

**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, 2015 and 2014



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The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

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Independent Auditors' Report

Board of Trustees
The William Paterson University of New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of The William Paterson University of New Jersey, a component unit of the State of New Jersey, (the "University") and its discretely presented component unit as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 5%, 8%, 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, 2015 and 2014, 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 2 and 9 to the financial statements, the University adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, for the year ended June 30, 2015 to conform with accounting principles generally accepted in the United States of America. The University recognized its net pension liability, restated its beginning net position for this adoption, expanded its note disclosures and included required supplementary information with respect to employees' pension benefits. Our opinion was not modified with respect to this matter.

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 18 and Schedule of the University's Proportionate Share of the Net Pension Liability and Schedule of University Contributions on pages 52 and 53 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 Virchow Krause, LLP

Clark, New Jersey
December 22, 2015

The William Paterson University of New Jersey

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Management's Discussion and Analysis

June 30, 2015 and 2014

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, 2015 and 2014, and its changes in financial position for the fiscal years then ended with selected comparative information for the year ended June 30, 2013. 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 fiscal year 2014. In 2015, GASB 68 and GASB 71 were adopted, both of which provide financial reporting guidance relating to pensions.

Financial Highlights

The University's financial position remains strong with total assets of \$504.1 million, an increase of \$7.9 million from fiscal year 2014. Total liabilities were \$335.0 million as of June 30, 2015, an increase of \$129.6 million from fiscal year 2014, with a corresponding decrease in net position of \$123.5 million resulting in net position of \$167.3 million as of June 30, 2015. The unfavorable changes to liabilities and net position relate primarily to the impact of adopting GASB 68 and 71 during fiscal year 2015.

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

These impactful accounting pronouncements were adopted during fiscal year 2015. GASB 68 requires the component units of multi-employer cost sharing pension plans to report their proportionate share of net pension liability, pension expense, and the related deferred outflows and inflows of resources on their financial statements. The unfavorable impact of the GASB 68 is seen primarily in two sections of the University's financial statements: liabilities and unrestricted net position. The University is reporting \$134.8 million of net pension liability in fiscal year 2015, associated with the adoption, with the offset decreasing unrestricted net assets. Although this liability is now reflected on the University's Statement of Net Position, the State of New Jersey asserts that these are reporting entries only and do not reflect the responsibility for future payment of these liabilities, which remains with the State. These sections of the current year financial statements are impacted:

- *Non-current liabilities:* increased \$134.8 million for current and prior years' net pension liability
- *Deferred outflows and inflows of resources:* \$4.2 million and \$6.0 million, respectively
- *Current year operating expense:* Increased \$5.1 million for pension expense associated with the plan
- *Unrestricted net position:* decreased by \$136.5 million (the residual offset of other impacts)

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June 30, 2015 and 2014

The investment in capital assets portion of net position, \$199.1 million as of June 30, 2015, increased \$22.3 million from the prior year reflecting significant achievements in connection with the University's capital plan. Nearly fifty capital projects were started, completed, or ongoing during the year. The Pioneer Parking Garage was completed and opened to the campus community on September 1, 2014. Significant progress was made on University Hall which will house several science, technology, engineering and mathematics ("STEM") disciplines along with general purpose classrooms. Planning and design work for the renovations of Hunziker Hall and Hunziker Wing took place, including issuance of new bond money which was finalized shortly after fiscal 2015 year-end. University Hall is scheduled to be in use by January, 2016 (nine months earlier than originally planned), at which time Hunziker Hall will be vacated for start of the renovation.

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

Projected cost of University Hall is \$40.0 million, of which \$30.0 million is funded by grants provided through the State of New Jersey "Building our Future" Bonds. As of June 30, 2015, \$23.6 million of costs had been expended with \$18.0 million charged to the state grant funds.

The total projected cost of the Hunziker Wing and Hall renovations is \$30.0 million. Of this, \$20 million will be paid from construction funds provided by the 2015C bond issuance and the University is providing \$10.0 million from the Campus Facilities fees.

During fiscal year 2014, net position ended at \$290.8 million 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 primary capital project underway during 2014 was the Pioneer Parking Garage. Other projects underway were the Shea Center renovation, Morrison and Raubinger refurbishing, Cheng Library improvements, the Wightman Gym roof and Hobart Hall renovation.

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Statements of Net Position

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

Assets and liabilities are generally measured using current values. However, capital assets are stated at historical cost less an allowance for depreciation. A summary of the University's assets, liabilities and net position (in thousands) at June 30, 2015, 2014 and 2013 follows:

Statements of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Current assets	\$ 137,854	\$ 147,984	\$ 143,982
Noncurrent assets:			
Capital assets, net	365,877	347,796	335,413
Other	382	391	17,215
Total assets	<u>\$ 504,113</u>	<u>\$ 496,171</u>	<u>\$ 496,610</u>
Deferred outflows	<u>\$ 4,222</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:			
Current liabilities	\$ 35,278	\$ 32,828	\$ 33,458
Noncurrent liabilities	299,734	172,565	179,113
Total liabilities	<u>\$ 335,012</u>	<u>\$ 205,393</u>	<u>\$ 212,571</u>
Deferred inflows	<u>\$ 6,010</u>	<u>\$ -</u>	<u>\$ -</u>
Net position:			
Net investments in capital assets	\$ 199,084	\$ 176,802	\$ 164,898
Restricted for:			
Student loans	169	170	175
Debt service	6,575	6,811	8,462
Unrestricted	<u>(38,514)</u>	<u>106,995</u>	<u>110,503</u>
Total net position	<u>\$ 167,314</u>	<u>\$ 290,778</u>	<u>\$ 284,038</u>

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Assets

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

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

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.

Deferred Outflows and Inflows of Resources

In fiscal year 2014, the University adopted GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. GASB 65 specifies certain items that were previously reported as assets and liabilities must be reclassified and reported as deferred outflows and inflows of resources. Deferred outflows of resources are items previously reported as assets that result in the outflow of net position in the current reporting period for activities applicable to a future reporting period. Likewise, deferred inflows of resources are items previously reported as liabilities that result in the inflow of net position in the current reporting period for activities applicable to a future reporting period. As of June 30, 2015, the deferred outflows of resources and deferred inflows of resources were \$4.2 million and \$6.0 million, respectively.

The deferred outflows and deferred inflows of resources reported in fiscal year 2015 are specifically related to the new pension reporting rules under GASB 68 and 71. The University had no other deferred outflows or deferred inflows and had none to report in fiscal year 2014.

Liabilities

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

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.

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Net Position

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

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

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

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

Components of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Invested in capital assets	\$ 199,083,493	\$ 176,802,354	\$ 164,898,137
Expendable restricted:			
Student loans	169,358	169,981	175,358
Debt service	6,575,025	6,810,659	8,461,983
	<u>6,744,383</u>	<u>6,980,640</u>	<u>8,637,341</u>
Unrestricted:			
University unrestricted	98,035,323	106,995,691	110,503,319
Proportionate share of NJ pension liability	<u>(136,549,210)</u>	<u>-</u>	<u>-</u>
	<u>(38,513,887)</u>	<u>106,995,691</u>	<u>110,503,319</u>
Total net position	<u>\$ 167,313,989</u>	<u>\$ 290,778,685</u>	<u>\$ 284,038,797</u>

Net position at June 30, 2015, 2014, and 2013 was \$167.3, \$290.8 million, and \$284.0 million, respectively. From fiscal year 2014 to 2015, net position decreased \$123.5 million and from fiscal year 2013 to 2014 it increased \$6.8 million.

The overall decrease in net position of \$123.5 million consists of the positive financial results during fiscal year 2015 of \$13.1 million offset by \$5.1 million of current year GASB 68 expense (a net total of \$8.0 million as reported in the Statement of Revenues, Expenses, and Changes in Net Position) and further offset by recording of the \$131.5 million cumulative net pension liability from prior years as required under GASB 68 and 71.

