

# **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, 2013 and 2012



# **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 year ended June 30, 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 audit. 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%, 6%, 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 audit 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, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

The financial statements of The William Paterson University of New Jersey, a component unit of the State of New Jersey, and its discretely presented component unit for the year ended June 30, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on November 16, 2012.

### *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 16 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.



Clark, New Jersey  
November 6, 2013

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

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Management's Discussion and Analysis

June 30, 2013 and 2012

## **Introduction**

This section of the financial report presents management's discussion and analysis of the financial performance of The William Paterson University of New Jersey (the University) during the fiscal years ended June 30, 2013 and 2012, with selected comparative information for the year ended June 30, 2011. Since management's discussion and analysis is designed to focus on current activities, it should be read in conjunction with the University's financial statements and footnotes, which follow this section.

## **Financial Highlights**

Net position, which is one indicator of the current financial condition of the University, is the residual interest in the University's assets after liabilities are deducted. Net position is classified into three major categories. The first category, net investment in capital assets, provides the University's equity in property, plant and equipment. The second category, restricted net position, is resources available to the University that must be spent for purposes as determined by external entities. The third category, unrestricted net position, includes amounts institutionally designated to support specific academic, capital and other programs.

At June 30, 2013, the University had total net position of \$290.3 million, an increase of \$7.0 million from \$283.3 million at June 30, 2012. Net investment in capital assets increased by \$6.3 million as a result of continued investment in buildings, improvements and equipment, including the completion of the Science complex and the construction of a parking garage, both funded by University issued bonds. The University also refurbished Morrison and Raubinger Halls, Cheng Library, Hobart Hall Studio and Shea Center, various residence halls and updated its residential zone plan. The University began planning for a new \$40 million academic building, which will be funded in part by \$30 million of State of New Jersey "Building Our Future" Bonds. Unrestricted net position increased by \$2.4 million, resulting from increases of \$0.8 million in the quasi endowment, \$1.3 million in net position designated for capital projects, and \$0.3 million in net position available for academic and other programs. There were no other significant changes in net position.

At June 30, 2012, the University had total net position of \$283.3 million, an increase of \$8.8 million from \$274.5 million at June 30, 2011. Net investment in capital assets increased by \$3.0 million as a result of continued investment in buildings, improvements and equipment, including the completion of the Science complex (funded by bond proceeds), the refurbishment of Morrison Hall, Cheng Library, Hobart Hall Studio and Shea Center, ongoing reroofing of various buildings, improved technology for wireless connectivity across campus, ongoing upgraded energy management systems (partially grant funded) and planning and site preparation costs for a proposed parking garage. Net position restricted for renewal and replacement decreased by \$1.5 million and for debt service decreased by \$2.0 million, respectively, after the final payment of the Series 1981 B Revenue Bonds. Unrestricted net position increased by \$9.3 million, resulting from increases of \$0.8 million in the quasi endowment, \$3.6 million in net position designated for capital projects, and \$4.9 million in net position available for academic and other programs. There were no other significant changes in net position.

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For the year ended June 30, 2013, operating revenues were \$157.7 million, a decrease of \$0.7 million from fiscal year 2012, while operating expenses were \$208.2 million, an increase of \$3.9 million from fiscal year 2012. For the year ended June 30, 2012, operating revenues were \$158.4 million, an increase of \$7.2 million from fiscal year 2011, while operating expenses were \$204.3 million, an increase of \$10.6 million from fiscal year 2011. The decrease in net student operating revenues from fiscal year 2012 to fiscal year 2013 is the result of a slight decline in enrollment, offset by a slight increase in tuition, fees and room and board rates. The increase in operating expenses from fiscal year 2012 to fiscal year 2013 is primarily the result of increased costs of instruction. The increase in net student operating revenues and expenses from fiscal year 2011 to fiscal year 2012 is primarily the result of increased enrollment and increased tuition, fees and room and board rates. Headcount enrollment for the fall and spring semesters is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Enrollment (headcount):			
Fall	11,423	11,581	11,361
Spring	10,641	10,947	10,798

For the year ended June 30, 2013, non-student operating revenues were \$42.9 million, an increase of \$0.7 million from fiscal year 2012, primarily due to increased state program grants and student financial aid grants offset by decreased Federal program grants and student financial aid grants. For the year ended June 30, 2012, other operating revenues were \$42.2 million, an increase of \$2.9 million from fiscal year 2011, primarily due to increased Federal program grants and student financial aid grants.

For the year ended June 30, 2013, net nonoperating revenues were \$57.3 million, an increase of \$3.4 million from fiscal year 2012. The significant changes during the year ended June 30, 2013 were increased State paid fringe benefits (\$2.3 million), investment income (\$0.4 million), private gifts (\$0.2 million) and other nonoperating income (\$0.3 million) and decreased interest on capital asset-related debt (\$0.2 million), while State appropriations remained flat. During the year ended June 30, 2013, the University capitalized interest expense of \$0.3 million on the Series 2012C Revenue Bonds as construction in progress costs related to the parking garage project. For the year ended June 30, 2012, net nonoperating revenues were \$53.9 million, a decrease of \$1.0 million from fiscal year 2011. The significant changes during the year ended June 30, 2012 were decreased State appropriations (\$1.3 million) and increased interest on capital asset-related debt (\$0.8 million), offset by increased State paid fringe benefits (\$0.8 million), investment income (\$0.1 million) and private gifts and other nonoperating revenues (\$0.2 million). During the year ended June 30, 2012, the University capitalized interest expense of \$0.9 million on the Series 2008 C Revenue Bonds as construction in progress costs related to the second phase of the Science Building project.

For the year ended June 30, 2013, capital grants and gifts were \$0.3 million, a decrease \$0.4 from fiscal year ended 2012. During fiscal year 2013, the University received a \$0.3 million county grant for road maintenance. For the year ended June 30, 2012, capital grants and gifts were \$0.7 million, a slight increase of \$0.1 from fiscal year ended 2011. During fiscal year 2012, the University received a \$0.5 million ARRA funded county grant for energy management systems and a \$0.2 million county grant for road maintenance.

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## Statements of Net Position

The Statements of Net Position present 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, 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 143,982	\$ 136,741	\$ 133,847
Noncurrent assets:			
Capital assets, net	335,413	329,110	313,062
Other	<u>23,516</u>	<u>12,323</u>	<u>32,513</u>
Total assets	502,911	478,174	479,422
Liabilities:			
Current liabilities	33,458	29,569	33,384
Noncurrent liabilities	<u>179,113</u>	<u>165,318</u>	<u>171,490</u>
Total liabilities	212,571	194,887	204,874
Net position:			
Net investments in capital assets	171,200	164,904	161,934
Restricted for:			
Student loans	175	163	155
Renewals and replacements	-	-	1,504
Debt service	8,462	10,120	12,123
Unrestricted	<u>110,503</u>	<u>108,100</u>	<u>98,832</u>
Total net position	<u>\$ 290,340</u>	<u>\$ 283,287</u>	<u>\$ 274,548</u>

Current assets consist of cash and cash equivalents, receivables and current portion of restricted deposits held by bond trustees. 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.

