Library, historic preservation of Hobart Manor exterior, and planning work on a new academic building and residential zone. The University also continued to upgrade its academic and administrative equipment.

During fiscal year 2014, there was no new bond financing, however there was new other debt financing of \$0.4 million associated with the New Jersey Educational Facilities Authority (NJEFA) Higher Education Equipment Leasing Fund (ELF) bonds issued by the State. Under this arrangement, cash of \$1.7 million was received in a trustee account, of which \$0.4 million is debt and \$1.3 million is grant revenue. The funds will be used for improvements to the Valley Road Data Center.

In May 2014, the University's credit rating of A1 with a stable outlook was affirmed by Moody's Investors Service (Moody's). In October 2012, the University's credit rating of AA- with a stable outlook was affirmed by Fitch Ratings (Fitch). Subsequent to year end (September, 2014), the Fitch rating was reaffirmed at AA- with a stable outlook.

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. 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 the new academic building. The University will continue to supplement funding for its capital and deferred maintenance projects with its own funds.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

A summary of the University's capital assets (in thousands) at June 30, 2014, 2013 and 2012 follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 7,256	\$ 7,256	\$ 7,256
Construction in progress	33,718	15,955	8,594
Infrastructure	16,058	15,914	15,848
Buildings and improvements	415,254	410,533	403,261
Equipment	40,694	39,768	36,399
Artwork	354	354	354
Total	<u>\$ 513,334</u>	<u>\$ 489,780</u>	<u>\$ 471,712</u>
Less accumulated depreciation	<u>165,538</u>	<u>154,366</u>	<u>142,602</u>
Total capital assets, net	<u><u>\$ 347,796</u></u>	<u><u>\$ 335,414</u></u>	<u><u>\$ 329,110</u></u>

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 growth of State support and the University's ability to control tuition costs. State appropriations received in the year ended June 30, 2014 were \$60.4 million, which is approximately the same amount as received in the year ended June 30, 1995 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. 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 full-time faculty to handle the growth in enrollment. Annual tuition and fee charges were increased only 2% or less over the past three 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 about \$3 million for strategic initiatives put forward through a bottoms up transparent budget process.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2014 and 2013

