

THE STATE UNIVERSITY OF NEW YORK
ANNUAL FINANCIAL REPORT 2014



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of New York

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A Message from the Chancellor

I am pleased to present the Annual Financial Report of The State University of New York, providing an overview of the State University's finances and operating results for the year ending June 30, 2014. With over \$10 billion in revenues, the State University is a major economic driver in the State of New York.

This year, the State University is doubling down on its commitment to expand college access, completion, and success for all New York State students, knowing that an educated and trained citizenry is essential to building a vibrant twenty-first-century economy. To that end, we have begun taking stock of the progress that the State University has made toward the goals set out five years ago in our strategic plan, *The Power of SUNY*, to enhance educational excellence and affordability, and to serve as an economic engine in every region of New York State.

Now at the end of our initial five years of following *The Power of SUNY* plan, we are engaging in a series of discussions about the priorities that will guide the State University over the next five years, bringing us to 2020. After broad consultation within the University community—including presidents, chief academic officers, faculty, students—in a series of what we called “Power of SUNY Refresh” meetings across the state, five areas of focus have been identified that will comprise *The Power of SUNY 2020*.

In reaching this point, more than two hundred possible measures have been identified that we could focus on and track. However, we knew that to make the most meaningful impact, the State University would need to create sharper, more specific targets. Our five areas of focus then are Access, Completion, Success, Research, and Engagement.

Access. As laid out in the State University's statutory mission, access is at the core of the State University's identity. To that end, we are fine-tuning our efforts to increase and measure enrollment, system and campus capacity, diversity, and affordability.

The preliminary enrollment headcount for fall 2014 is 454,152, which represents a decline of 1.2 percent from last fall. Preliminary enrollment at the state-operated campuses is 220,931, up .5 percent over last fall, while preliminary enrollment at the community colleges is 233,221, down 2.7 percent. With the continued development of our successful Open SUNY initiative, it is expected that within the next three years the State University will add approximately 100,000 students who will enroll in our vastly expanding array of online programs and courses.

Completion. The State University is striving to enable all those we serve to achieve their goals. We will continue to improve all efforts toward improving on-time degree completion and non-degree completion and services, and ensuring seamless transfer.

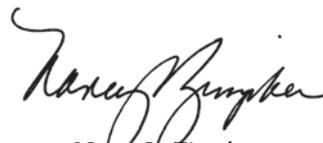
Success. The State University will double down in the next five years on continuing to create a robust system and campus support for student success through which its students will be prepared for the most successful possible launch into further education, career, and citizenship. This includes expanding and tracking the success of applied learning opportunities and multi-cultural experiences, tracking and measuring State University graduate employment and earnings, and creating groundbreaking financial literacy programming.

Research. The State University's statutory mission stipulates that the institution “*encourages and facilitates basic and applied research for the purpose of the creation and dissemination of knowledge vital for continued human, scientific, technological and economic advancement.*” To better fulfill that mission, the State University is developing new ways to enhance and measure research productivity, external investment, and philanthropic support, and training the State University system, campus, and faculty thought leaders in critical areas of advancement.

In the 2013-14 fiscal year, State University research continues to be strong, with key numbers up over last year. In the 2013-14 fiscal year, The Research Foundation for The State University of New York received 293 invention disclosures, filed 244 patent applications, was awarded 70 U.S. patents, executed 47 licenses, and received \$13.2 million in royalties. These achievements were the products of more than 6,927 projects that supported 15,795 employees statewide.

Engagement. The State University is stepping up its commitment to engagement—our economic, societal, and cultural impact on New York State, and beyond. Through workforce development, community service, cultural contributions, and START-UP NY, we are engaging and will continue to share the expertise of the State University with the business, agricultural, governmental, labor and nonprofit sectors of the state for the purpose of enhancing the well-being of New Yorkers and the health of local economies and quality of life.

With ongoing financial investment in these areas, the State University continues to be an outstanding investment for students and a critical resource for New York State. We take our responsibility as stewards of public dollars seriously and will continue to strive to be as efficient and creative as possible in managing our resources.