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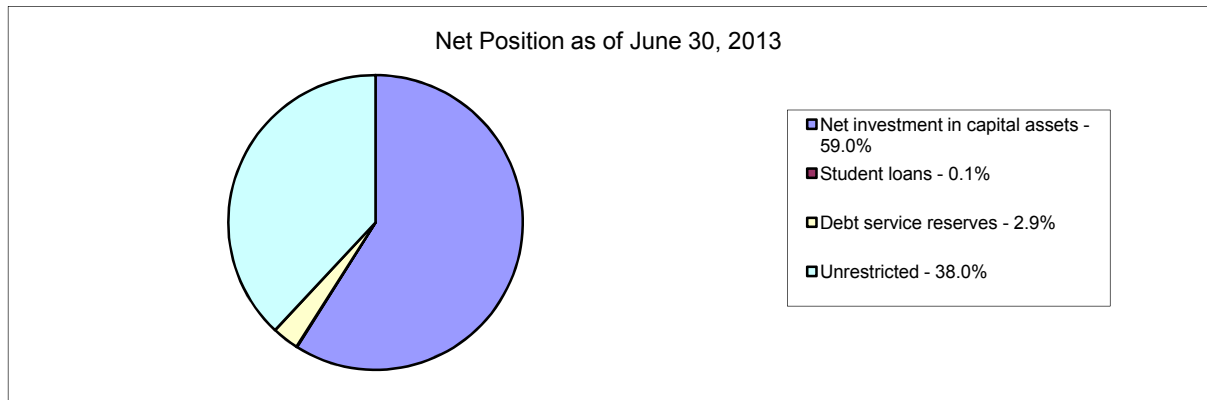
Management's Discussion and Analysis

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At June 30, 2013, the University had total assets of \$502.9 million, an increase of \$24.7 million from \$478.2 million at June 30, 2012. All major components of assets increased during the year. The increase in restricted deposits held by bond trustees and deferred financing costs resulted from the issuance of the Series 2012C and Series 2012D Revenue Bonds in October 2012. At June 30, 2012, the University had total assets of \$478.2 million, a decrease of \$1.2 million from \$479.4 million at June 30, 2011. The major components of this change are increases in cash and cash equivalents, total receivables and net capital assets, offset by a decrease in total restricted deposits held by bond trustees resulting from expending construction funds for costs incurred on the Science Building project.

At June 30, 2013, the University has 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.

At June 30, 2012, the University has total liabilities of \$194.9 million, a decrease of \$10.0 million from \$204.9 million at June 30, 2011. The major components of this change are decreases in accounts payable and accrued expenses, deferred revenues and bonds payable and other long term debt, offset by an increase in compensated absences. The University made timely principal payments of \$7.4 million on bonds payable and other long term debt.



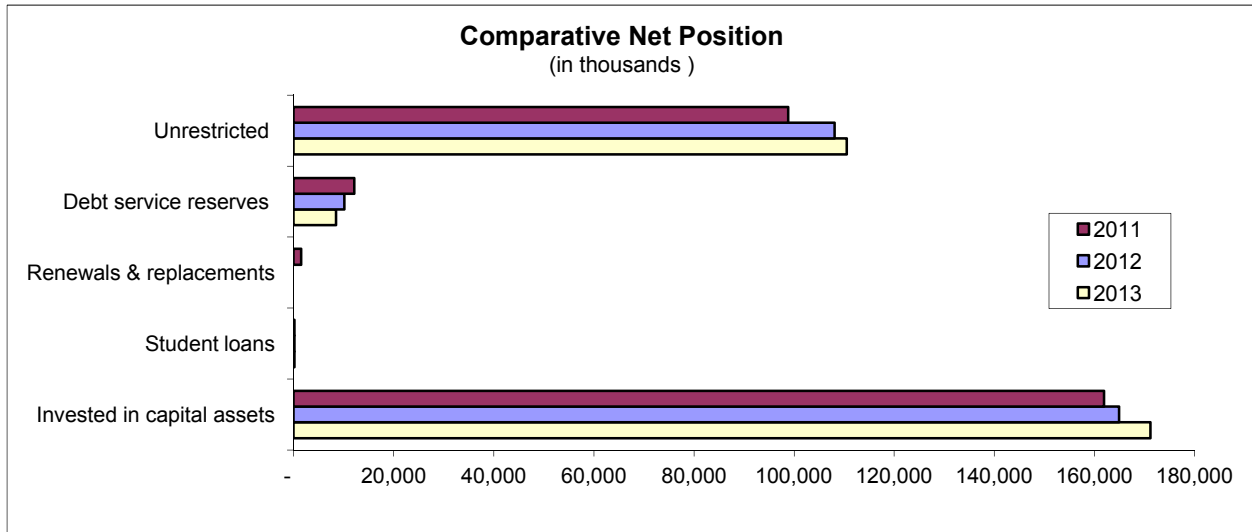


# The William Paterson University of New Jersey

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

The Statements of Revenues, Expenses, and Changes in Net Position present the University's changes in financial position. This statement presents the operating and nonoperating revenues earned by the University, and the operating and nonoperating expenses that were incurred by the University, and any other revenues, expenses, gains and losses earned or incurred by the University.

Operating revenues are those revenues received by the University for providing goods and services directly to its students and other constituencies. Operating expenses are incurred to acquire or produce goods and services to carry out its mission. Nonoperating revenues are revenues earned for which goods and services are not provided, such as State of New Jersey appropriations, as they are provided by the State to the University without the State receiving commensurate goods and services for those revenues. Nonoperating activity also includes investment income and interest expense.

# The William Paterson University of New Jersey

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A summary of the University's revenues, expenses, and changes in net position (in thousands) for the years ended June 30, 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues:			
Net student revenue	\$ 114,762	\$ 116,147	\$ 111,862
Other	42,934	42,225	39,317
Total operating revenues	157,696	158,372	151,179
Operating expenses	208,188	204,297	193,749
Operating loss	(50,492)	(45,925)	(42,570)
Nonoperating revenues (expenses):			
State appropriations	60,367	58,025	58,516
Other	3,835	3,036	2,747
Interest	(6,922)	(7,128)	(6,330)
Net nonoperating revenues	57,280	53,933	54,933
Capital grants and gifts	265	731	629
Increase in net position	7,053	8,739	12,992
Net position, beginning of year	283,287	274,548	261,556
Net position, end of year	<u>\$ 290,340</u>	<u>\$ 283,287</u>	<u>\$ 274,548</u>

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## Revenues

### Operating Revenues

The University's largest sources of operating revenue are tuition and fees and residence life, net of scholarship allowances, and government and other grants and contracts. Gross student tuition and fees were \$126.7 million, \$126.6 million, and \$122.8 million for the years ended June 30, 2013, 2012, and 2011 respectively. This revenue was generated by the following number of students, resident students and meal plan participants:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total enrollment (FTEs):			
Annualized Fall and Spring	8,529	8,686	8,625
Summer I	365	383	397
Summer II	325	351	362
Winter	85	86	89
	<u>9,304</u>	<u>9,506</u>	<u>9,473</u>
Total enrollment			
	<u>9,304</u>	<u>9,506</u>	<u>9,473</u>
Resident students	<u>2,165</u>	<u>2,304</u>	<u>2,171</u>
Meal Plan participants	<u>2,020</u>	<u>2,122</u>	<u>1,972</u>

Revenue from auxiliary services consists of bookstore and vending machine commissions, revenue from athletic programs, facilities rentals and other related revenue.