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 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, auxiliary services 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 Foundation has hired a consultant to provide advice for a future capital campaign. 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 address 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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash and cash equivalents	119,527,067	118,959,762
Restricted deposits held by bond trustees	15,166,345	14,173,616
Receivables:		
Students, less allowance for doubtful accounts of \$1,974,900 in 2014 and \$1,900,300 in 2013	7,198,330	6,552,580
Loans, less allowance for doubtful loans of \$163,600 in 2014 and 2013	700,632	617,225
State of New Jersey	1,402,333	1,046,277
Gifts, grants, and contracts	3,194,644	2,089,723
Other receivables	794,634	542,445
Total receivables	<u>13,290,573</u>	<u>10,848,250</u>
Total current assets	<u>147,983,985</u>	<u>143,981,628</u>
Noncurrent assets:		
Loans, less allowance for doubtful loans of \$57,400 in 2014 and 2013	391,363	435,723
Restricted deposits held by bond trustees	-	16,778,754
Capital assets, net	347,796,285	335,413,478
Total noncurrent assets	<u>348,187,648</u>	<u>352,627,955</u>
Total assets	<u>496,171,633</u>	<u>496,609,583</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	16,706,522	18,191,319
Compensated absences	3,244,014	3,325,897
Bonds payable	6,295,000	6,935,000
Other long-term debt	619,592	534,423
Unearned revenue	5,962,943	4,471,037
Total current liabilities	<u>32,828,071</u>	<u>33,457,676</u>
Noncurrent liabilities:		
Bonds payable	163,981,093	170,523,592
Other long-term debt	4,799,179	4,957,462
Compensated absences	2,438,563	2,423,104
U.S. government grants refundable	1,346,042	1,208,952
Total noncurrent liabilities	<u>172,564,877</u>	<u>179,113,110</u>
Total liabilities	<u>205,392,948</u>	<u>212,570,786</u>
Net Position		
Net investment in capital assets	176,802,354	164,898,137
Restricted for:		
Student loans	169,981	175,358
Debt service reserves	6,810,659	8,461,983
Unrestricted	106,995,691	110,503,319
Total net position	<u>\$ 290,778,685</u>	<u>\$ 284,038,797</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Student revenues:		
Student tuition and fees	126,824,014	126,668,242
Residence life	20,300,819	20,983,940
Less scholarship allowances	<u>(34,318,667)</u>	<u>(32,890,081)</u>
Net student revenues	112,806,166	114,762,101
Federal grants and contracts	22,178,031	21,448,886
State, local, and other grants and contracts	15,460,968	17,648,708
Auxiliary enterprises	<u>2,741,643</u>	<u>2,105,739</u>
Total operating revenues	<u>153,186,808</u>	<u>155,965,434</u>
Operating Expenses		
Instruction	84,303,602	85,304,966
Research	253,607	141,228
Academic support	16,667,572	16,187,168
Public service	1,327,467	1,380,021
Student services	18,685,397	18,456,570
Institutional support	29,731,326	27,979,655
Operating and maintenance of plant	16,879,952	17,470,897
Student aid	9,232,069	9,137,240
Residence life and auxiliary enterprises	18,282,233	18,623,473
Depreciation	<u>12,117,069</u>	<u>11,776,534</u>
Total operating expenses	<u>207,480,294</u>	<u>206,457,752</u>
Net operating loss	<u>(54,293,486)</u>	<u>(50,492,318)</u>
Nonoperating Revenues (Expenses)		
State of New Jersey appropriations	32,748,000	32,748,000
State of New Jersey paid fringe benefits	29,005,916	27,619,266
Private gifts	982,677	927,858
Investment income	878,883	1,628,090
Interest on capital asset-related debt	(6,716,022)	(8,854,172)
Other nonoperating revenues, net	<u>1,134,327</u>	<u>1,278,663</u>
Net nonoperating revenues	<u>58,033,781</u>	<u>55,347,705</u>
Income before other revenues	3,740,295	4,855,387
Other Revenues		
Capital grants and gifts	<u>2,999,593</u>	<u>265,793</u>
Increase in net position	6,739,888	5,121,180
Net Position, Beginning of Year		
As previously reported	284,038,797	283,287,109
Effect of adoption of GASB No. 65	-	(4,369,492)
As restated	<u>284,038,797</u>	<u>278,917,617</u>
Net Position, End of Year	<u>\$ 290,778,685</u>	<u>\$ 284,038,797</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Student tuition and fees	\$ 93,163,553	\$ 92,578,465
Federal, state, and local grants and contracts	36,284,078	39,559,973
Payments to suppliers	(37,175,318)	(42,310,079)
Payments to employees	(116,722,243)	(115,064,558)
Payments for employee benefits	(16,254,620)	(16,967,741)
Payments for student aid	(9,223,133)	(9,137,240)