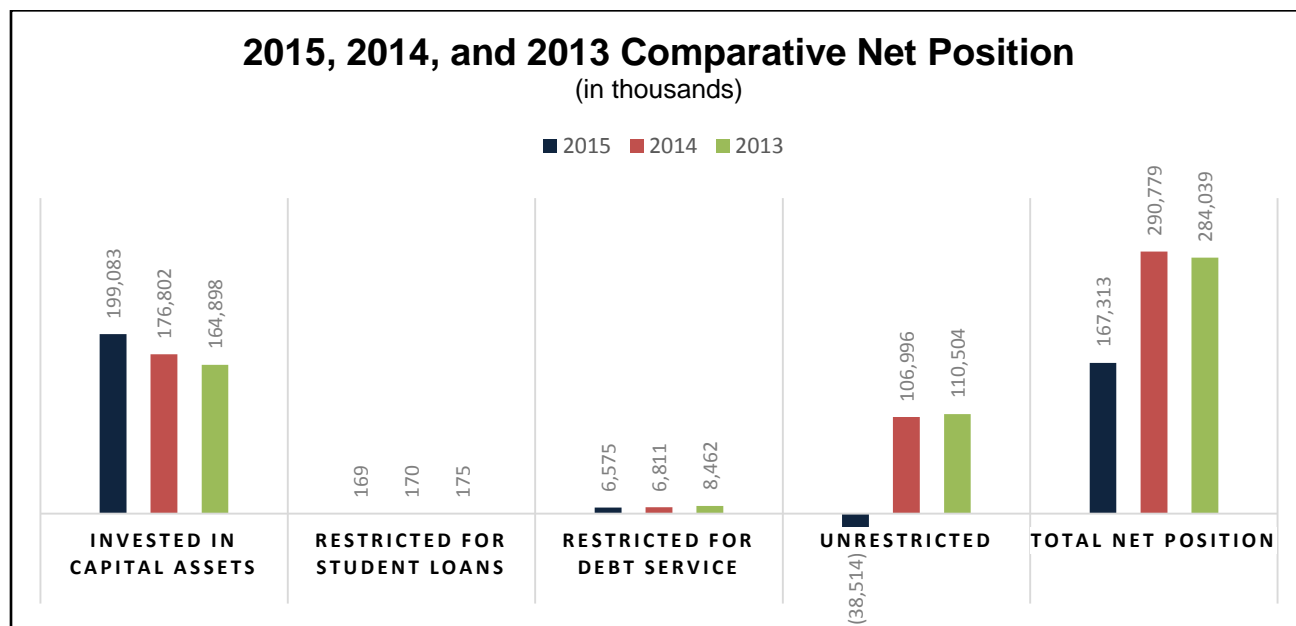
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The \$13.1 million financial results during fiscal year 2015 reflects \$15.2 million capital grant revenue offset by a \$2.1 deficit from combined operating and non-operating revenues and expenses, and further offset by the \$5.1 million current year pension expense relating specifically to GASB 68 adoption. During fiscal year 2014, net position increased \$6.7 million from the prior year, reflecting \$3.0 million of capital grant revenue and \$3.7 million of combined operating and non-operating revenues and expenses.



Statement of Revenues, Expenses, and Changes in Net Assets

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

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Management's Discussion and Analysis

June 30, 2015 and 2014

A summary of the University's revenues, expenses, and changes in net position (in thousands) for the years ended June 30, 2015, 2014 and 2013 follows:

Summary of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues:			
Net student revenue	\$ 110,231	\$ 112,806	\$ 114,762
Other	<u>40,445</u>	<u>40,381</u>	<u>41,203</u>
Total operating revenues	150,676	153,187	155,965
Operating expenses	<u>216,332</u>	<u>207,480</u>	<u>206,457</u>
Operating loss	<u>(65,656)</u>	<u>(54,293)</u>	<u>(50,492)</u>
Nonoperating revenues (expenses):			
State appropriations	62,520	61,754	60,367
Other	2,824	2,996	3,835
Interest expense	<u>(6,926)</u>	<u>(6,716)</u>	<u>(8,854)</u>
Net total nonoperating revenues	58,418	58,034	55,348
Capital grants and gifts	<u>15,214</u>	<u>2,999</u>	<u>265</u>
Increase in net position	7,976	6,740	5,121
Net position, beginning of year	290,779	<u>284,039</u>	<u>278,918</u> (1)
Less: Effect of adoption of GASB No. 68	<u>(131,441)</u>		
Net position, beginning of year as restated	<u>159,338</u>		
Net position, end of year	<u>\$ 167,314</u>	<u>\$ 290,779</u>	<u>\$ 284,039</u>

(1) As of July 1, 2012 (fiscal year 2013, beginning of year), 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.

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Management's Discussion and Analysis

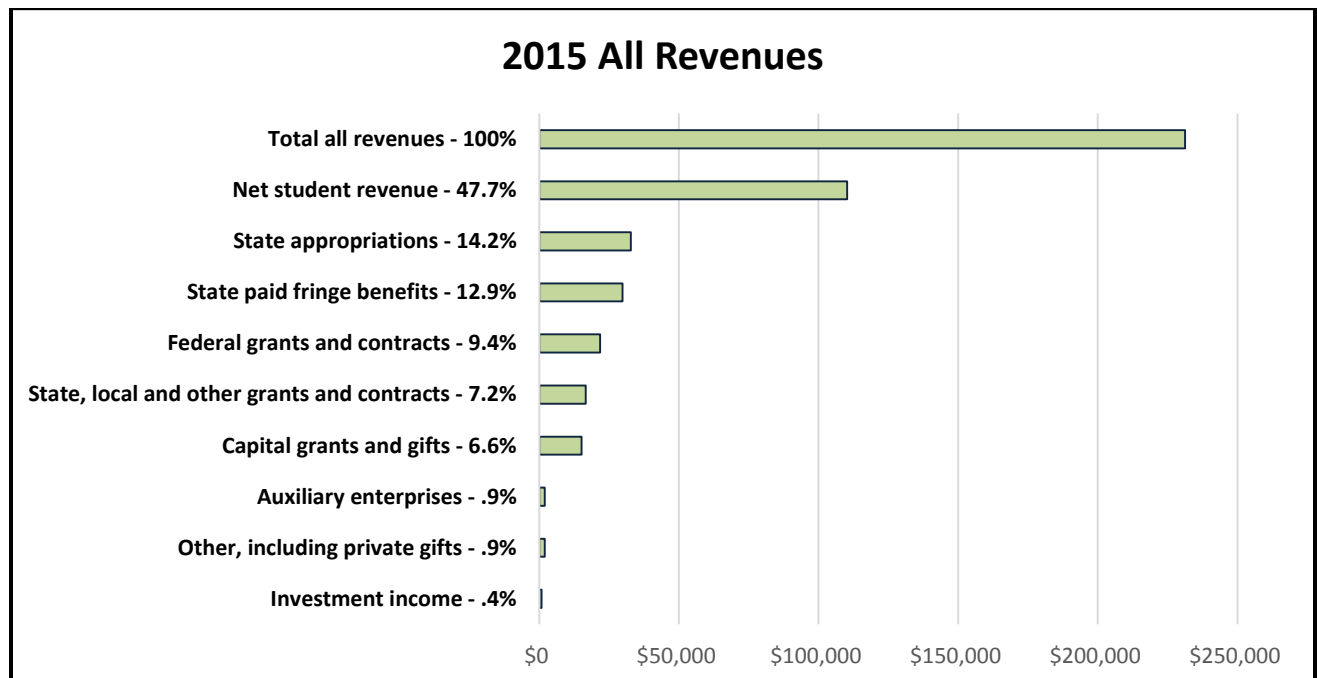
June 30, 2015 and 2014

Revenues

Revenues are classified as operating, non-operating, or capital grants and gifts. A summary of the University's revenues (in thousands) for the years ended June 30, 2015, 2014 and 2013 follows:

Operating, Non-operating, and Capital Revenues:

	2015	2014	2013
Operating revenues:			
Net student revenue	\$ 110,231	\$ 112,806	\$ 114,762
Federal grants and contracts	21,801	22,178	21,449
State local and other grants and contracts	16,647	15,461	17,649
Auxiliary enterprises	1,997	2,742	2,106
Total operating revenues	150,676	153,187	155,966
Non-operating revenues:			
State appropriations	32,748	32,748	32,748
State paid fringe benefits	29,772	29,006	27,619
Investment income	822	879	1,628
Other, including private gifts	2,002	2,117	2,207
Total non-operating revenues	65,344	64,750	64,202
Capital grants and gifts	15,214	3,000	265
Total operating, non-operating, and capital revenues	\$ 231,234	\$ 220,937	\$ 220,433

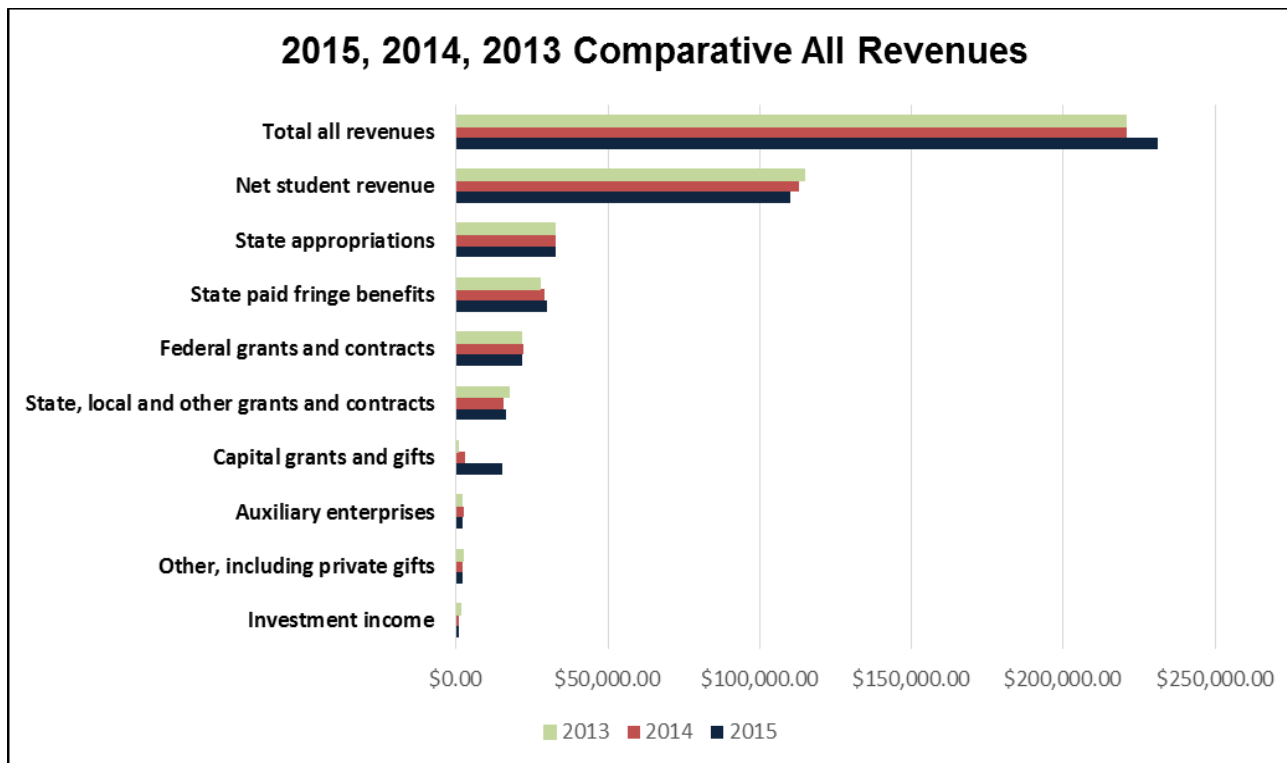


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Operating Revenues

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

Gross student tuition and fees were \$124.8 million, \$126.8 million and \$126.7 million for the years ended June 30, 2015, 2014, and 2013, respectively. This revenue was generated by the following number of students, resident students and meal plan participants:

Student Enrollment:

Total Enrollment (FTE's):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annualized Fall and Spring	8,296	8,520	8,529
Summer II (July-August 2014, 2013, 2012)	314	335	325
Summer I (May-June 2015, 2014 and 2013)	354	373	365
Winter	90	89	85
Total enrollment	<u>9,054</u>	<u>9,317</u>	<u>9,304</u>
Residential students	<u>2,105</u>	<u>2,105</u>	<u>2,165</u>
Meal plan participants	<u>1,965</u>	<u>1,965</u>	<u>2,020</u>

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Net student revenue, comprised of tuition and fees and residence life less scholarship allowances, was \$110.2 million for the year ended June 30, 2015, a decrease of \$2.6 million from fiscal year 2014 due to decreased student related revenues (tuition, fees, room and board) of \$1.9 million and decreased food service revenues of \$.9 million offset by parking garage revenue of \$.2 million (a new revenue stream). For the year ended June 30, 2014, net student revenue was \$112.8 million, a decrease of \$2.0 million from fiscal year 2013 representing decreased room and meals revenue of \$0.7 million and increased scholarships and waivers of \$1.4 million.

Tuition and fees revenue, a component of net student revenue, was \$124.8 in fiscal year 2015, \$2.0 million lower than fiscal year 2014 due to lower enrollment. Tuition revenue in fiscal year 2014 was \$126.8 million and was \$0.2 million higher than fiscal year 2013.

Revenues from federal grants and contracts decreased \$0.4 million during fiscal year 2015 to \$21.8, while increasing during fiscal year 2014 by \$0.7 million to \$22.2.

State, local and other grants and contracts increased for the year ended June 30, 2015 by \$1.2 million, reflecting increases in multiple funding streams by the state of New Jersey. During fiscal year 2014, state, local and other grants and contracts decreased 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.

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 \$2.0 million for the year ended June 30, 2015, a decrease of \$0.7 million from fiscal year 2014. For the fiscal year 2014, auxiliary enterprises revenue was \$2.7 million, up \$0.6 million from fiscal year 2013. Variances for both periods reflect a timing change in the recording of food service incentive commissions.

Nonoperating Revenues

The University's primary source of non-operating revenue is State of New Jersey appropriations for general operations and fringe benefits. The general operations appropriation remained steady at \$32.7 million per year for the fiscal years ended 2015, 2014, and 2013, while the fringe benefits appropriation was \$29.8 million, \$29.0 million, and \$27.6 million for the years ended June 30, 2015, 2014, and 2013, respectively.

Capital Grants and Gifts

For the years ending June 30, 2015 and June 30, 2014, \$15.2 million and \$2.7 million, respectively, was received as capital grants under the State of New Jersey "Building our Future" bond issue for partial financing of University Hall. Additionally, capital grants of \$0.3 million were received for each of the fiscal years 2014 and 2015 for road maintenance.

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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, 2015 was \$216.3 million, an increase of \$8.9 million from fiscal year 2014. Of the \$8.9 million, \$5.1 is a result of the adoption of GASB 68, while the remaining \$3.8 million reflects changes in operating activities.

Operating expenses in fiscal year 2015 exclusive of the GASB 68 impact were \$211.2 million.

Functionally and aside from the GASB 68 impact of \$5.1 million, the increase during fiscal year 2015 represents higher institutional support expenses (\$2.7 million), higher academic support (\$1.2 million), higher depreciation expense (\$0.6 million), higher residence life and auxiliary enterprises expense (\$0.5 million) and other increases (\$0.6 million); offset by decreased expenses for student aid (\$1.1 million), maintenance of plant (\$0.4 million) and instruction (\$0.3 million).

Overall, highlights within the \$3.8 million increase in operating expenses during 2015 include \$2.9 million increase in personnel related (salaries and benefits of \$3.3 million less \$0.4 decline in workers compensation claims), \$1.3 million increased write-offs of uncollectible accounts receivable, and \$0.6 million increased depreciation. These increases, totaling \$4.8 million, were partially offset by the \$1.1 million decrease in student aid. Note that the student aid decrease is also offset by a \$0.6 million increase in scholarship allowance which is presented as an offset in the revenue section of the Statement 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 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.