### Nonoperating Revenues

The University's primary sources of nonoperating revenue are State of New Jersey appropriations and State of New Jersey paid fringe benefits. The University received State appropriations of \$32.7 million, \$32.7 million, and \$34.1 million for the years ended June 30, 2013, 2012, and 2011, respectively. For the same fiscal periods, State paid fringe benefits totaled \$27.6 million, \$25.3 million, and \$24.5 million.

### Capital Grants and Gifts

For the year ended June 30, 2013, the University received a capital grant of \$0.3 million for road maintenance. For the year ended June 30, 2012, the University received capital grants of \$0.5 million for upgraded energy management systems and \$0.2 million for road maintenance. For the year ended June 30, 2011, the University received a capital grant of \$0.6 million for upgraded energy management systems.

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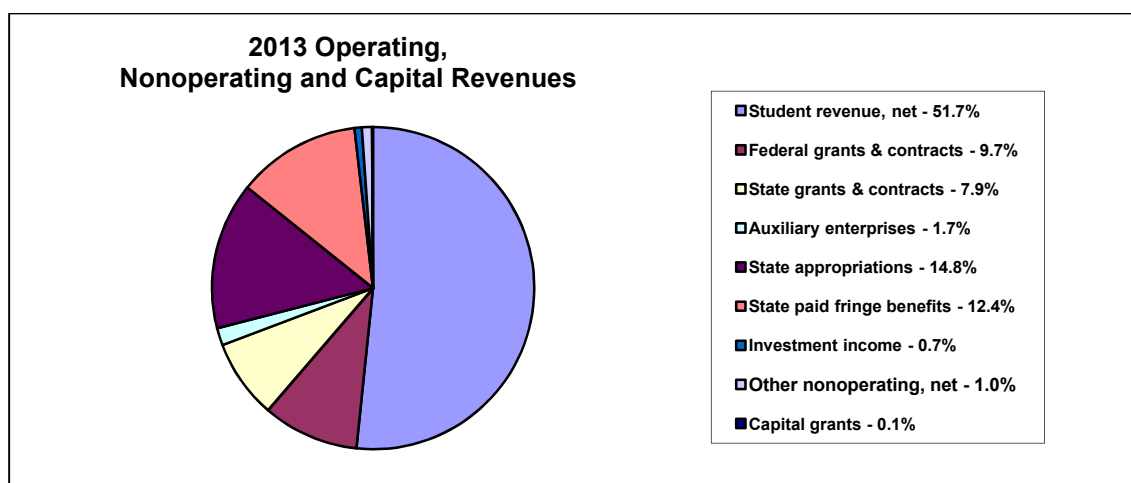
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A summary of the University's revenues (in thousands) for the years ended June 30, 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues:			
Net student revenues	\$ 114,762	\$ 116,147	\$ 111,862
Federal grants and contracts	21,449	22,560	21,934
State, local and other grants and contracts	17,648	15,311	13,905
Auxiliary enterprises	3,837	4,354	3,478
<b>Total operating revenues</b>	<u>157,696</u>	<u>158,372</u>	<u>151,179</u>
Nonoperating revenues:			
State appropriations	32,748	32,748	34,052
State paid fringe benefits	27,619	25,277	24,464
Investment income	1,628	1,281	1,119
Other, including private gifts	2,207	1,755	1,628
<b>Total nonoperating revenues</b>	<u>64,202</u>	<u>61,061</u>	<u>61,263</u>
Capital grants and gifts	<u>265</u>	<u>731</u>	<u>629</u>
<b>Total</b>	<u>\$ 222,163</u>	<u>\$ 220,164</u>	<u>\$ 213,071</u>

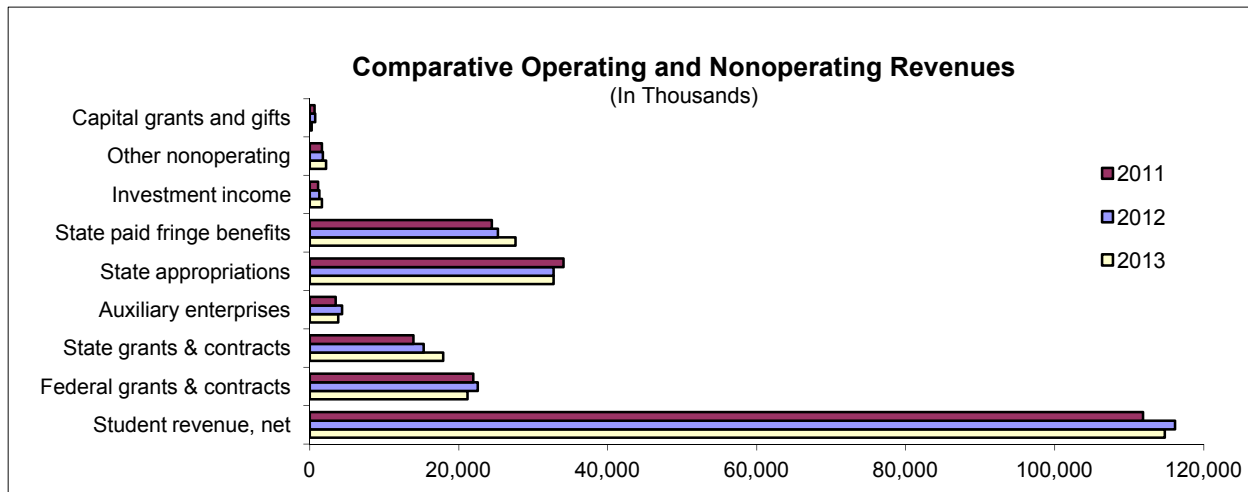


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## Expenses

### Operating Expenses

For the year ended June 30, 2013, operating expenses totaled \$208.2 million. Of this amount, \$103.0 million (49.5%) was expended for instruction, research, academic support and public service, \$18.4 million (8.9%) was expended for student services, \$9.1 million (4.4%) was expended for student aid, \$20.4 million (9.8%) was expended for residence life and auxiliary enterprises, \$28.0 million (13.4%) was expended for institutional support, \$17.5 million (8.4%) was expended for operation and maintenance of plant and \$11.8 million (5.6%) was charged for depreciation.

For the year ended June 30, 2012, operating expenses totaled \$204.3 million. Of this amount, \$99.5 million (48.8%) was expended for instruction, research, academic support and public service, \$17.5 million (8.5%) was expended for student services, \$9.3 million (4.6%) was expended for student aid, \$20.5 million (10.0%) was expended for residence life and auxiliary enterprises, \$27.4 million (13.4%) was expended for institutional support, \$17.8 million (8.7%) was expended for operation and maintenance of plant and \$12.3 million (6.0%) was charged for depreciation.