Residence life	20,300,819	20,998,622
Auxiliary enterprise	2,741,643	3,836,602
Net cash used in operating activities	(26,885,221)	(26,505,956)
Cash Flows from Noncapital Financing Activities		
Private gifts	1,050,895	927,858
State of New Jersey appropriations	45,765,565	46,326,558
Other receipts	1,134,327	1,230,083
Net cash provided by noncapital financing activities	47,950,787	48,484,499
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(25,374,880)	(14,559,811)
Capital appropriations, grants and gifts received	2,999,593	265,793
Principal payments on asset related capital debt	(7,640,629)	(38,904,014)
Interest payments on capital asset-related debt	(7,528,492)	(7,245,919)
Increase in restricted deposits held by bond trustees	(13,581,065)	(36,279,028)
Decrease in restricted deposits held by bond trustees	29,343,076	24,423,634
Proceeds from issuance of capital asset related debt	385,015	54,087,087
Financing costs paid from trustee funds	-	(2,004,200)
Net cash used in capital and related financing activities	(21,397,382)	(20,216,458)
Cash Flows Provided by Investing Activities		
Interest received	899,121	1,283,091
Net increase in cash and cash equivalents	567,305	3,045,176
Cash and Cash Equivalents, Beginning of Year	<u>118,959,762</u>	<u>115,914,586</u>
Cash and Cash Equivalents, End of Year	<u>\$ 119,527,067</u>	<u>\$ 118,959,762</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	(54,293,486)	(50,492,318)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for doubtful accounts	74,571	-
State appropriations for fringe benefits	15,424,771	14,358,546
Depreciation expense	12,117,069	11,776,534
Changes in assets and liabilities:		
Receivables	(2,203,722)	(1,788,428)
Accounts payable and accrued expenses	570,094	(1,344,558)
Compensated absences	(66,424)	74,057
Unearned revenue	1,491,906	910,211
Net cash used in operating activities	<u>\$ (26,885,221)</u>	<u>\$ (26,505,956)</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,606,196	\$ 3,470,866
Investments	15,301,931	12,664,355
Promises to give, net	1,646,294	1,337,951
Interest receivable	47,936	49,729
Prepaid expenses and other assets	5,845	5,000
	<u>21,608,202</u>	<u>17,527,901</u>
Total assets	<u>\$ 21,608,202</u>	<u>\$ 17,527,901</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 217,016	\$ 112,134
Accrued expenses	12,600	10,000
Grants payable	9,906	46,418
Annuities payable	347,922	302,653
Deferred revenue	5,900	1,750
Refundable advances	350,000	350,000
	<u>943,344</u>	<u>822,955</u>
Total liabilities	<u>943,344</u>	<u>822,955</u>
Net Assets		
Unrestricted	3,768,222	2,672,664
Temporarily restricted	8,301,826	6,986,193
Permanently restricted	8,594,810	7,046,089
	<u>20,664,858</u>	<u>16,704,946</u>
Total net assets	<u>20,664,858</u>	<u>16,704,946</u>
Total liabilities and net assets	<u>\$ 21,608,202</u>	<u>\$ 17,527,901</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Changes In Unrestricted Net Assets		
Support:		
Scholarship	\$ 222,495	\$ 500
Fund-raising	148,056	141,914
Campus activities	318,927	403,488
Development	109,168	187,371
Capital campaigns	960	925
Investment activities	1,019,270	1,105,885
Net assets released from restrictions	<u>1,814,600</u>	<u>1,588,871</u>
Total support	<u>3,633,476</u>	<u>3,428,954</u>
Grants and Expenses:		
Scholarships/grants	627,467	517,532
Fund-raising	107,326	108,035
Campus activities	1,456,715	1,459,838
Development	264,777	216,483
Community activities	21,630	16,225
Capital campaigns	<u>60,003</u>	<u>2,509</u>
Total expenses and other deductions	<u>2,537,918</u>	<u>2,320,622</u>
Change in unrestricted net assets	<u>1,095,558</u>	<u>1,108,332</u>
Changes in Temporarily Restricted Net Assets		
Scholarship	455,509	382,631
Fund-raising	128,025	130,805
Campus activities	1,436,126	1,140,469
Development	4,723	77,292
Community activities	11,405	15,550
Capital campaigns	26,905	3,900
Investment activities	1,067,540	(664,677)
Net assets released from restrictions	<u>(1,814,600)</u>	<u>(1,588,871)</u>
Change in temporarily restricted net assets	<u>1,315,633</u>	<u>(502,901)</u>
Changes in Permanently Restricted Net Assets		
Scholarship	628,721	850,329
Campus activities	<u>920,000</u>	<u>-</u>
Change in permanently restricted net assets	<u>1,548,721</u>	<u>850,329</u>
Increase in net assets	3,959,912	1,455,760
Net Assets, Beginning	<u>16,704,946</u>	<u>15,249,186</u>
Net Assets, Ending	<u><u>\$ 20,664,858</u></u>	<u><u>\$ 16,704,946</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 Cash Flows