Nancy L. Zimpher
Chancellor

Independent Auditors' Report



KPMG LLP
515 Broadway
Albany, NY 12207-2974

The Board of Trustees
State University of New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of the State University of New York (the University), as of and for the years ended June 30, 2014 and 2013, and the financial statements of the aggregate discretely presented component units of the University as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit certain discretely presented component units, which represents 63% of the total assets and 77% of the total revenues of the aggregate discretely presented component units. The financial statements of those entities were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those certain discretely presented component units are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of certain discretely presented component units identified in note 15 to the financial statements were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the State University of New York, as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended and the financial position of the aggregate discretely presented component units of the State University of New York, as of June 30, 2014, and the changes in their net assets for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters*Financial Presentation of the University*

As discussed in note 1, the financial statements of the University, are intended to present the financial position, the changes in financial position, the changes in net assets, and, where applicable, cash flows of only that portion of the State of New York that is attributable to the transactions of the University and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the State of New York as of June 30, 2014 or 2013, the changes in its financial position and, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2013 financial statements and, based on our audit and the reports of the other auditors, we expressed unmodified audit opinions on those audited financial statements in our report dated December 2, 2013. In our opinion, based on our audit and the reports of the other auditors, the summarized comparative information related to the aggregate discretely presented component units and presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5 to 13 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 management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The transmittal letter on page 1 is not a required part of the basic financial statements and has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

November 5, 2014
Albany, New York

KPMG LLP

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Management's Discussion and Analysis

Management's discussion and analysis (MD&A) provides a broad overview of the State University of New York's (State University) financial condition as of June 30, 2014 and 2013, the results of its operations for the years then ended, and significant changes from the previous years. Management has prepared the financial statements and related footnote disclosures along with this MD&A. The MD&A should be read in conjunction with the audited financial statements and related footnotes of the State University, which directly follow the MD&A.

For financial reporting purposes, the State University's reporting entity consists of all sectors of the State University including the university centers, health science centers (including hospitals), colleges of arts and sciences, colleges of technology and agriculture, specialized colleges, statutory colleges (located at the campuses of Cornell and Alfred Universities), and central services, but excluding community colleges. The financial statements also include the financial activity of The Research Foundation for the State University of New York (Research Foundation), which administers the sponsored program activity of the State University; the State University Construction Fund (Construction Fund), which administers the capital program of the State University; and the auxiliary services corporations, foundations, and student housing corporations located on its campuses.

The auxiliary services corporations, foundations, and student housing corporations meet the criteria for component units under the Governmental Accounting Standards Board (GASB) accounting and financial reporting requirements for inclusion in the State University's financial statements. For financial statement presentation purposes, these component units are not included in the reported amounts of the State University, but the combined totals of these component units are discretely presented on pages 18 and 19 of the State University's financial statements, in accordance with display requirements prescribed by the Financial Accounting Standards Board (FASB) for not-for-profit organizations.

The focus of the MD&A is on the State University financial information contained in the balance sheets, the statements of revenues, expenses, and changes in net position, and the statements of cash flows, which exclude the auxiliary services corporations, foundations, and student housing corporations.

Overview of the Financial Statements

The financial statements of the State University have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the GASB.

The financial statement presentation consists of comparative balance sheets, statements of revenues, expenses, and changes in net position, statements of cash flows, and accompanying notes for the June 30, 2014 and 2013 fiscal years. These statements provide information on the financial position of the State University and the financial activity and results of its operations during the years presented. A description of these statements follows:

The *Balance Sheets* present information on all of the State University's assets and deferred outflows of resources, liabilities, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State University is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Position* present information showing the change in the State University's net position during each fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in these statements include items that will result in cash received or disbursed in future fiscal periods.

The *Statements of Cash Flows* provide information on the major sources and uses of cash during the year. The cash flow statements portray net cash provided or used from operating, investing, capital, and noncapital financing activities.

Management's Discussion and Analysis

Financial Highlights

The State University's net position of (\$1.03) billion is comprised of \$15.97 billion in total assets and deferred outflows of resources, less \$17.01 billion in total liabilities. The net position decreased \$232 million in 2014 driven by an increase in accrued postemployment benefit expenses of \$467 million. The State University's total revenues increased \$451 million and total expenses increased \$278 million in 2014 compared to 2013. The growth in revenues is primarily due to increases in net tuition and fees revenue of \$107 million and direct and indirect State appropriation revenue of \$252 million compared to the previous year. Expense growth was driven by an overall increase in operating expenses of \$249 million, or 2.6% compared to the prior year.