### Nonoperating Expenses

Nonoperating expenses consist of interest on capital asset related-debt of \$6.9 million, \$7.1 million, and \$6.3 million for the years ended June 30, 2013, 2012 and 2011, respectively. The decrease between 2013 and 2012 resulted from refunding portions of the Series 2002E and Series 2004A Revenue Bonds. The increase between 2012 and 2011 resulted from expensing interest on the Series 2008C Revenue Bonds upon completion of the Science Building East in 2012 and Science Building West in 2011. Interest expense, net of related interest income, of \$0.2 million (series 2012C), \$0.9 million (Series 2008C), and \$2.0 million (Series 2008C) was capitalized as construction in progress for the years ended June 30, 2013, 2012 and 2011, respectively.

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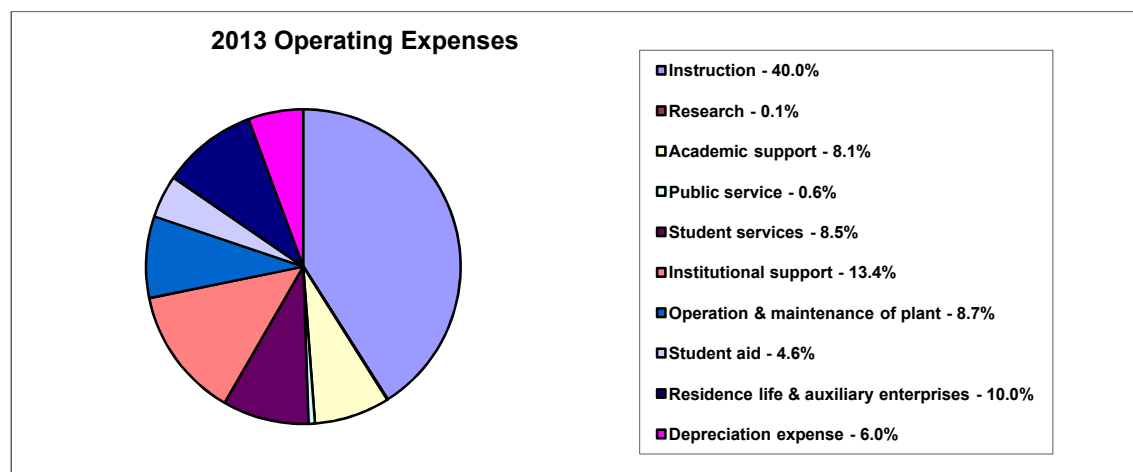
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A summary of the University's operating expenses (in thousands) for the years ended June 30, 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating expenses:			
Instruction	\$ 85,305	\$ 81,661	\$ 79,883
Research	141	133	181
Academic support	16,187	16,517	16,195
Public service	1,380	1,186	1,078
Student services	18,457	17,515	15,727
Institutional support	27,980	27,366	26,300
Operation and maintenance of plant	17,471	17,789	16,589
Student aid	9,137	9,346	6,891
Residence life and auxiliary enterprises	20,354	20,454	18,989
Depreciation	11,777	12,330	11,916
	<u>\$ 208,189</u>	<u>\$ 204,297</u>	<u>\$ 193,749</u>
Nonoperating expenses:			
Interest	<u>\$ 6,922</u>	<u>\$ 7,128</u>	<u>\$ 6,330</u>

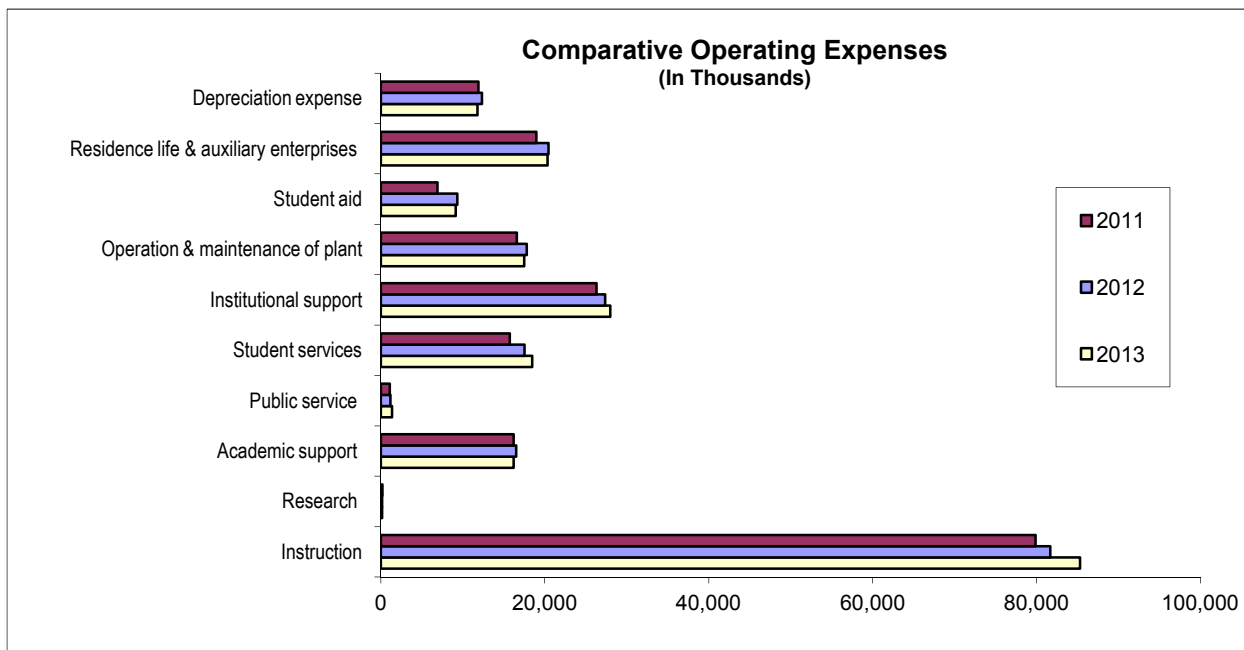


# The William Paterson University of New Jersey

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## Capital Assets and Debt Activities

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. During the year then ended, the University had total capital additions of approximately \$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.

At June 30, 2012, the University's investment in capital assets was \$329.1 million, net of accumulated depreciation of \$142.6 million. Debt related to these capitalized assets was \$166.1 million. During the year then ended, the University had total capital additions of approximately \$28.4 million, including the completion of the Science complex, the refurbishment of Morrison Hall, Cheng Library, Hobart Hall studio and Shea Center, ongoing reroofing of several buildings, improved technology for wireless connectivity, ongoing upgraded energy management systems and planning and site preparation costs for a proposed parking garage. The University also continued to upgrade its academic and administrative equipment.

In October 2012, 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).