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 3,959,912	\$ 1,455,760
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized gain on sale of investments	(759,313)	(1,042,738)
Unrealized (gain) loss on investments	(1,079,832)	852,182
Bad debts expense	264,365	200,060
Change in operating assets and liabilities:		
Promises to give	(572,708)	(107,759)
Interest receivable	1,793	(11,437)
Prepaid expenses and other assets	(845)	(5,000)
Accounts payable	104,882	53,297
Accrued expenses	2,600	-
Grants payable	(36,512)	(45,425)
Annuities payable	45,269	104,849
Deferred revenue	4,150	(3,100)
Net cash provided by operating activities	<u>1,933,761</u>	<u>1,450,689</u>
Cash Flows from Investing Activities		
Purchase of investments	(5,446,216)	(5,826,772)
Proceeds from disposition of investments	<u>4,647,785</u>	<u>5,501,070</u>
Net cash used in investing activities	<u>(798,431)</u>	<u>(325,702)</u>
Net increase in cash and cash equivalents	1,135,330	1,124,987
Cash and Cash Equivalents, Beginning of Year	<u>3,470,866</u>	<u>2,345,879</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,606,196</u></u>	<u><u>\$ 3,470,866</u></u>

See notes to financial statements

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

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 52 undergraduate, 22 masters, one 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 2013 - 2014 and 2012 - 2013 academic years, approximately 10,000 and 10,100, respectively, part time and full time undergraduate students, and approximately 1,400 and 1,300, 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. are included in the accompanying basic financial statements as a discretely presented component unit.

The University has determined the William Paterson University of New Jersey Foundation, Inc. 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.

William Paterson University of New Jersey Foundation, Inc. (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.

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

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

As of June 30, 2014 and 2013, the University has a receivable of \$190,528 and \$147,561, respectively, from the Foundation. For the years ended June 30, 2014 and 2013, the University recognized revenue of \$1,955,610 and \$1,761,447, 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 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.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

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.

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 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.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

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 \$3,856,267 at June 30, 2014 and \$3,666,294 at June 30, 2013.

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 \$2,106,676 at June 30, 2014 and \$804,743 at June 30, 2013.

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.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

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 \$126,384 and \$180,488 in sick leave payments for employees who retired during the years ended June 30, 2014 and 2013, respectively.

Reclassification

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

New Accounting Pronouncement

The University adopted Governmental Accounting Standards Board ("GASB") Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2014. GASB No. 65 provides financial reporting guidance related to the impact on the financial statements of deferred outflows of resources and deferred inflows of resources, such as changes in the use of the term deferred in financial statement presentations. In addition, this statement also amends the financial statement element classification of certain items previously reported as assets and liabilities to more consistently align with asset, liability, deferred inflow of resources and deferred outflows of resources definitions. The University implemented the accounting and reporting requirements of GASB No. 65 as of July 1, 2013. The effect of this adoption decreased the University's governmental activities net position at July 1, 2012 by \$4,369,492 and increased interest on capital asset-related debt by \$1,932,105.

Income Taxes

The University is exempt from federal income taxes under Internal Revenue Code Section 115.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

3. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash and money market accounts	\$ 116,782,853	\$ 116,217,103
State of New Jersey Cash Management Fund	<u>2,744,214</u>	<u>2,742,659</u>
Total	<u>\$ 119,527,067</u>	<u>\$ 118,959,762</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, 2014 and 2013 were partially insured by the Federal Depository Insurance Corporation (FDIC) in the amount of \$250,000. Bank balances in excess of insured amounts of \$116.5 million in 2014 and \$116.0 million in 2013, 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 State of New Jersey Cash Management Fund (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 State of New Jersey Cash Management Fund was \$2.7 million as of both June 30, 2014 and 2013, 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.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