Balance Sheets

The balance sheets present the financial position of the State University at the end of its fiscal years. The State University's net position was (\$1.03) billion and (\$803) million at June 30, 2014 and 2013, respectively, and experienced a decrease of \$232 million in 2014 and \$405 million in 2013. The State University's total assets and deferred outflows of resources increased \$939 million and \$667 million in 2014 and 2013, respectively. Total liabilities during 2014 and 2013 increased \$1.17 billion and \$1.07 billion, respectively. The following table reflects the financial position at June 30, 2014, 2013, and 2012 (in thousands):

	2014	2013	2012
Current assets	\$ 2,966,993	2,996,602	3,350,346
Capital assets, net	10,701,489	10,041,478	8,984,590
Other noncurrent assets	2,279,889	1,970,962	2,020,781
Deferred outflows of resources	23,707	23,552	9,959
Total assets and deferred outflows of resources	<u>15,972,078</u>	<u>15,032,594</u>	<u>14,365,676</u>
Current liabilities	2,076,995	2,077,079	2,330,059
Noncurrent liabilities	<u>14,929,843</u>	<u>13,758,698</u>	<u>12,434,258</u>
Total liabilities	<u>17,006,838</u>	<u>15,835,777</u>	<u>14,764,317</u>
Net investment in capital assets	1,090,418	940,031	984,370
Restricted - nonexpendable	357,733	331,906	308,608
Restricted - expendable	347,716	276,950	230,646
Unrestricted	<u>(2,830,627)</u>	<u>(2,352,070)</u>	<u>(1,922,265)</u>
Total net position	<u>\$ (1,034,760)</u>	<u>(803,183)</u>	<u>(398,641)</u>

Current Assets

Current assets at June 30, 2014 decreased \$30 million compared to the previous year. In general, current assets are those assets that are available to satisfy current liabilities (i.e., those that will be paid within one year).

Current assets at June 30, 2014 and 2013 consist primarily of cash and cash equivalents of \$1.33 billion and \$1.35 billion and receivables of \$1.11 billion and \$1.13 billion, respectively. The decrease in current assets during 2014 is primarily due to a decrease of \$52 million in appropriations receivable.

Current Liabilities

Current liabilities remained flat compared to the previous year. Current liabilities at June 30, 2014 and 2013 consist principally of accounts payable and accrued expenses of \$978 million and \$963 million and the current portion of long-term liabilities of \$665 million and \$679 million, respectively.

Capital Assets, net

The State University's capital assets are substantially comprised of State-operated campus educational, residence, and hospital facilities. Personal Income Tax (PIT) revenue bonds support the majority of the funding for construction and critical maintenance projects on State University educational and hospital facilities. Prior to 2014, the State University entered into capital lease financing arrangements for residence hall facilities. During 2014, the State University established a new credit for funding for construction and critical maintenance projects for residence hall facilities as discussed further on page 9.

During the 2014 and 2013 fiscal years, capital assets (net of depreciation) increased \$660 million and \$1.06 billion, respectively. The majority of the increase occurred at the State University campuses due to the completion of new building construction, renovations, and rehabilitation totaling \$1.45 billion and \$910 million for the 2014 and 2013 fiscal years, respectively. Equipment additions during 2014 and 2013 of \$171 million and \$180 million, respectively, also contributed to the increase.

Management's Discussion and Analysis

Significant projects completed and capitalized during the 2014 fiscal year included construction of a 900 bed facility amongst 8 new residence halls and a Collegiate Center at Binghamton University, a 220 bed residence hall at the College at Cortland, the expansion of the Institute for Human Performance building at Upstate Medical University, a Performing Arts Center at the College at Potsdam, a technology building at Buffalo State College, an academic building at the College at Oswego and a business school building at the University at Albany. Other significant projects included improvements to an academic building at Stony Brook University, renovations of the Basic Sciences Building at Downstate Medical Center, an expansion of Hudson Hall at the College at Plattsburgh and renovations to the Student Leadership Center at Alfred State College.