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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. This plan also prepares the University for submitting projects to the State for capital funding being provided for the first time in two decades, resulting in the State's awarding \$30 million to the University to build a new academic building housing several science, technology, engineering and mathematics ("STEM") disciplines and general purpose classrooms. The University also commissioned master plan consultants for the Residence Hall zone to make ten year recommendations for new construction and renovation projects. In addition, 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, 2013, 2012 and 2011 is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 7,256	\$ 7,256	\$ 7,256
Construction in progress	15,955	8,594	20,554
Infrastructure	15,914	15,848	14,558
Buildings and improvements	410,533	403,261	368,848
Equipment	39,768	36,399	31,782
Artwork	354	354	352
Total	<u>\$ 489,780</u>	<u>\$ 471,712</u>	<u>\$ 443,350</u>
Less accumulated depreciation	<u>154,366</u>	<u>142,602</u>	<u>130,288</u>
Total capital assets, net	<u>\$ 335,414</u>	<u>\$ 329,110</u>	<u>\$ 313,062</u>

## Economic Factors that Could Affect the Future

Net student revenues accounted for 51.7%, 52.7%, and 52.5% of total revenues for the years ended June 30, 2013, 2012 and 2011, respectively. State appropriations accounted for 14.7%, 14.9%, and 16.0% and State paid fringe benefits accounted for 12.4%, 11.5%, and 11.5% of total revenues for the years ended June 30, 2013, 2012 and 2011, respectively. Unrestricted net assets as of June 30, 2013, which are designated as quasi endowment and for future academic and capital projects, have increased to \$110.5 million. This growth is one indicator of the University's sound, conservative fiscal management.



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Management's Discussion and Analysis

June 30, 2013 and 2012

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, 2013 were \$32.7 million, which is approximately the same amount as received in the year ended June 30, 1995. With an expectation of less reliance on state support while understanding its public role in serving the state, the University will continue 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.

Recognizing that the cost to attend the University is of great concern to our students, the University increased tuition and fees by only 1.9% for the 2013-2014 academic year. This is the third consecutive year that the increase has not exceeded 2%. Based on a complete review of institutional scholarship programs, the University is revamping its awards to increase the number of student recipients.

As noted previously, the University developed a ten year strategic plan. The resulting recommendations are directing the University for the next 10 years, helping to identify the academic programs for growth in enrollment and academic reputation, helping to identify student support services to improve student academic profile, retention and graduation rates, and helping to identify diversified revenue sources. Specific recommendations are being implemented and will be assessed for effectiveness.

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. The University 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. The William Paterson University of New Jersey Foundation has expanded 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.

The University continues to monitor its financial health with the Board of Trustees' adoption of and annual review 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.