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Functional vs. Natural Classification of Expenses

Exclusive of the impact of GASB 68, the allocation of operating expenses to natural classifications has remained proportionately constant over the years ended June 30, 2015, 2014, and 2013, with salaries at 56-57%, fringe benefits at 15%, supplies and services at 22-24% and depreciation at 6%. In fiscal years 2015 and 2014, salaries and fringe benefits increased \$3.3 million and \$2.8 million respectively, primarily due to contractual obligations of negotiated arrangements.

Operating expenses are summarized below in functional and natural classifications.

Operating Expenses

	2015		2014		2013	
Functional Classification						
Instruction	\$ 83,977	39.8 %	\$ 84,304	40.6 %	\$ 85,305	41.3 %
Research	533	0.3	254	0.1	141	0.1
Academic support	17,895	8.5	16,668	8.1	16,187	7.8
Public service	1,564	0.7	1,327	0.6	1,380	0.7
Student services	18,816	8.9	18,685	9.0	18,457	8.9
Institutional support	32,383	15.3	29,731	14.3	27,980	13.6
Operation and maintenance of plant	16,444	7.8	16,880	8.1	17,471	8.5
Student aid	8,131	3.8	9,232	4.5	9,137	4.4
Residence life and auxiliary	18,756	8.9	18,282	8.8	18,623	9.0
Depreciation	12,725	6.0	12,117	5.9	11,777	5.7
Total operating expenses	211,224	100.0 %	\$ 207,480	100.0 %	\$ 206,458	100.0 %
GASB 68 impact	5,108					
	<u>\$ 216,332</u>					

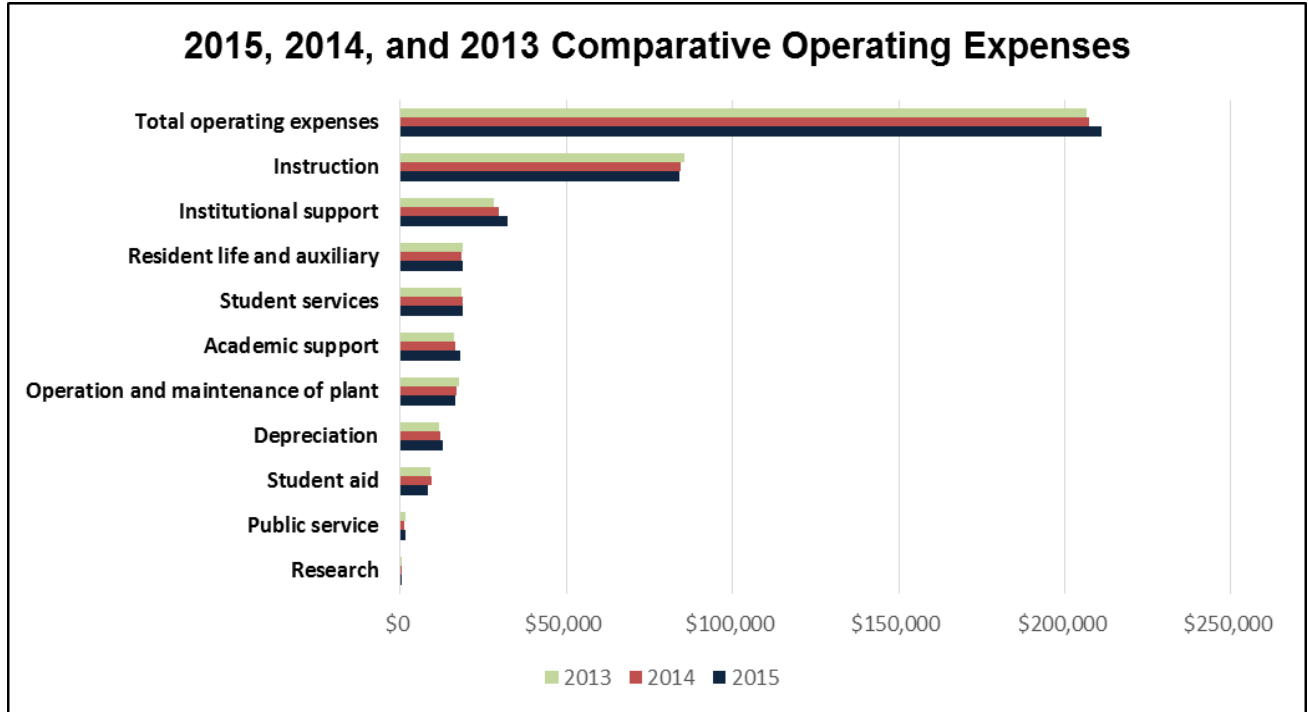
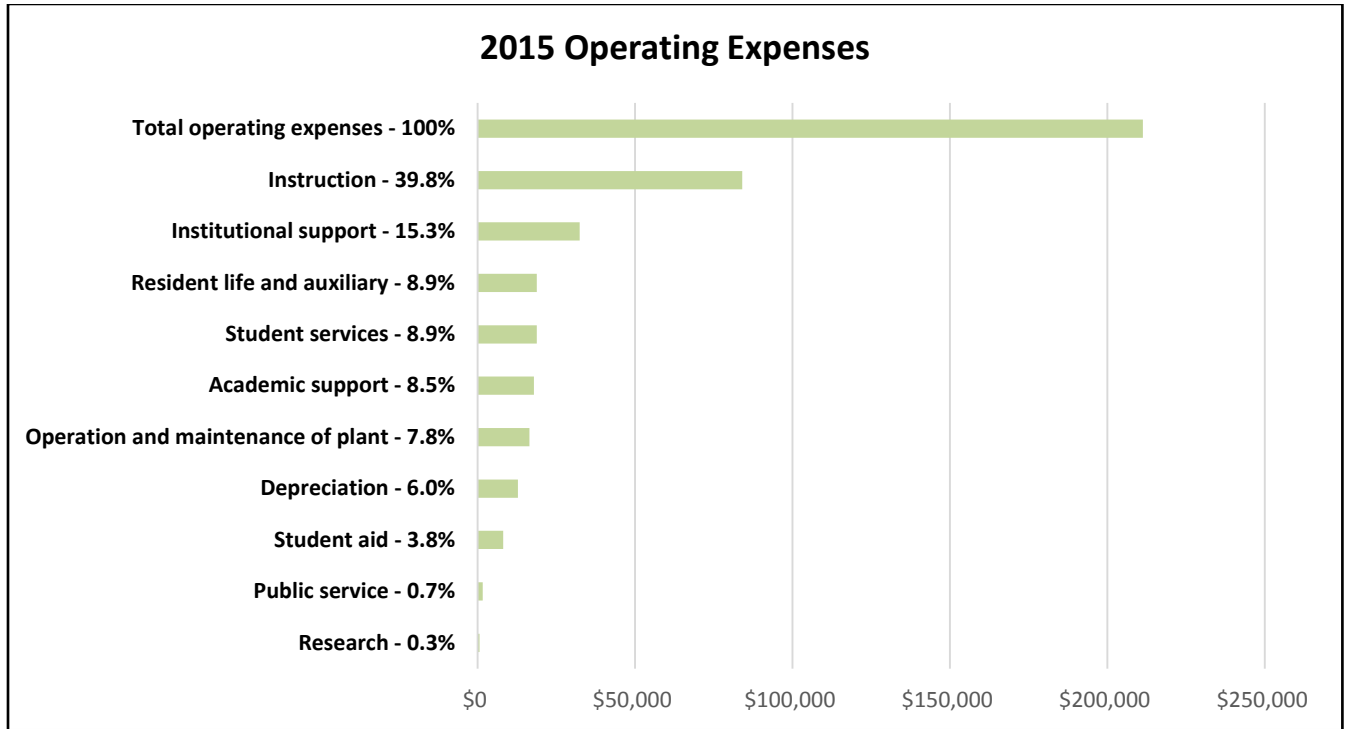
	2015		2014		2013	
Natural Classification						
Salaries and wages	\$ 119,706	56.7 %	\$ 116,876	56.3 %	\$ 115,311	55.9 %
Fringe benefits	32,205	15.2	31,679	15.3	30,426	14.7
Supplies and services	46,588	22.1	46,808	22.6	48,944	23.7
Depreciation	12,725	6.0	12,117	5.8	11,777	5.7
Total operating expenses	211,224	100.0 %	\$ 207,480	100.0 %	\$ 206,458	100.0 %
GASB 68 impact	5,108					
	<u>\$ 216,332</u>					

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2015 and 2014



The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2015 and 2014

Non-operating Expense

Non-operating expense consists of interest on capital asset-related debt of \$6.9 million, \$6.7 million and \$8.9 million for the years ended June 30, 2015, 2014 and 2013, 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.