A summary of capital assets, by major classification, and related accumulated depreciation for the 2014, 2013, and 2012 fiscal years is as follows (in thousands):

	2014	2013	2012
Land	\$ 614,573	547,995	503,136
Infrastructure and land improvements	974,799	872,259	825,008
Buildings	10,521,128	9,155,561	8,303,401
Equipment, library books and other	3,008,558	2,898,865	2,750,286
Construction in progress	2,161,475	2,787,928	2,464,534
Total capital assets	<u>17,280,533</u>	<u>16,262,608</u>	<u>14,846,365</u>
Less accumulated depreciation:			
Infrastructure and land improvements	454,801	430,698	405,629
Buildings	3,804,024	3,594,964	3,398,048
Equipment, library books and other	<u>2,320,219</u>	<u>2,195,468</u>	<u>2,058,098</u>
Total accumulated depreciation	<u>6,579,044</u>	<u>6,221,130</u>	<u>5,861,775</u>
Capital assets, net	<u>\$ 10,701,489</u>	<u>10,041,478</u>	<u>8,984,590</u>

Other Noncurrent Assets

Other noncurrent assets increased \$309 million compared to the previous year. Noncurrent assets at June 30, 2014 and 2013 include long-term investments of \$864 million and \$769 million, noncurrent portion of receivables of \$635 million and \$557 million, deposits with trustees of \$400

million and \$413 million, and restricted cash of \$156 million and \$67 million, respectively. The increase in noncurrent assets during 2014 is primarily due to an increase in long-term investments of \$94 million due to investment gains, an increase of \$88 million in restricted cash mainly due to an increase in residence hall cash reserves, and an increase of \$65 million in appropriation receivable related to litigation.

Noncurrent Liabilities

Noncurrent liabilities at June 30, 2014 and 2013 of \$14.93 billion and \$13.76 billion, respectively, are largely comprised of debt on State University facilities, other long-term liabilities accrued for postemployment and post-retirement benefits, and litigation reserves. The State University capital funding levels and bonding authority are subject to operating and capital appropriations of the State. Funding for capital construction and rehabilitation of educational and residence hall facilities of the State University is provided principally through the issuance of bonds by the Dormitory Authority of New York State (DASNY). The debt service for the educational facilities is paid by, or provided through a direct appropriation from, the State. The debt service on residence hall bonds is funded primarily from room rents. A summary of noncurrent, long-term liabilities at June 30, 2014, 2013, and 2012 is as follows (in thousands):

	2014	2013	2012
Educational facilities	\$ 7,232,933	6,880,924	6,296,313
Unamortized bond premium - educational facilities	474,681	438,897	292,676
Residence hall facilities	1,164,255	1,496,800	1,322,010
Unamortized bond premium - residence hall facilities	72,999	75,970	42,742
Postemployment and post-retirement	4,170,783	3,732,255	3,261,435
Litigation	507,551	442,796	457,880
Collateralized borrowings	467,424	-	-
Other obligations	<u>486,515</u>	<u>463,840</u>	<u>589,447</u>
Long-term liabilities	<u>\$ 14,577,141</u>	<u>13,531,482</u>	<u>12,262,503</u>

Management's Discussion and Analysis

During the year, Personal Income Tax (PIT) Revenue Bonds were issued in the amount of \$231 million and Sales Tax Revenue Bonds were issued totaling \$465 million for the purpose of financing capital construction and major rehabilitation for educational facilities. Also, during the year PIT bonds were issued totaling \$164 million in order to refund \$173 million of the State University's existing educational facilities obligations.

During fiscal year 2014, Moody's upgraded the credit ratings for PIT bonds (from Aa2 to Aa1) and educational bonds (from Aa3 to Aa2) compared to the previous year. Fitch also upgraded the credit ratings for PIT bonds (from AA to AA+) and educational bonds (from AA- to AA) and Standard & Poor's (S&P) upgraded the credit ratings for educational bonds (from AA- to AA). The State University's credit ratings for residence hall bonds were unchanged in 2014. The State University's credit ratings for PIT, educational and residence hall bonds were unchanged in 2013. The credit ratings at June 30, 2014 are as follows:

	<u>PIT Bonds</u>	<u>Educational Facilities</u>	<u>Residence Halls</u>
Moody's			
Investors Service	Aa1	Aa2	Aa2
Standard & Poor's	AAA	AA	AA-
Fitch	AA+	AA	AA-

During fiscal years 2014 and 2013, the long-term portion of postemployment and post-retirement benefit obligations increased \$439 million and \$471 million, respectively. The State, on behalf of the State University, provides health insurance coverage for eligible retired State University employees and their qualifying dependents as part of the New York State Health Insurance Plan (NYSHIP). The State University, as a participant in the plan, recognizes these other postemployment benefits (OPEB) on an accrual basis. The State University's OPEB plan is financed annually on a pay-as-you-go basis. There are no assets set aside to fund the plan.

The Research Foundation sponsors a separate defined benefit OPEB plan and has established a Voluntary Employee Benefit Association (VEBA) trust. Legal title to all the assets in the trust is vested for the benefit of the participants. Contributions are made by the Research Foundation pursuant to a funding policy established by its Board of Directors.

A schedule of funding progress for these plans is below.

Schedule of Funding Progress Other Postemployment and Post-retirement Benefits (Amounts in millions)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage Covered Payroll ((b-a)/c)</u>
State University Plan:						
April 1, 2012	\$ -	13,933	13,933	0%	3,201	435%
April 1, 2010	-	12,200	12,200	0%	3,037	402%
April 1, 2008	-	9,560	9,560	0%	3,008	318%
Research Foundation Plan:						
June 30, 2014	149	295	146	50%	236	62%
June 30, 2013	125	303	178	41%	234	76%
June 30, 2012	107	298	191	36%	245	78%

Management's Discussion and Analysis

The State University has recorded a long-term litigation liability and a corresponding appropriation receivable of \$508 million and \$443 million at June 30, 2014 and 2013, respectively (almost entirely related to hospitals and clinics) for unfavorable judgments, both anticipated and awarded but not yet paid.

In March 2013, the State enacted legislation amending the Public Authorities Law and Education Law of the State. The amendments, among other things, authorized the State University to assign to DASNY all of the State University's rights, title and interest in dormitory facilities revenues derived from payments made by students and others for use and occupancy of certain dormitory facilities. The amendments further authorize DASNY to issue State University of New York Dormitory Facilities Revenue Bonds payable from and secured by the dormitory facilities revenues assigned to it by the State University.

In August 2013, \$440 million in bonds were issued by DASNY under this new program for the construction and rehabilitation of residential facilities and to refinance the State University's existing residential facility obligations. These bonds are special obligations of DASNY payable solely from the dormitory facilities revenues collected by the State University as agent for DASNY. The outstanding obligations under these bonds is reported as collateralized borrowing in the State University's financial statements. The credit ratings assigned to these bonds were as follows: Moody's (Aa3), S & P (A+), and Fitch (A+).

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present the State University's results of operations. Revenues, expenses, and the change in net position for the 2014, 2013 and 2012 fiscal years are summarized as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 6,049,331	6,008,874	5,672,461
Nonoperating revenues	3,927,018	3,525,614	3,542,501
Other revenues	144,282	135,483	81,222
Total revenues	<u>10,120,631</u>	<u>9,669,971</u>	<u>9,296,184</u>
Operating expenses	9,936,282	9,687,640	9,288,862
Nonoperating expenses	415,926	386,873	396,808
Total expenses	<u>10,352,208</u>	<u>10,074,513</u>	<u>9,685,670</u>
Change in net position	<u>\$ (231,577)</u>	<u>(404,542)</u>	<u>(389,486)</u>

Total operating revenues of the State University increased \$40 million in 2014 and \$336 million in 2013. Nonoperating and other revenues, which include State appropriations, increased \$410 million and \$37 million for fiscal years 2014 and 2013, respectively. Total expenses for 2014 and 2013 increased \$278 million and \$389 million, respectively.