Questions concerning any of the information contained in this report or requests 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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 118,959,762	\$ 115,914,586
Restricted deposits held by bond trustees	14,173,616	11,492,417
Receivables:		
Students, less allowance for doubtful accounts of \$1,900,300 in 2013 and 2012	6,552,580	4,176,621
Loans, less allowance for doubtful loans of \$106,600 in 2013 and 2012	617,225	587,984
State of New Jersey	1,046,277	1,364,115
Gifts, grants, and contracts	2,089,723	1,651,251
Other receivables	542,445	1,553,678
Total receivables	<u>10,848,250</u>	<u>9,333,649</u>
Total current assets	<u>143,981,628</u>	<u>136,740,652</u>
Noncurrent assets:		
Loans, less allowance for doubtful loans of \$ 57,400 in 2013 and 2012	435,723	477,355
Restricted deposits held by bond trustees	16,778,754	7,475,838
Deferred financing costs, net of accumulated amortization of \$2,162,238 in 2013 and \$2,064,757 in 2012	6,301,597	4,369,492
Capital assets, net	<u>335,413,478</u>	<u>329,110,471</u>
Total noncurrent assets	<u>358,929,552</u>	<u>341,433,156</u>
Total assets	<u>502,911,180</u>	<u>478,173,808</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	18,191,319	16,518,310
Compensated absences	3,325,897	3,248,766
Bonds payable	6,935,000	5,805,000
Other long-term debt	534,423	435,989
Deferred revenue	<u>4,471,037</u>	<u>3,560,826</u>
Total current liabilities	<u>33,457,676</u>	<u>29,568,891</u>
Noncurrent liabilities:		
Bonds payable	170,523,592	156,560,878
Other long-term debt	4,957,462	5,148,533
Compensated absences	2,423,104	2,426,178
U.S. government grants refundable	<u>1,208,952</u>	<u>1,182,219</u>
Total noncurrent liabilities	<u>179,113,110</u>	<u>165,317,808</u>
Total liabilities	<u>212,570,786</u>	<u>194,886,699</u>
<b>Net Position</b>		
Net investment in capital assets	171,199,734	164,904,019
Restricted for:		
Student loans	175,358	162,507
Debt service reserves	8,461,983	10,120,305
Unrestricted	<u>110,503,319</u>	<u>108,100,278</u>
Total net position	<u>\$ 290,340,394</u>	<u>\$ 283,287,109</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Operating Revenues</b>		
Student revenues:		
Student tuition and fees	\$ 126,668,242	\$ 126,623,208
Residence life	20,983,940	22,081,096
Less scholarship allowances	<u>(32,890,081)</u>	<u>(32,557,271)</u>
Net student revenues	114,762,101	116,147,033
Federal grants and contracts	21,448,886	22,560,492
State, local, and other grants and contracts	17,648,708	15,310,890
Auxiliary enterprises	<u>3,836,602</u>	<u>4,353,740</u>
Total operating revenues	<u>157,696,297</u>	<u>158,372,155</u>
<b>Operating Expenses</b>		
Instruction	85,304,966	81,660,626
Research	141,228	133,041
Academic support	16,187,168	16,517,072
Public service	1,380,021	1,185,605
Student services	18,456,570	17,515,237
Institutional support	27,979,655	27,366,251
Operating and maintenance of plant	17,470,897	17,789,060
Student aid	9,137,240	9,345,670
Residence life and auxiliary enterprises	20,354,336	20,453,940
Depreciation	<u>11,776,534</u>	<u>12,330,376</u>
Total operating expenses	<u>208,188,615</u>	<u>204,296,878</u>
Net operating loss	<u>(50,492,318)</u>	<u>(45,924,723)</u>
<b>Nonoperating Revenues (Expenses)</b>		
State of New Jersey appropriations	32,748,000	32,748,000
State of New Jersey paid fringe benefits	27,619,266	25,276,520
Private gifts	927,858	762,260
Investment income	1,628,090	1,280,980
Interest on capital asset-related debt	(6,922,067)	(7,127,953)
Other nonoperating revenues, net	<u>1,278,663</u>	<u>992,917</u>
Net nonoperating revenues	<u>57,279,810</u>	<u>53,932,724</u>
Income before other revenues	6,787,492	8,008,001
<b>Other Revenues,</b>		
Capital grants and gifts	<u>265,793</u>	<u>730,780</u>
Increase in net position	7,053,285	8,738,781
<b>Net Position, Beginning of Year</b>	<u>283,287,109</u>	<u>274,548,328</u>
<b>Net Position, End of Year</b>	<u>\$ 290,340,394</u>	<u>\$ 283,287,109</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 92,578,465	\$ 97,499,282
Federal, state, and local grants and contracts	39,559,973	38,893,379
Payments to suppliers	(42,310,079)	(39,306,433)
Payments to employees	(115,064,558)	(113,255,187)
Payments for employee benefits	(16,967,741)	(15,051,313)
Payments for student aid	(9,137,240)	(9,345,670)
Residence life	20,998,622	16,967,273
Auxiliary enterprise	3,836,602	4,353,740
	<u>(26,505,956)</u>	<u>(19,244,929)</u>
Net cash used in operating activities	(26,505,956)	(19,244,929)
<b>Cash Flows from Noncapital Financing Activities</b>		
Private gifts	927,858	762,260
State of New Jersey appropriations	46,326,558	45,307,292
Other receipts	1,230,083	1,181,012
	<u>48,484,499</u>	<u>47,250,564</u>
Net cash provided by noncapital financing activities	48,484,499	47,250,564
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(14,559,811)	(31,624,608)
Capital appropriations, grants and gifts received	265,793	730,780
Principal payments on capital debt	(38,904,014)	(7,475,757)
Interest payments on capital asset-related debt	(7,245,919)	(7,985,918)
Increase in restricted deposits held by bond trustees	(36,279,028)	(13,756,148)
Decrease in restricted deposits held by bond trustees	24,423,634	36,676,368
Proceeds from issuance of capital asset related debt	54,087,087	-
Financing costs paid from trustee funds	(2,004,200)	-
	<u>(20,216,458)</u>	<u>(23,435,283)</u>
Net cash used in capital and related financing activities	(20,216,458)	(23,435,283)
<b>Cash Flows Provided by Investing Activities</b>		
Interest received	1,283,091	1,170,068
	<u>1,283,091</u>	<u>1,170,068</u>
Net increase in cash and cash equivalents	3,045,176	5,740,420
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>115,914,586</u>	<u>110,174,166</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 118,959,762</u>	<u>\$ 115,914,586</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	(50,492,318)	(45,924,723)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for doubtful accounts	-	297,781
State appropriations for fringe benefits	14,358,546	12,297,929
Depreciation expense	11,776,534	12,330,376
Changes in assets and liabilities:		
Receivables	(1,788,428)	(107,151)
Accounts payable and accrued expenses	(1,344,558)	2,060,593
Compensated absences	74,057	543,734
Deferred revenue	910,211	(743,468)
	<u>(26,505,956)</u>	<u>(19,244,929)</u>
Net cash used in operating activities	<u>\$ (26,505,956)</u>	<u>\$ (19,244,929)</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,470,866	\$ 2,345,879
Investments	12,664,355	12,148,097
Promises to give	1,337,951	1,430,252
Interest receivable	49,729	38,292
Prepaid expenses and other assets	5,000	-
	<u>17,527,901</u>	<u>15,962,520</u>
Total assets	<u>\$ 17,527,901</u>	<u>\$ 15,962,520</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 112,134	\$ 58,837
Accrued expenses	10,000	10,000
Grants payable	46,418	91,843
Annuities payable	302,653	197,804
Deferred revenue	1,750	4,850
Refundable advances	350,000	350,000
	<u>822,955</u>	<u>713,334</u>
Total liabilities	<u>822,955</u>	<u>713,334</u>
<b>Net Assets</b>		
Unrestricted	2,672,664	1,564,332
Temporarily restricted	6,986,193	7,489,094
Permanently restricted	7,046,089	6,195,760
	<u>16,704,946</u>	<u>15,249,186</u>
Total net assets	<u>16,704,946</u>	<u>15,249,186</u>
Total liabilities and net assets	<u>\$ 17,527,901</u>	<u>\$ 15,962,520</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Changes In Unrestricted Net Assets</b>		
Support		
Scholarship	\$ 500	\$ -
Fund-raising	141,914	115,560
Campus activities	403,488	180,638
Development	187,371	701,892
Community activities	-	-
Capital campaigns	925	-
Investment activities	1,105,885	(178,927)
Net assets released from restrictions	<u>1,588,871</u>	<u>1,605,635</u>
Total support	<u>3,428,954</u>	<u>2,424,798</u>
Grants and Expenses		
Scholarships/grants	517,532	569,675
Fund-raising	108,035	93,652
Campus activities	1,459,838	1,130,107
Development	216,483	173,467
Community activities	16,225	13,396
Capital campaigns	<u>2,509</u>	<u>44,625</u>
Total expenses and other deductions	<u>2,320,622</u>	<u>2,024,922</u>
Change in unrestricted net assets	<u>1,108,332</u>	<u>399,876</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Scholarship	382,631	365,656
Fund-raising	130,805	114,274
Campus activities	1,140,469	1,731,054
Development	77,292	73,680
Community activities	15,550	18,000
Capital campaigns	3,900	12,300
Investment activities	(664,677)	292,708
Net assets released from restrictions	<u>(1,588,871)</u>	<u>(1,605,635)</u>
Change in temporarily restricted net assets	<u>(502,901)</u>	<u>1,002,037</u>
<b>Changes in Permanently Restricted Net Assets</b>		
Scholarship	850,329	250,423
Campus activities	<u>-</u>	<u>155,956</u>
Change in permanently restricted net assets	<u>850,329</u>	<u>406,379</u>
Increase in net assets	1,455,760	1,808,292
<b>Net Assets, Beginning</b>	<u>15,249,186</u>	<u>13,440,894</u>
<b>Net Assets, Ending</b>	<u>\$ 16,704,946</u>	<u>\$ 15,249,186</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 1,455,760	\$ 1,808,292
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized (gain) loss on sale of investments	(1,042,738)	18,086
Unrealized loss on investments	852,182	108,852
Bad debts expense	200,060	105,125
Change in operating assets and liabilities		
Promises to give	(107,759)	(124,524)
Interest receivable	(11,437)	5,346
Prepaid expenses and other assets	(5,000)	10,615
Accounts payable	53,297	(54,263)
Grants payable	(45,425)	(126,043)
Annuities payable	104,849	92,916
Deferred revenue	(3,100)	2,350
	<u>1,450,689</u>	<u>1,846,752</u>
<b>Net cash provided by operating activities</b>		
	<u>1,450,689</u>	<u>1,846,752</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(5,826,772)	(4,667,565)
Proceeds from disposition of investments	5,501,070	3,335,194
	<u>(325,702)</u>	<u>(1,332,371)</u>
<b>Net cash used in investing activities</b>		
	<u>(325,702)</u>	<u>(1,332,371)</u>
<b>Net increase in cash and cash equivalents</b>	1,124,987	514,381
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,345,879</u>	<u>1,831,498</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,470,866</u>	<u>\$ 2,345,879</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, 2013 and 2012

## **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, 17 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 2012 – 2013 and 2011 – 2012 academic years, approximately 10,100 and 10,100, respectively, part time and full time undergraduate students, and approximately 1,300 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. are included in the accompanying basic financial statements as a discretely presented component unit.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB 14*, 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

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(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2013 and 2012

As of June 30, 2013 and 2012, the University has a receivable of \$147,561 and \$172,519, respectively, from the Foundation. For the years ended June 30, 2013 and 2012, the University recognized revenue of \$1,761,447 and \$1,608,958, 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

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified 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**

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(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2013 and 2012

## **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 current economic environment increases the uncertainty of 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.