Capital Assets and Debt Activities

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

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, University Hall, and other capital projects.

There was no new debt financing during fiscal year 2015, however planning was underway for a bond issue to refund series 2005E bonds and provide \$20 million new funding for the planned renovations of Hunziker Hall and Hunziker Wing. The new bonds (series 2015C) were issued subsequent to fiscal year 2015, on August 18, 2015.

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 of which \$1.3 million was grant revenue and the remainder \$0.4 million was the new other debt financing. The funds will be used for improvements to the Valley Road Data Center and Hobart Hall Communication Department equipment.

In June, 2015, Moody's Investors Service (Moody's) downgraded the University's credit rating to A2 with a negative outlook. This occurred at the same time as the review and downgrade of the other New Jersey State Universities and in connection with the State of New Jersey's review and downgrade that had just taken place.

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.

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2015 and 2014

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

A summary of the University's capital assets (in thousands) at June 30, 2015, 2014 and 2013 follows:

Capital Assets

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 7,256	\$ 7,256	\$ 7,256
Construction in progress	28,099	33,718	15,955
Infrastructure	18,338	16,058	15,914
Buildings and improvements	447,614	415,254	410,533
Equipment	42,252	40,694	39,768
Artwork	570	354	354
	<hr/>	<hr/>	<hr/>
Total	544,129	513,334	489,780
	<hr/>	<hr/>	<hr/>
Less accumulated depreciation	178,252	165,538	154,366
	<hr/>	<hr/>	<hr/>
Total capital assets, net	<u>\$ 365,877</u>	<u>\$ 347,796</u>	<u>\$ 335,414</u>

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2015 and 2014

Economic Factors that Could Affect the Future

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

The State's colleges and universities play a pivotal role in establishing New Jersey as a leader in human, economic and technological development. The financial condition of The William Paterson University of New Jersey is tied to that of the State of New Jersey. A crucial element to the University's future will be the level of appropriations, as there is a direct relationship between the level of State support and the University's ability to control tuition costs. State appropriations received in the year ended June 30, 2015 were \$32.7 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, and diversify its revenues. Mindful of the difficult economic times in the state and the nation, the University carefully monitors its expenditures and has positioned itself so that future tuition and fee increases can be limited while still investing in additional academic and student support resources to handle the growth in enrollment. Annual tuition and fee charges were increased only 2% or less 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 since 2011 about \$6.2 million for strategic initiatives put forward through a bottoms up transparent budget process.