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>2014</u>	<u>2013</u>
Project and construction fund	\$ 4,700,933	\$ 18,756,578
Debt service fund for principal and interest	9,468,162	10,642,771
Debt service reserve fund	988,058	1,526,983
Excess rental pledge	9,192	26,038
	<u>15,166,345</u>	<u>30,952,370</u>
Less current portion	<u>15,166,345</u>	<u>14,173,616</u>
Noncurrent restricted deposits held by bond trustees	<u>\$ -</u>	<u>\$ 16,778,754</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. As of June 30, 2014 and 2013, restricted deposits held by bond trustees were invested in the following:

	<u>2014</u>	<u>2013</u>
Money market accounts	\$ 11,217,843	\$ 11,064,519
U.S. Treasury bills	2,960,502	18,424,880
U.S. Government issues	988,000	1,462,971
Total	<u>\$ 15,166,345</u>	<u>\$ 30,952,370</u>

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, 2014 and 2013, restricted deposits held by bond trustees were invested in U.S. Treasuries, money market accounts, and U.S. Government issues, all of which have maturity dates of less than one year.

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 William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

5. Capital Assets

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

	Beginning Balance July 1, 2013	Acquisition and Other Increases	Dispositions and Other Decreases	Ending Balance June 30, 2014
Depreciable assets:				
Infrastructure	\$ 15,913,678	\$ 144,570	\$ -	\$ 16,058,248
Buildings and improvements	410,532,628	5,556,798	(835,894)	415,253,532
Equipment	39,767,660	1,035,454	(108,875)	40,694,239
Total depreciable assets	<u>466,213,966</u>	<u>6,736,822</u>	<u>(944,769)</u>	<u>472,006,019</u>
Less accumulated depreciation on:				
Infrastructure	7,542,937	468,642	-	8,011,579
Buildings and improvements	116,366,817	9,214,105	(564,007)	125,016,915
Equipment	30,455,919	2,162,435	(108,875)	32,509,479
Total accumulated depreciation	<u>154,365,673</u>	<u>11,845,182</u>	<u>(672,882)</u>	<u>165,537,973</u>
Depreciable assets, net	<u>311,848,293</u>	<u>(5,108,360)</u>	<u>(271,887)</u>	<u>306,468,046</u>
Nondepreciable assets:				
Land	7,255,914	-	-	7,255,914
Artwork	354,355	-	-	354,355
Construction in progress	15,954,916	23,464,423	(5,701,369)	33,717,970
Total nondepreciable assets	<u>23,565,185</u>	<u>23,464,423</u>	<u>(5,701,369)</u>	<u>41,328,239</u>
Total capital assets, net	<u>\$ 335,413,478</u>	<u>\$ 18,356,063</u>	<u>\$ (5,973,256)</u>	<u>\$ 347,796,285</u>

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

	Beginning Balance July 1, 2012	Acquisition and Other Increases	Dispositions and Other Decreases	Ending Balance June 30, 2013
Depreciable assets:				
Infrastructure	\$ 15,848,629	\$ 65,049	\$ -	\$ 15,913,678
Buildings and improvements	403,261,316	7,271,312	-	410,532,628
Equipment	36,398,775	3,382,211	(13,326)	39,767,660
Total depreciable assets	455,508,720	10,718,572	(13,326)	466,213,966
Less accumulated depreciation on:				
Infrastructure	7,076,902	466,035	-	7,542,937
Buildings and improvements	107,269,972	9,096,845	-	116,366,817
Equipment	28,255,590	2,213,655	(13,326)	30,455,919
Total accumulated depreciation	142,602,464	11,776,535	(13,326)	154,365,673
Depreciable assets, net	312,906,256	(1,057,963)	-	311,848,293
Nondepreciable assets:				
Land	7,255,914	-	-	7,255,914
Artwork	354,355	-	-	354,355
Construction in progress	8,593,946	14,697,330	(7,336,360)	15,954,916
Total nondepreciable assets	16,204,215	14,697,330	(7,336,360)	23,565,185
Total capital assets, net	\$ 329,110,471	\$ 13,639,367	\$ (7,336,360)	\$ 335,413,478