## **Deferred Financing Costs**

The University capitalizes costs incurred in connection with its bonds and amortizes these costs over the life of the respective obligations. These deferred costs are included in noncurrent assets in the accompanying statements of net position.

## **Receivables**

Student receivable consist of tuition and fees charged to current and former students. State of New Jersey and gifts grants contracts 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

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(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2013 and 2012

## 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 deferred revenue in the accompanying financial statements.

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.

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 goods 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**

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(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2013 and 2012

## **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 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 \$180,488 and \$193,260 in sick leave payments for employees who retired during the years ended June 30, 2013 and 2012, respectively.

## **New Accounting Pronouncements**

In December 2010, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. As a result, this Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance by codifying all sources of generally accepted accounting principles for state and local governments into a single source. The adoption of the Codification did not have an impact on the University's financial statements.

During 2012, the University adopted GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The adoption replaced the University's term of "net assets" to "net position".

# The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2013 and 2012

## Income Taxes

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

## 3. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash and money market accounts	\$ 116,217,103	\$ 113,173,632
State of New Jersey Cash Management Fund	<u>2,742,659</u>	<u>2,740,954</u>
Total	<u>\$ 118,959,762</u>	<u>\$ 115,914,586</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, 2013 and 2012 were partially insured by the Federal Depository Insurance Corporation (FDIC) in the amount of \$250,000, respectively. Bank balances in excess of insured amounts of \$116.0 million in 2013 and \$112.9 million in 2012, 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 and \$2.7 million as of June 30, 2013 and 2012, respectively, 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.

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## 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>2013</u>	<u>2012</u>
Project and construction fund	\$ 18,756,578	\$ 3,743,948
Debt service fund for principal and interest	10,642,771	9,507,850
Debt service reserve fund	1,526,983	4,315,305
Excess rental pledge	26,038	1,401,152
	<u>30,952,370</u>	<u>18,968,255</u>
Less current portion	<u>14,173,616</u>	<u>11,492,417</u>
Noncurrent restricted deposits held by bond trustees	<u>\$ 16,778,754</u>	<u>\$ 7,475,838</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, 2013 and 2012, restricted deposits held by bond trustees were invested in the following:

	<u>2013</u>	<u>2012</u>
Money market accounts	\$ 11,064,519	\$ 10,911,013
U.S. Treasury bills	18,424,880	5,747,962
U.S. Government issues	1,462,971	2,309,280
Total	<u>\$ 30,952,370</u>	<u>\$ 18,968,255</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, 2013 and 2012, 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.

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Notes to Financial Statements

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## 5. Capital Assets

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

	<b>Beginning Balance July 1, 2012</b>	<b>Acquisition and Other Increases</b>	<b>Dispositions and Other Decreases</b>	<b>Ending Balance June 30, 2013</b>
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	<u>455,508,720</u>	<u>10,718,572</u>	<u>(13,326)</u>	<u>466,213,966</u>
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	<u>142,602,464</u>	<u>11,776,535</u>	<u>(13,326)</u>	<u>154,365,673</u>
Depreciable assets, net	<u>312,906,256</u>	<u>(1,057,963)</u>	<u>-</u>	<u>311,848,293</u>
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	<u>16,204,215</u>	<u>14,697,330</u>	<u>(7,336,360)</u>	<u>23,565,185</u>
Total capital assets, net	<u>\$ 329,110,471</u>	<u>\$ 13,639,367</u>	<u>\$ (7,336,360)</u>	<u>\$ 335,413,478</u>

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	<b>Beginning Balance July 1, 2011</b>	<b>Acquisition and Other Increases</b>	<b>Dispositions and Other Decreases</b>	<b>Ending Balance June 30, 2012</b>
Depreciable assets:				
Infrastructure	\$ 14,558,436	\$ 1,290,193	\$ -	\$ 15,848,629
Buildings and improvements	368,847,394	34,413,922	-	403,261,316
Equipment	31,782,335	4,632,050	(15,610)	36,398,775
Total depreciable assets	<u>415,188,165</u>	<u>40,336,165</u>	<u>(15,610)</u>	<u>455,508,720</u>
Less accumulated depreciation on:				
Infrastructure	6,637,370	439,532	-	7,076,902
Buildings and improvements	97,704,060	9,565,912	-	107,269,972
Equipment	25,946,268	2,324,932	(15,610)	28,255,590
Total accumulated depreciation	<u>130,287,698</u>	<u>12,330,376</u>	<u>(15,610)</u>	<u>142,602,464</u>
Depreciable assets, net	<u>284,900,467</u>	<u>28,005,789</u>	<u>-</u>	<u>312,906,256</u>
Nondepreciable assets:				
Land	7,255,914	-	-	7,255,914
Artwork	351,955	2,400	-	354,355
Construction in progress	20,553,296	23,744,766	(35,704,116)	8,593,946
Total nondepreciable assets	<u>28,161,165</u>	<u>23,747,166</u>	<u>(35,704,116)</u>	<u>16,204,215</u>
Total capital assets, net	<u>\$ 313,061,632</u>	<u>\$ 51,752,955</u>	<u>\$ (35,704,116)</u>	<u>\$ 329,110,471</u>

As of June 30, 2013, estimated costs to complete the projects classified as construction in progress are approximately \$31,800,000. Additional costs of all projects will be funded by University revenues and available construction funds from Bond proceeds. For the years ended June 30, 2013 and 2012, the University capitalized interest expense of \$281,602 and \$866,168, respectively, as construction in progress in the accompanying statements of net position.



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## 6. Accounts Payable and Accrued Expenses

As of June 30, 2013 and 2012, accounts payable and accrued expenses consist of the following:

	<u>2013</u>	<u>2012</u>
Vendors	\$ 3,378,962	\$ 4,340,488
Capital projects	4,694,599	1,655,219
Accrued salaries and benefits	6,409,987	6,819,753
Accrued interest	<u>3,707,771</u>	<u>3,702,850</u>
Total	<u>\$ 18,191,319</u>	<u>\$ 16,518,310</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, 2013 and 2012, the following obligations to the Authority are outstanding:

	<u>Interest Rates</u>	<u>2013</u>	<u>2012</u>	<u>Current Portion</u>
New Jersey Educational Facility Authority:				
Revenue Bonds:				
Series 2002 E Revenue Bonds, due serially to 2028	4.00 – 5.00	\$ -	\$ 15,455,000	\$ -
Series 2004 A Revenue Bonds, due serially to 2029	3.00 – 4.00	2,300,000	21,855,000	1,355,000
Series 2005 E Revenue Bonds, due serially to 2031	3.75 – 5.00	37,580,000	39,030,000	2,710,000
Series 2008 C Revenue Bonds, due serially to 2039	3.25 – 5.00	82,235,000	84,150,000	1,990,000
Series 2012 C Revenue Bonds, due serially to 2024	2.00 – 5.00	33,815,000	-	675,000
Series 2012 D Revenue Bonds, due serially to 2028	2.00 – 5.00	<u>17,290,000</u>	<u>-</u>	<u>205,000</u>
		173,220,000	160,490,000	6,935,000
Add amounts representing net premiums		<u>4,238,592</u>	<u>1,875,878</u>	<u>-</u>
Total		<u>\$ 177,458,592</u>	<u>\$ 162,365,878</u>	<u>\$ 6,935,000</u>