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

While the State has provided stable direct state appropriations for the past three years, the University continues to operate with a lack of sufficient state support. It continues to meet the goals of its mission statement by reviewing opportunities for revenue growth or cost reductions. The University has increased revenue from noncredit courses and external grant funding and from its off-campus program at Mercer County College. The William Paterson University of New Jersey Foundation continues to expand its fund raising efforts as a means to supplement revenue from tuition and state support. The 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 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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets and Deferred Outflow of Resources		
Current assets:		
Cash and cash equivalents	\$ 108,444,714	\$ 119,527,067
Restricted deposits held by bond trustees	11,747,702	15,166,345
Receivables:		
Students, less allowance for doubtful accounts of \$1,648,000 in 2015 and \$1,974,900 in 2014	7,626,957	7,198,330
Loans, less allowance for doubtful loans of \$163,600 in 2015 and 2014	779,036	700,632
State of New Jersey	1,093,037	1,402,333
Gifts, grants, and contracts	7,348,550	3,194,644
Other receivables	814,257	794,634
Total receivables	<u>17,661,837</u>	<u>13,290,573</u>
Total current assets	<u>137,854,253</u>	<u>147,983,985</u>
Noncurrent assets:		
Loans, less allowance for doubtful loans of \$57,400 in 2015 and 2014	382,676	391,363
Capital assets, net	365,876,746	347,796,285
Total noncurrent assets	<u>366,259,422</u>	<u>348,187,648</u>
Total assets	<u>\$ 504,113,675</u>	<u>\$ 496,171,633</u>
Deferred outflow of resources - pension	<u>\$ 4,222,497</u>	<u>\$ -</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 19,474,713	\$ 16,706,522
Compensated absences	2,825,191	3,244,014
Bonds payable	6,575,000	6,295,000
Other long-term debt	651,046	619,592
Unearned revenue	5,751,823	5,962,943
Total current liabilities	<u>35,277,773</u>	<u>32,828,071</u>
Noncurrent liabilities:		
Bonds payable	157,158,594	163,981,093
Other long-term debt	4,148,134	4,799,179
Compensated absences	2,285,747	2,438,563
U.S. government grants refundable	1,380,228	1,346,042
Net pension liability	134,761,269	-
Total noncurrent liabilities	<u>299,733,972</u>	<u>172,564,877</u>
Total liabilities	<u>335,011,745</u>	<u>205,392,948</u>
Deferred inflow of resources - pension	<u>6,010,438</u>	<u>-</u>
Net Position		
Net investment in capital assets	199,083,493	176,802,354
Restricted for:		
Student loans	169,358	169,981
Debt service reserves	6,575,025	6,810,659
Unrestricted	<u>(38,513,887)</u>	<u>106,995,691</u>
Total net position	<u>\$ 167,313,989</u>	<u>\$ 290,778,685</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Student revenues:		
Student tuition and fees	\$ 124,833,706	\$ 126,824,014
Residence life	20,354,918	20,300,819
Less scholarship allowances	<u>(34,958,178)</u>	<u>(34,318,667)</u>
Net student revenues	110,230,446	112,806,166
Federal grants and contracts	21,800,791	22,178,031
State, local, and other grants and contracts	16,647,077	15,460,968
Auxiliary enterprises	<u>1,997,268</u>	<u>2,741,643</u>
Total operating revenues	<u>150,675,582</u>	<u>153,186,808</u>
Operating Expenses		
Instruction	84,682,086	84,303,602
Research	533,035	253,607
Academic support	18,353,031	16,667,572
Public service	1,574,301	1,327,467
Student services	19,262,188	18,685,397
Institutional support	34,201,023	29,731,326
Operating and maintenance of plant	17,682,973	16,879,952
Student aid	8,130,579	9,232,069
Residence life and auxiliary enterprises	19,187,737	18,282,233
Depreciation	<u>12,724,810</u>	<u>12,117,069</u>
Total operating expenses	<u>216,331,763</u>	<u>207,480,294</u>
Net operating loss	<u>(65,656,181)</u>	<u>(54,293,486)</u>
Nonoperating Revenues (Expenses)		
State of New Jersey appropriations	32,748,000	32,748,000
State of New Jersey paid fringe benefits	29,772,405	29,005,916
Private gifts	1,028,585	982,677
Investment income	822,181	878,883
Interest on capital asset-related debt	(6,925,828)	(6,716,022)
Other nonoperating revenues, net	<u>973,454</u>	<u>1,134,327</u>
Net nonoperating revenues	<u>58,418,797</u>	<u>58,033,781</u>
(Loss) Income before other revenues	(7,237,384)	3,740,295
Other Revenues		
Capital grants and gifts	<u>15,213,676</u>	<u>2,999,593</u>
Increase in net position	7,976,292	6,739,888
Net Position, Beginning of Year, as Previously Reported	<u>290,778,685</u>	<u>284,038,797</u>
Effect of adoption of GASB No. 68	(131,440,988)	
As restated	<u>159,337,697</u>	
Net Position, End of Year	<u>\$ 167,313,989</u>	<u>\$ 290,778,685</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Student tuition and fees	\$ 88,138,640	\$ 93,163,553
Federal, state, and local grants and contracts	37,091,701	36,284,078
Payments to suppliers	(35,845,682)	(37,175,318)
Payments to employees	(120,005,771)	(116,722,243)
Payments for employee benefits	(15,742,936)	(16,254,620)
Payments for student aid	(8,276,496)	(9,223,133)
Residence life	20,354,918	20,300,819
Auxiliary enterprise	1,997,268	2,741,643
	<u>(32,288,358)</u>	<u>(26,885,221)</u>
Net cash used in operating activities		
Cash Flows from Noncapital Financing Activities		
Private gifts	1,030,050	1,050,895
State of New Jersey appropriations	47,188,736	45,765,565
Other receipts	973,454	1,134,327
	<u>49,192,240</u>	<u>47,950,787</u>
Net cash provided by noncapital financing activities		
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(30,547,712)	(25,374,880)
Capital appropriations, grants and gifts received	12,665,936	2,999,593
Principal payments on asset related capital debt	(7,162,090)	(7,640,629)
Interest payments on capital asset-related debt	(7,183,193)	(7,528,492)
Increase in restricted deposits held by bond trustees	(13,588,699)	(13,581,065)
Decrease in restricted deposits held by bond trustees	17,007,342	29,343,076
Proceeds from issuance of capital asset related debt	-	385,015
	<u>(28,808,416)</u>	<u>(21,397,382)</u>
Net cash used in capital and related financing activities		
Cash Flows Provided by Investing Activities		
Interest received	822,181	899,121
	<u>(11,082,353)</u>	<u>567,305</u>
Net (decrease) increase in cash and cash equivalents		
Cash and Cash Equivalents, Beginning of Year	<u>119,527,067</u>	<u>118,959,762</u>
Cash and Cash Equivalents, End of Year	<u>\$ 108,444,714</u>	<u>\$ 119,527,067</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (65,656,181)	\$ (54,293,486)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for doubtful accounts	(326,844)	74,571
State appropriations for fringe benefits	16,462,242	15,424,771
Depreciation expense	12,724,810	12,117,069
Changes in assets, deferred outflow of resources, liabilities and deferred inflow of resources:		
Receivables	(1,819,906)	(2,203,722)
Deferred outflow of resources - pension	(4,222,497)	-
Accounts payable and accrued expenses	2,002,058	570,094
Compensated absences	(571,639)	(66,424)
Unearned revenue	(211,120)	1,491,906
Net pension liability	3,320,281	-
Deferred inflow of resources - pension	6,010,438	-
	<u>\$ (32,288,358)</u>	<u>\$ (26,885,221)</u>
Net cash used in operating activities		
Supplemental Disclosure of Noncash Financing Activities		
Purchases of property and equipment in accounts payable	<u>\$ 3,444,309</u>	<u>\$ 3,115,557</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Changes in Unrestricted Net Assets		
Support:		
Scholarship	\$ 3,746	\$ 222,495
Fund-raising	156,769	148,056
Campus activities	289,710	318,927
Development	1,257,177	1,189,940
Capital campaigns	1,530	960
Investment activities	167,616	1,019,270
Net assets released from restrictions	1,771,998	1,814,600
	<u>3,648,546</u>	<u>4,714,248</u>
Total support	3,648,546	4,714,248
Grants and Expenses:		
Scholarships/grants	683,634	627,467
Fund-raising	131,881	107,326
Campus activities	1,353,777	1,456,715
Development	1,270,400	1,345,549
Community activities	16,365	21,630
Capital campaigns	23,626	60,003
	<u>3,479,683</u>	<u>3,618,690</u>
Total expenses and other deductions	3,479,683	3,618,690
Change in unrestricted net assets	<u>168,863</u>	<u>1,095,558</u>
Changes in Temporarily Restricted Net Assets		
Scholarship	1,365,452	455,509
Fund-raising	260,090	128,025
Campus activities	862,377	1,436,126
Development	14,363	4,723
Community activities	25,190	11,405
Capital campaigns	8,655	26,905
Investment activities	504,327	1,067,540
Net assets released from restrictions	(1,771,998)	(1,814,600)
	<u>1,268,456</u>	<u>1,315,633</u>
Change in temporarily restricted net assets	1,268,456	1,315,633
Changes in Permanently Restricted Net Assets		
Scholarship	357,852	628,721
Campus activities	-	920,000
	<u>357,852</u>	<u>1,548,721</u>
Change in permanently restricted net assets	357,852	1,548,721
Increase in net assets	1,795,171	3,959,912
Net Assets, Beginning	<u>20,664,858</u>	<u>16,704,946</u>
Net Assets, Ending	<u>\$ 22,460,029</u>	<u>\$ 20,664,858</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 1,795,171	\$ 3,959,912
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized gain on sale of investments	(872,478)	(759,313)
Unrealized loss (gain) on investments	459,415	(1,079,832)
Bad debts expense	70,000	264,365
Change in operating assets and liabilities:		
Promises to give	(608,420)	(572,708)
Interest receivable	(12,937)	1,793
Prepaid expenses and other assets	3,860	(845)
Accounts payable	(195,128)	104,882
Accrued expenses	400	2,600
Grants payable	81,189	(36,512)
Annuities payable	(3,664)	45,269
Deferred revenue	8,200	4,150
	<u>725,608</u>	<u>1,933,761</u>
Cash Flows from Investing Activities		
Purchase of investments	(6,840,482)	(5,446,216)
Proceeds from disposition of investments	5,623,365	4,647,785
	<u>(1,217,117)</u>	<u>(798,431)</u>
Net cash used in investing activities		
	(491,509)	1,135,330
Cash and Cash Equivalents, Beginning of Year	<u>4,606,196</u>	<u>3,470,866</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,114,687</u>	<u>\$ 4,606,196</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, 2015 and 2014

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, two doctoral and three post baccalaureate certificate programs in five colleges: Arts and Communication; Business; Education; Humanities and Social Sciences; and Science and Health. For the fall semester of the 2014 - 2015 and 2013 - 2014 academic years, approximately 9,600 and 10,000, respectively, part time and full time undergraduate students, and approximately 1,400 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.

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, 2015 and 2014

As of June 30, 2015 and 2014, the University has a receivable of \$191,976 and \$190,528, respectively, from the Foundation. For the years ended June 30, 2015 and 2014, the University recognized revenue of \$2,138,347 and \$1,955,610, 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.

Use of Estimates

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

The William Paterson University of New Jersey

(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2015 and 2014

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.

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 \$3,504,851 at June 30, 2015 and \$3,856,267 at June 30, 2014.

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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 \$2,246,973 at June 30, 2015 and \$2,106,676 at June 30, 2014.

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

Scholarship Allowances

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

Classification of Revenue and Expense

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

Interest expense is reported as a nonoperating activity.

Compensated Absences

The liability is calculated based upon employees' accrued vacation leave as of the statement of net position date, an estimated vested amount for accrued sick leave and the estimated cost of Alternative Benefit Plan ("ABP") salary and sick leave. Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from University service prior to retirement are not entitled to payments for accumulated sick leave balances. Prior to 1991, the State of New Jersey reimbursed the University for payments made to retiring employees for accrued sick leave; however, from 1991 through the current fiscal year, the State of New Jersey did not make such reimbursements. The University paid \$187,079 and \$126,384 in sick leave payments for employees who retired during the years ended June 30, 2015 and 2014, respectively.

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New Accounting Pronouncement

The University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, for the year ended June 30, 2015. This statement establishes accounting and financial reporting standards for the activities of pension plans that are administered through trusts and meet certain criteria. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they related to pension plans that are administered through trusts or equivalent arrangements that meet certain requirements. The effect of this adoption decreased the University's governmental activities net position at July 1, 2014 by \$131,440,988 and expanded note disclosures and required supplementary information. The University did not restate the prior period as the earliest actuarial information under GASB 67 was not available to measure the net pension liability as of July 1, 2013 since there is a one year lag between the measurement date and financial statement date.