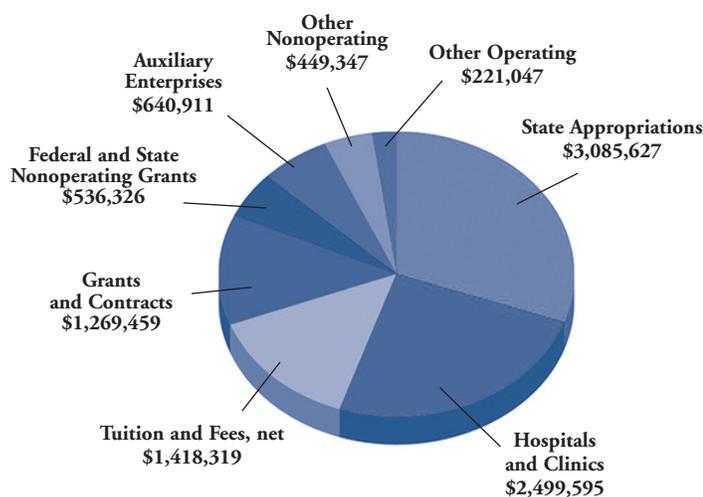
Revenue Overview

Revenues (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Tuition and fees, net	\$ 1,418,319	1,311,753	1,227,984
Hospitals and clinics	2,499,595	2,538,544	2,459,497
Grants and contracts	1,269,459	1,343,088	1,214,257
Auxiliary enterprises	640,911	614,367	588,429
Other operating	221,047	201,122	182,294
Operating revenues	<u>6,049,331</u>	<u>6,008,874</u>	<u>5,672,461</u>
State appropriations	3,085,627	2,833,440	2,930,043
Federal and State			
nonoperating grants	536,326	521,957	515,450
Other nonoperating	449,347	305,700	178,230
Nonoperating and other revenues	<u>4,071,300</u>	<u>3,661,097</u>	<u>3,623,723</u>
Total revenues	<u>\$ 10,120,631</u>	<u>9,669,971</u>	<u>9,296,184</u>

Management's Discussion and Analysis

2014 Revenues (in thousands)



Tuition and Fees, Net

Tuition and fee revenue, net of scholarship allowances increased \$107 million and \$84 million in 2014 and 2013, respectively. These increases were mainly driven by a \$300 tuition rate increase for resident undergraduates and increases in professional and nonresident tuition rates in 2014 and 2013. Annual average full-time equivalent students, including undergraduate and graduate, were approximately 195,400, 194,300, and 192,600 for the fiscal years ended June 30, 2014, 2013, and 2012, respectively.

Hospitals and Clinics

The State University has three hospitals (each with academic medical centers) – the State University Hospitals at Brooklyn (UHB), Stony Brook, and Syracuse.

Hospital and clinic revenue decreased \$39 million in 2014 due to the reduction of patient revenues of \$232 million from the Long Island College Hospital (LICH) at UHB due to reduced services and patient volumes. This decrease was offset by \$89 million in HEAL grants provided to UHB. The hospitals experienced a \$38 million increase in Medicaid Disproportionate Share program revenue and Stony Brook and Syracuse patient revenue increased \$66 million due to increases in rates and volume. Hospital and clinic revenue increased \$79 million between 2013 and 2012.

Grants and Contracts Revenue

Grants and contracts revenue decreased \$74 million in 2014 and increased \$129 million in 2013. A majority of the State University's grants and contracts are administered by the Research Foundation and totaled \$918 million, \$1.01 billion, and \$882 million for the fiscal years ended June 30, 2014, 2013, and 2012, respectively. The decrease in 2014 is due to decreases in federal grants and contracts of \$40 million and private grants and contracts of \$43 million.

Auxiliary Enterprises

The State University's auxiliary enterprise activity is comprised of sales and services for residence halls, food services, intercollegiate athletics, student health services, parking, and other activities. The residence halls are operated and managed by the State University and its campuses.

Auxiliary enterprise sales and services revenue increased \$27 million and \$26 million for fiscal years 2014 and 2013, respectively. These increases were largely due to modest increases in room rates and occupancy levels.

The residence hall operations and capital programs are financially self-sufficient. Each campus is responsible for the operation of its residence halls program including setting room rates and covering operating, maintenance, capital and debt service costs. Any excess funds generated by residence halls operating activities are separately maintained for improvements and maintenance of the residence halls. Revenue producing occupancy at the residence halls was 77,626 for the fall of 2013, an increase of 809 students compared to the previous year. The overall utilization rate for the fall of 2013 was reported at 96 percent.