As of June 30, 2014, estimated costs to complete the projects classified as construction in progress are approximately \$44,800,000. 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, 2014 and 2013, the University capitalized interest expense of \$704,038 and \$281,602, respectively, as construction in progress in the accompanying statements of net position.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

6. Accounts Payable and Accrued Expenses

As of June 30, 2014 and 2013, accounts payable and accrued expenses consist of the following:

	<u>2014</u>	<u>2013</u>
Vendors	\$ 3,470,189	\$ 3,378,962
Capital projects	3,115,557	4,694,599
Accrued salaries and benefits	6,545,451	6,409,987
Accrued interest	<u>3,575,325</u>	<u>3,707,771</u>
Total	<u>\$ 16,706,522</u>	<u>\$ 18,191,319</u>

7. Long Term Debt

Bonds Payable

The University has financed capital assets through various revenue bonds issued through the New Jersey Educational Facilities Authority (the "Authority") for the acquisition, construction and renovation of residence halls, the University Commons and academic facilities. As of June 30, 2014 and 2013, the following obligations to the Authority are outstanding:

	<u>Interest Rates</u>	<u>2014</u>	<u>2013</u>	<u>Current Portion</u>
New Jersey Educational Facility Authority:				
Revenue Bonds:				
Series 2004 A Revenue Bonds, due serially to 2014	3.00 - 4.00%	\$ 945,000	\$ 2,300,000	\$ 945,000
Series 2005 E Revenue Bonds, due serially to 2031	3.75 - 5.00	34,870,000	37,580,000	2,830,000
Series 2008 C Revenue Bonds, due serially to 2039	3.25 - 5.00	80,245,000	82,235,000	2,070,000
Series 2012 C Revenue Bonds, due serially to 2024	2.00 - 5.00	33,140,000	33,815,000	450,000
Series 2012 D Revenue Bonds, due serially to 2028	2.00 - 5.00	<u>17,085,000</u>	<u>17,290,000</u>	<u>-</u>
		166,285,000	173,220,000	6,295,000
Add amounts representing net premiums		<u>3,991,099</u>	<u>4,238,592</u>	<u>-</u>
Total		<u>\$ 170,276,099</u>	<u>\$ 177,458,592</u>	<u>\$ 6,295,000</u>

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

The University has defeased certain indebtedness by depositing funds into escrow accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. These defeased bonds are not considered outstanding obligations of the University and, therefore, neither the assets of the escrow accounts nor the defeased indebtedness are included in the accompanying statements of net position. There is approximately \$18,240,000 of defeased debt that remains outstanding to bondholders at both June 30, 2014 and 2013.

Other Long Term Debt

As of June 30, 2014 and 2013, the following other obligations were outstanding:

	<u>Interest Rates</u>	<u>2014</u>	<u>2013</u>	<u>Current Portion</u>
NJ Educational Facilities Authority Higher Education Equipment Leasing Fund (ELF) 2014A	5.00%	\$ 385,015	\$ -	\$ 50,911
Higher Education Capital Improvement Fund Series 2005A, due serially to 2020	3.00 - 5.00	2,412,862	2,790,309	384,307
Higher Education Capital Improvement Fund Series 2006A, due serially to 2023	4.00 - 4.50	2,163,901	2,083,725	9,510
Higher Education Capital Improvement Fund Series 2002 A, due serially to 2023	4.00 - 4.75	53,055	65,726	25,344
Dormitory Safety Trust Fund Series 2001 A, due serially to 2016	4.80	23,458	35,188	11,729
Dormitory Safety Trust Fund Series 2001 B, due serially to 2016	6.08	115,724	173,585	57,862
Bank of America Public Capital Corp, due serially to 2018	1.68	264,756	343,352	79,928
Total		<u>\$ 5,418,771</u>	<u>\$ 5,491,885</u>	<u>\$ 619,591</u>

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

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, 2014:

	<u>Principal</u>	<u>Interest</u>
Years ending June 30:		
2015	\$ 6,914,591	\$ 7,138,242
2016	7,226,046	6,842,348
2017	7,458,686	6,523,219
2018	7,684,744	6,159,533
2019	<u>8,040,982</u>	<u>5,798,908</u>
2015 - 2019 subtotal	37,325,049	32,462,250
2020 - 2024	38,683,722	23,726,324
2025 - 2029	38,395,000	15,931,500
2030 - 2034	25,380,000	9,403,056
2035 - 2039	27,680,000	3,496,475
2040 - 2043	<u>4,240,000</u>	<u>229,075</u>
Total	<u>\$ 171,703,771</u>	<u>\$ 85,248,680</u>

8. Summary of Changes in Noncurrent Liabilities

Activity in noncurrent liabilities for the year ended June 30, 2014 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	\$ 177,458,592	\$ -	\$ (7,182,499)	\$ 170,276,093	\$ 6,295,000
Other long-term debt	5,491,885	385,015	(458,129)	5,418,771	619,592
Compensated absences	5,749,001	6,714,703	(6,781,127)	5,682,577	3,244,014
U.S. government grants refundable	<u>1,208,952</u>	<u>137,090</u>	<u>-</u>	<u>1,346,042</u>	<u>-</u>
Total	<u>\$ 189,908,430</u>	<u>\$ 7,236,808</u>	<u>\$ (14,421,755)</u>	<u>\$ 182,723,483</u>	<u>\$ 10,158,606</u>

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

Activity in noncurrent liabilities for the year ended June 30, 2013 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	\$ 162,365,878	\$ 53,467,714	\$ (38,375,000)	\$ 177,458,592	\$ 6,935,000
Other long-term debt	5,584,522	402,000	(494,637)	5,491,885	534,423
Compensated absences	5,674,944	6,531,814	(6,457,757)	5,749,001	3,325,897
U.S. government grants refundable	1,182,219	26,733	-	1,208,952	-
Total	<u>\$ 174,807,563</u>	<u>\$ 60,428,261</u>	<u>\$ (45,327,394)</u>	<u>\$ 189,908,430</u>	<u>\$ 10,795,320</u>

9. Retirement Plans

Plan Descriptions

The University participates in three major retirement plans for its employees - Public Employees' Retirement System ("PERS"), Police and Fireman's Retirement System ("PFRS"), and The Alternate Benefit Program ("ABP"). Generally, all employees, except certain part time employees, participate in one of these plans.

PERS, which is a State of New Jersey cost sharing multiple employer defined benefit pension plan, was established under the provisions of N.J.S.A. 43:15A to provide coverage, including postretirement healthcare, to substantially all full time employees of the State of New Jersey or public agency, provided the employee is not a member of another State administered retirement system.

PFRS, which is a State of New Jersey cost sharing multiple employer defined benefit pension plan, was established under the provisions of N.J.S.A. 43:16A to provide coverage to substantially all full time county and municipal police or firemen and State of New Jersey firemen appointed after June 30, 1994.

ABP is a defined contribution plan. The members presently make contributions to AIG VALIC, AXA Financial (Equitable), The Hartford, ING Life Insurance and Annuity Company, Met Life, and Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). Each ABP alternative is administered by a separate board of trustees.

In addition to the three plans offered by the University, certain faculty members of the University participate in the Teachers' Pension and Annuity Fund ("TPAF"), which is a State of New Jersey cost sharing defined benefit plan. TPAF was established under the provisions of N.J.S.A. 18A:66 to provide coverage, including postretirement healthcare, to substantially all full time public school employees in the State of New Jersey. The University no longer enrolls new employees into the TPAF program.