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and money market accounts	\$ 107,199,669	\$ 116,782,853
State of New Jersey Cash Management Fund	<u>1,245,045</u>	<u>2,744,214</u>
Total	<u>\$ 108,444,714</u>	<u>\$ 119,527,067</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, 2015 and 2014 were partially insured by the Federal Depository Insurance Corporation (FDIC) in the amount of \$250,000. Bank balances in excess of insured amounts of \$106.9 million in 2015 and \$116.5 million in 2014, 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 \$1.2 million as of June 30, 2015 and \$2.7 million as of June 30, 2014, 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.

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

4. Restricted Deposits Held by Bond Trustees

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

	<u>2015</u>	<u>2014</u>
Project and construction fund	\$ 1,739,521	\$ 4,700,933
Debt service fund for principal and interest	10,008,078	9,468,162
Debt service reserve fund	-	988,058
Excess rental pledge	103	9,192
	<u>\$ 11,747,702</u>	<u>\$ 15,166,345</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, 2015 and 2014, restricted deposits held by bond trustees were invested in the following, all of which have maturity dates of less than one year:

	<u>2015</u>	<u>2014</u>
Money market accounts	\$ 9,431,683	\$ 11,217,843
U.S. Treasury bills	2,316,019	2,960,502
U.S. Government issues	-	988,000
Total	<u>\$ 11,747,702</u>	<u>\$ 15,166,345</u>

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

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

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5. Capital Assets

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

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

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	<u>Beginning Balance July 1, 2013</u>	<u>Acquisition and Other Increases</u>	<u>Dispositions and Other Decreases</u>	<u>Ending Balance June 30, 2014</u>
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>

As of June 30, 2015, estimated costs to complete the projects classified as construction in progress are approximately \$19,950,000. 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, 2015 and 2014, the University capitalized interest expense of \$115,090 and \$704,038, respectively, as construction in progress in the accompanying statements of net position. As of June 30, 2015 and 2014, the University has received capital grants of approximately \$15.2 million and \$3.0 million, respectively, which is recorded in capital grants and gifts on the statement of revenues, expenses, and changes in net position.

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6. Accounts Payable and Accrued Expenses

As of June 30, 2015 and 2014, accounts payable and accrued expenses consist of the following:

	<u>2015</u>	<u>2014</u>
Vendors	\$ 5,196,100	\$ 3,470,189
Capital projects	3,444,309	3,115,557
Accrued salaries and benefits	7,401,254	6,545,451
Accrued interest	<u>3,433,050</u>	<u>3,575,325</u>
Total	<u>\$ 19,474,713</u>	<u>\$ 16,706,522</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, 2015 and 2014, the following obligations to the Authority are outstanding:

	<u>Interest Rates</u>	<u>2015</u>	<u>2014</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	\$ -
Series 2005 E Revenue Bonds, due serially to 2031	3.75 - 5.00	32,040,000	34,870,000	2,965,000
Series 2008 C Revenue Bonds, due serially to 2039	3.25 - 5.00	78,175,000	80,245,000	2,175,000
Series 2012 C Revenue Bonds, due serially to 2024	2.00 - 5.00	32,690,000	33,140,000	465,000
Series 2012 D Revenue Bonds, due serially to 2028	2.00 - 5.00	<u>17,085,000</u>	<u>17,085,000</u>	<u>970,000</u>
		159,990,000	166,285,000	6,575,000
Add amounts representing net premiums		<u>3,743,594</u>	<u>3,991,093</u>	<u>-</u>
Total		<u>\$ 163,733,594</u>	<u>\$ 170,276,093</u>	<u>\$ 6,575,000</u>

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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, 2015 and 2014.

Other Long Term Debt

As of June 30, 2015 and 2014, the following other obligations were outstanding:

	<u>Interest Rates</u>	<u>2015</u>	<u>2014</u>	<u>Current Portion</u>
NJ Educational Facilities Authority Higher Education Equipment Leasing Fund (ELF) 2014A	5.00%	\$ 334,104	\$ 385,015	\$ 60,457
Higher Education Capital Improvement Fund Series 2005A, due serially to 2020	3.00 - 5.00	2,028,555	2,412,862	429,827
Higher Education Capital Improvement Fund Series 2006A, due serially to 2023	4.00 - 4.50	2,154,391	2,163,901	9,888
Higher Education Capital Improvement Fund Series 2002 A, due serially to 2023	4.00 - 4.75	27,711	53,055	-
Dormitory Safety Trust Fund Series 2001 A, due serially to 2016	4.80	11,729	23,458	11,729
Dormitory Safety Trust Fund Series 2001 B, due serially to 2016	6.08	57,862	115,724	57,862
Bank of America Public Capital Corp, due serially to 2018	1.68	184,828	264,756	81,283
Total		<u>\$ 4,799,180</u>	<u>\$ 5,418,771</u>	<u>\$ 651,046</u>

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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, 2015:

	<u>Principal</u>	<u>Interest</u>
Years ending June 30:		
2016	\$ 7,226,046	\$ 6,842,348
2017	7,458,686	6,523,219
2018	7,684,744	6,159,533
2019	8,040,982	5,798,908
2020	<u>8,397,915</u>	<u>5,422,679</u>
2016 - 2020 subtotal	38,808,373	30,746,687
2021 - 2025	37,895,807	20,100,195
2026 - 2030	36,410,000	14,469,938
2031 - 2035	24,800,000	8,292,869
2036 - 2040	23,640,000	2,384,900
2041 - 2044	<u>3,235,000</u>	<u>115,850</u>
Total	<u>\$ 164,789,180</u>	<u>\$ 76,110,439</u>

8. Summary of Changes in Noncurrent Liabilities

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

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

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>

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9. Retirement Plans

Plan Description - PERS

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

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

The following represents the membership tiers for PERS:

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

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

Contributions

During the years ended June 30, 2015 and 2014, PERS members were required to contribute 10.0% of their annual covered salary. The State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the University. The State of New Jersey contribution is based upon annual actuarially determined percentages of total compensation of all active members. The State of New Jersey's annual contribution approximates the actuarially determined pension cost for the year. The current percentage is 6.92% of annual covered payroll. The contribution requirements of the plan members and the University are established and may be amended by the State of New Jersey.

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Employer Contributions

The University is charged for employer contributions through a fringe benefit charge assessed by the State which is included in operating expenses by function and in nonoperating revenues as State of New Jersey paid fringe benefits in the accompanying Statements of Revenues, Expenses and Changes in Net Position. The amount was \$950,516.

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

At June 30, 2015, the University reported a liability of \$125,534,480 for its proportionate share of the PERS net pension liability. The PERS net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PERS total pension liability as of June 30, 2014 to June 30, 2015. The University's proportion of the PERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the University's proportion was 0.6237%, which was a decrease from its proportion measured as of June 30, 2014 of 0.6284%.

For the year ended June 30, 2015, the University recognized pension expense of \$7,139,037. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 2,768,485	\$ -
Changes in proportion	-	760,613
Net difference between projected and actual earnings on pension plan investments	-	3,809,976
University contributions subsequent to the measurement date	<u>950,516</u>	<u>-</u>
Total	<u>\$ 3,719,001</u>	<u>\$ 4,570,589</u>

\$950,516 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Years ending June 30:	
2016	\$ (484,229)
2017	(484,229)
2018	(484,229)
2019	(484,229)
2020	(484,229)
Thereafter	<u>619,041</u>
Total	<u>\$ (1,802,104)</u>

Actuarial Assumptions

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

Inflation rate	3.01%
Salary increases:	2.15 - 4.40%
2012 - 2021	based on age
Thereafter	3.15 - 5.40%
	based on age
Investment rate of return	7.90%

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

The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

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Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	6.00 %	0.80 %
Core bonds	1.00	2.49
Intermediate-term bonds	11.20	2.26
Mortgages	2.50	2.17
High yield bonds	5.50	4.82
Inflation-indexed bonds	2.50	3.51
Broad US equities	25.90	8.22
Developed foreign equities	12.70	8.12
Emerging market equities	6.50	9.91
Private equity	8.25	13.02
Hedge funds/absolute return	12.25	4.92
Real estate (property)	3.20	5.80
Commodities	2.50	5.35

Discount Rate

The discount rate used to measure the total pension liability was 5.39% and 5.55% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 5.39 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.39 percent) or 1-percentage-point higher (6.39 percent) than the current rate:

	1% Decrease (4.39%)	Current Discount Rate (5.39%)	1% Increase (6.39%)
University's proportionate share of the net pension liability	\$ 148,270,823	\$ 125,534,480	\$ 106,466,565

Plan Description - PFRS

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

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

The following represents the membership tiers for PFRS:

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

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

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Contributions

During the years ended June 30, 2015 and 2014, PFRS members were required to contribute 10.0% of their annual covered salary. The State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the University. The State of New Jersey contribution is based upon annual actuarially determined percentages of total compensation of all active members. The State of New Jersey's annual contribution approximates the actuarially determined pension cost for the year. The current percentage is 8.62% of annual covered payroll. The contribution requirements of the plan members and the University are established and may be amended by the State of New Jersey.