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In October 2012, the Authority issued \$33,815,000 Series 2012 C Revenue Bonds with interest rates of 2% to 5%. Of the total issue, proceeds of \$21,860,000 will be used to construct and equip a parking garage and all related site improvements. The remaining proceeds of \$11,955,000 were used to complete a current refunding of the Series 2002E Revenue Bonds. In October 2012, the Authority issued \$17,290,000 Series 2012 D Revenue bonds with interest rates of 2% to 5%. The proceeds of the total issue were used to finance the partial advance refunding of the Authority's Series 2004 A Revenue Bonds. The 2012 refunding transactions reduced the University's total debt service payments by approximately \$8,500,000, resulting in a net present value benefit of approximately \$4,600,000.

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 and \$11,598,000 of defeased debt that remains outstanding to bondholders at June 30, 2013 and 2012, respectively.

## Other Long Term Debt

As of June 30, 2013 and 2012, the following other obligations were outstanding:

	<u>Interest Rates</u>	<u>2013</u>	<u>2012</u>	<u>Current Portion</u>
Higher Education Capital Improvement Fund Series 2000 A, due serially to 2021	5.00 – 5.75%	\$ 876,667	\$ 961,667	\$ 90,000
Higher Education Capital Improvement Fund Series 2000 B, due serially to 2021	5.39	1,553,334	1,706,667	161,667
Higher Education Capital Improvement Fund Series 2002 A, due serially to 2023	3.00 – 5.25	2,509,759	2,637,823	134,569
Dormitory Safety Trust Fund Series 2001 A, due serially to 2016	4.80	35,188	46,918	11,729
Dormitory Safety Trust Fund Series 2001 B, due serially to 2016	6.08	173,585	231,447	57,862
Bank of America Public Capital Corp, due serially to 2018	1.68	343,352	-	78,596
Total		<u>\$ 5,491,885</u>	<u>\$ 5,584,522</u>	<u>\$ 534,423</u>

In October 2012, the University borrowed \$402,000 to fund the purchase of transportation equipment.

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## 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, 2013:

	<u>Principal</u>	<u>Interest</u>
Years ending June 30:		
2014	\$ 7,469,423	\$ 7,428,134
2015	6,850,677	7,125,524
2016	7,152,461	6,838,770
2017	7,382,189	6,522,394
2018	<u>7,605,779</u>	<u>6,161,177</u>
2014-2018 subtotal	36,460,529	34,076,000
2019 – 2023	39,251,356	25,454,179
2024 – 2028	39,580,000	17,431,406
2029 – 2033	26,675,000	10,536,856
2034 – 2038	26,445,000	4,799,763
2039 – 2043	<u>10,300,000</u>	<u>377,475</u>
Total	<u>\$ 178,711,885</u>	<u>\$ 92,675,679</u>

## 8. Summary of Changes in Noncurrent Liabilities

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)	6,481,159	534,423
Compensated absences	5,674,944	6,531,814	(6,457,757)	5,749,001	3,325,897
U.S. government grants refundable	<u>1,182,219</u>	<u>26,733</u>	<u>-</u>	<u>1,208,952</u>	<u>-</u>
			((45,327,394)		
Total	<u>\$ 174,807,563</u>	<u>\$ 60,428,261</u>	<u>\$ )</u>	<u>\$ 190,897,704</u>	<u>\$ 10,795,320</u>

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Activity in noncurrent liabilities for the year ended June 30, 2012 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	\$ 169,300,543	\$ -	\$ (6,934,665)	\$ 162,365,878	\$ 5,805,000
Other long-term debt	6,240,904	-	(656,382)	5,584,522	435,989
Compensated absences	5,131,210	7,219,907	(6,676,173)	5,674,944	3,248,766
U.S. government grants refundable	1,133,163	49,056	-	1,182,219	-
Total	<u>\$ 181,805,820</u>	<u>\$ 7,268,963</u>	<u>\$ (14,267,220)</u>	<u>\$ 174,807,563</u>	<u>\$ 9,489,755</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**

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Notes to Financial Statements

June 30, 2013 and 2012

## **PERS Funding Policy**

During the year ended June 30, 2013, PERS members were required to contribute 7.5% of their annual covered salary. During the year ended June 30, 2012, PERS members were required to contribute 5.5% of their covered salary for payrolls paid between July 1, 2011 and October 1, 2011 and 6.5% of their covered salary for payrolls paid after October 1, 2011. 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. Employers were not required to contribute in 2013 and 2012 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 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 financial statements.

## **PFRS Funding Policy**

During the year ended June 30, 2013, PFRS members were required to contribute 10.0% of their annual covered salary. During the year ended June 30, 2012, PFRS members were required to contribute 8.5% of their covered salary for payrolls paid between July 1, 2011 and October 1, 2011 and 10.0% of their covered salary for payrolls paid after October 1, 2011. 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**

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Notes to Financial Statements

June 30, 2013 and 2012

## **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, 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. During the year ended June 30, 2012, ABP received employer and employee contributions of \$5,182,208 and \$3,268,420, respectively, which were based on participating employee salaries of approximately \$65,368,404. 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.

## **Defined Contribution Retirement Plan**

During fiscal year 2011, the University established a supplemental 403b plan 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 \$65,862 and \$59,652 were made in fiscal year 2013 and 2012, 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

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Notes to Financial Statements

June 30, 2013 and 2012

## 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 \$1,430,893 and \$1,559,024 in 2013 and 2012, respectively.

The future estimated minimum annual commitments are as follows:

	<u>Amount</u>
Years ending June 30:	
2014	\$ 1,255,511
2015	796,941
2016	581,271
2017	595,730
2018	<u>557,317</u>
2014-2018 subtotal	3,786,770
2019 – 2023	3,100,206
2024 – 2028	<u>1,495,434</u>
Total	<u>\$ 8,382,410</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 \$27,619,266 and \$25,276,520, for the years ended June 30, 2013 and 2012, 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.

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## 12. Unrestricted Net Position

As of June 30, 2013 and 2012, unrestricted net position consist of funds that have been designated as follows:

	<u>2013</u>	<u>2012</u>
Academic and other programs	\$ 29,942,845	\$ 29,670,244
Quasi-endowment	10,497,254	9,658,381
Capital programs:		
Renewal and replacement – nonauxiliary	47,473,114	49,705,176
Renewal and replacement – auxiliary	<u>22,590,106</u>	<u>19,066,477</u>
Total	<u>\$ 110,503,319</u>	<u>\$ 108,100,278</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.