The State of New Jersey issues publicly available financial reports that include financial statements and required supplementary information for PERS, PFRS, and TPAF. This report may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

PERS Funding Policy

Beginning July 2012, the required contribution rate for PERS members was subjected to a phased increase from 6.5% to 7.5%. The increase will occur over a seven year period. The required contribution rate was 6.78% and 6.64% of annual covered salary for the years ended June 30, 2014 and 2013, respectively. The State of New Jersey, in accordance with State statutes, makes employer contribution 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. Employers were not required to contribute in 2014 and 2013 due to legislation enacted in 1997 by the State of New Jersey, which fully funded previously existing unfunded accrued liabilities of PERS through State of New Jersey bonds. The contribution requirements of the plan member and the University are established and may be amended by the State of New Jersey.

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 University has no direct pension obligation associated with the State plans and no liability for such costs has been recorded in the accompanying statement of net position.

PFRS Funding Policy

During the years ended June 30, 2014 and 2013, 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.

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 University has no direct pension obligation associated with the State plans and no liability for such costs has been recorded in the accompanying Statement of Net Position.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

Alternate Benefit Program Information

ABP provides the choice of six investment carriers, all of which are privately operated defined contribution retirement plans. 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, 2014, ABP received employer and employee contributions of \$5,545,178 and \$3,496,334, respectively, which were based on participating employee salaries of approximately \$69,926,693. During the year ended June 30, 2013, ABP received employer and employee contributions of \$5,413,039 and \$3,423,861, respectively, which were based on participating employee salaries of approximately \$68,477,220. Employer contributions to ABP are paid by the State of New Jersey 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.

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 \$64,641 and \$65,862 were made in fiscal year 2014 and 2013, 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.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

10. Commitments and Contingencies

The University has entered into several noncancelable leases for certain computer equipment and temporary office space, which have been classified as operating leases. In addition, the University entered into a fifteen year 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. During the year ended June 30, 2012, the University entered into another contract with the same third party for additional University properties. Total rent expense was \$1,244,009 and \$1,430,893 in 2014 and 2013, respectively.

The future estimated minimum annual commitments are as follows:

	<u>Amount</u>
Years ending June 30:	
2015	\$ 920,542
2016	705,484
2017	595,730
2018	557,317
2019	<u>559,278</u>
2015 - 2019 subtotal	3,338,351
2020 - 2024	3,225,991
2025 - 2029	<u>810,371</u>
Total	<u>\$ 7,374,713</u>

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.

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 \$29,005,916 and \$27,619,266, for the years ended June 30, 2014 and 2013, 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.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

12. Unrestricted Net Position

As of June 30, 2014 and 2013, unrestricted net position consist of funds that have been designated as follows:

	<u>2014</u>	<u>2013</u>
Academic and other programs	\$ 23,691,098	\$ 29,942,845
Quasi-endowment	10,560,327	10,497,254
Capital programs:		
Renewal and replacement - nonauxiliary	46,661,477	47,473,114
Renewal and replacement - auxiliary	<u>26,082,789</u>	<u>22,590,106</u>
Total	<u>\$ 106,995,691</u>	<u>\$ 110,503,319</u>

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 \$1,000,000,000. Coverage for theft of money and securities provides for the actual loss in excess of \$25,000 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.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2014 and 2013

14. Adoption of New Accounting Standard

The University has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, ("GASB No. 65") for the year ended June 30, 2014. GASB No. 65 provides financial reporting guidance related to the impact on the financial statements of deferred outflows of resources and deferred inflows of resources, such as changes in the use of the term deferred in financial statement presentations. In addition, this statement amends the financial statement element classification of items previously reported as assets and liabilities to more consistently align with asset, liability, deferred outflows of resources, and deferred inflow of resources definitions. This statement requires the effects be applied to the earliest period presented, therefore it was recorded to the net position balance as of July 1, 2012. The effect of this adoption on amounts reported in the June 30, 2013 financial statements were as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Deferred financing costs, net of amortization	\$ 6,301,597	\$ -
Net investment in capital assets as of July 1, 2012	164,904,019	160,534,527
Total net position as of July 1, 2012	283,287,109	278,917,617
Interest expense fiscal year 2013	6,922,067	8,854,172