Employer Contributions

The University is charged for employer contributions through a fringe benefit charge assessed by the State which is included in operating expenses by function and in nonoperating revenues as State of New Jersey paid fringe benefits in the accompanying Statements of Revenues, Expenses and Changes in Net Position. The amount was \$315,912.

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

At June 30, 2015, the University reported a liability of \$9,226,789 for its proportionate share of the PFRS net pension liability. The PFRS net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PFRS total pension liability as of June 30, 2014 to June 30, 2015. The University's proportion of the PFRS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the University's proportion was 0.2597%, which was a decrease from its proportion measured as of June 30, 2014 of 0.3027%.

For the year ended June 30, 2015, the University recognized pension expense of \$489,089. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 187,584	\$ -
Changes in proportion	-	1,211,871
Net difference between projected and actual earnings on pension plan investments	-	227,978
University contributions subsequent to the measurement date	<u>315,912</u>	<u>-</u>
Total	<u>\$ 503,496</u>	<u>\$ 1,439,849</u>

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\$315,912 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Years ending June 30:		
2016	\$	(257,567)
2017		(257,567)
2018		(257,567)
2019		(257,567)
2020		(257,567)
Thereafter		<u>35,570</u>
Total	\$	<u>(1,252,265)</u>

Actuarial Assumptions

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

Inflation rate	3.01%
Salary increases: 2012 - 2021	3.95 - 8.62% based on age
Thereafter	4.95 - 9.62% based on age
Investment rate of return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables with adjustments for mortality improvements from the base year of 2011 based on Projection Scale AA.

The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2010.

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Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits; the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PFRS's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	6.00 %	0.80 %
Core bonds	1.00	2.49
Intermediate-term bonds	11.20	2.26
Mortgages	2.50	2.17
High yield bonds	5.50	4.82
Inflation-indexed bonds	2.50	3.51
Broad US equities	25.90	8.22
Developed foreign equities	12.70	8.12
Emerging market equities	6.50	9.91
Private equity	8.25	13.02
Hedge funds/absolute return	12.25	4.92
Real estate (property)	3.20	5.80
Commodities	2.50	5.35

Discount Rate

The discount rate used to measure the total pension liability was 6.32% and 6.45% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made based on the average of the last five years of contributions made in relation to the last five years of actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2045. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2045, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 6.32 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
University's proportionate share of the net pension liability	\$ 11,154,829	\$ 9,226,789	\$ 7,639,148

Plan Description - TPAF

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

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

The following represents the membership tiers for TPAF:

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

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

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

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

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

The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2012.

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Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	6.00 %	0.50 %
Core fixed income	0.00	2.19
Core bonds	1.00	1.38
Short-term bonds	0.00	1.00
Intermediate-term bonds	11.20	2.60
Long-term bonds	0.00	3.23
Mortgages	2.50	2.84
High yield bonds	5.50	4.15
Non-US fixed income	0.00	1.41
Inflation-indexed bonds	2.50	1.30
Broad US equities	25.90	5.88
Large cap US equities	0.00	5.62
Mid cap US equities	0.00	6.39
Small cap US equities	0.00	7.39
Developed foreign equities	12.70	6.05
Emerging market equities	6.50	8.90
Private equity	8.25	9.15
Hedge funds / absolute return	12.25	3.85
Real estate (property)	3.20	4.43
Real estate (REITS)	0.00	5.58
Commodities	2.50	3.60
Long credit bonds	0.00	3.74

Discount Rate

The discount rate used to measure the total pension liability was 4.68% and 4.95% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefits payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the net pension liability of the State as of June 30, 2014 calculated using the discount rate as disclosed above as well as what the State's net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

As of June 30, (rates used)	At 1% Decrease	At Current Discount Rate	At 1% Increase
2014 (3.68%, 4.68%, 5.68%)	\$ 64,722,984,539	\$ 53,813,067,539	\$ 44,738,870,539
2013 (3.95%, 4.95%, 5.95%)	\$ 61,017,578,926	\$ 50,790,513,631	\$ 42,351,665,847

Special Funding Situation

The employer contributions for local participating employers are legally required to be funded by the State in accordance with N.J.S.A 18:66-33. Therefore, these local participating employers are considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the University. The University's portion of the nonemployer contributing entities' total proportionate share of the net pension liability was \$10,050,848 as of June 30, 2014 and \$6,940,334 as of June 30, 2013. The University records their proportionate share of the pension expense as a revenue and expense in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The amount was \$540,830 in 2014.

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Alternate Benefit Program Information

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

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 \$74,435 and \$64,641 were made in fiscal year 2015 and 2014, 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.

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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 contract to permit a third party to install, operate and maintain solar photovoltaic facilities on certain University properties. In exchange, the University will purchase all electricity generated by the facilities at a set price. Total rent expense was \$1,141,409 and \$1,244,009 in 2015 and 2014, respectively.

The future estimated minimum annual commitments are as follows:

	<u>Amount</u>
Years ending June 30:	
2016	\$ 980,841
2017	864,685
2018	557,317
2019	559,278
2020	<u>617,897</u>
2016 - 2020 subtotal	3,580,018
2021 - 2025	3,295,567
2026 - 2030	<u>122,899</u>
Total	<u>\$ 6,998,484</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 \$29,772,405 and \$29,005,916, for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, unrestricted net position consist of funds that have been designated as follows:

	<u>2015</u>	<u>2014</u>
Academic and other programs	\$ 22,136,130	\$ 23,691,098
Quasi-endowment	10,593,476	10,560,327
Capital programs:		
Renewal and replacement - nonauxiliary	37,178,169	46,661,477
Renewal and replacement - auxiliary	28,127,548	26,082,789
Net pension liability	<u>(136,549,210)</u>	<u>-</u>
Total	<u>\$ (38,513,887)</u>	<u>\$ 106,995,691</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 \$1,500,000,000. Coverage for theft of money and securities provides for the actual loss in excess of \$75,000 with a per loss limit of \$5,000,000.

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

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

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

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14. Subsequent Event

On August 18, 2015, the University issued Series 2015C New Jersey Educational Facilities Authority Revenue Bonds for par value of \$45,695,000 and premium of \$4,152,542. Of the total proceeds, \$29,360,927 will be used to refund the principal balance of the University's 20015E Bonds, \$20,000,000 will be used to fund a facilities renovation project, and the remaining proceeds will pay for issuance costs.

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Schedule of the University's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2015

	<u>PERS</u>	<u>PFRS</u>	<u>TPAF</u>
University's proportion of the net pension liability	0.6237086082 %	0.2596863260 %	-
University's proportionate share of the net pension liability	\$ 125,534,480	\$ 9,226,789	\$ 10,050,848
University's covered-employee payroll	\$ 27,170,262	\$ 1,189,806	\$ 366,714
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	462.03%	775.49%	2740.79%

The University adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, for the year ended June 30, 2015 to conform with accounting principles generally accepted in the United States of America. Therefore, information for years prior to 2015 is not available for reporting.

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Schedule of University Contributions

Year Ended June 30, 2015

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

The University adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, for the year ended June 30, 2015 to conform with accounting principles generally accepted in the United States of America. Therefore, information for years prior to 2015 is not available for reporting.