Management's Discussion and Analysis

State Appropriations

The State University's single largest source of revenues are State appropriations, which for financial reporting purposes are classified as nonoperating revenues. State appropriations totaled \$3.09 billion, \$2.83 billion, and \$2.93 billion and represented approximately 30 percent, 29 percent, and 31 percent of total revenues for fiscal years 2014, 2013, and 2012, respectively. State support (both direct support for operations and indirect support for fringe benefits, debt service, and litigation) for State University campus operations, statutory colleges, and hospitals and clinics increased \$252 million in 2014 and decreased \$97 million in 2013, compared to the prior year. In 2014, State support for operating expenses decreased \$19 million and indirect State support for fringe benefits, litigation, and debt service increased \$136 million, \$87 million, and \$48 million, respectively, compared to the previous year.

Federal and State Nonoperating Grants

Major scholarships and grants received include the State Tuition Assistance Program of \$197 million and \$193 million and the federal Pell Program of \$279 million and \$270 million during fiscal years 2014 and 2013, respectively.

Other Nonoperating Revenues

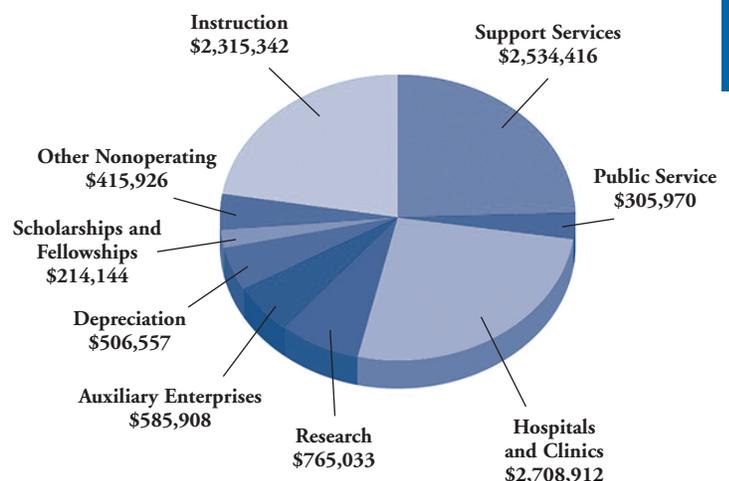
Other nonoperating revenues increased \$144 million and \$127 million in 2014 and 2013, respectively. The increases were primarily due to increases in gifts, investment income and gains, and capital gifts and grants.

Expense Overview

Expenses (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Instruction	\$ 2,315,342	2,201,559	2,107,314
Research	765,033	817,282	725,173
Public service	305,970	303,248	312,809
Support services	2,534,416	2,426,112	2,261,210
Scholarships and fellowships	214,144	210,004	198,446
Hospitals and clinics	2,708,912	2,673,713	2,652,311
Auxiliary enterprises	585,908	585,962	559,478
Depreciation and amortization	506,557	469,760	472,121
Other nonoperating	415,926	386,873	396,808
Total expenses	<u>\$ 10,352,208</u>	<u>10,074,513</u>	<u>9,685,670</u>

2014 Expenses (in thousands)



During the 2014 fiscal year, instruction expenses increased \$114 million predominately from an increase of \$71 million in fringe benefit expenses due to an increase in the State fringe benefit rate as well as an increase in personal service costs of \$39 million. Research expense decreased \$52 million during 2014 compared to 2013 primarily due to a decrease in sponsored program activity.

Support services, which include expenses for academic support, student services, institutional support, and operation and maintenance of plant, increased \$108 million between fiscal years 2014

Management's Discussion and Analysis

and 2013. This increase was mainly due to an increase in fringe benefit costs of \$42 million as well as an increase in utility costs of \$29 million. Support services increased \$165 million between 2013 and 2012.

In the State University's financial statements, scholarships used to satisfy student tuition and fees (residence hall, food service, etc.) are reported as an allowance (offset) to the respective revenue classification up to the amount of the student charges. The amount reported as expense represents amounts provided to the student in excess of State University charges.

Expenses at the State University's hospitals and clinics increased \$35 million and \$21 million during 2014 and 2013. The increase during 2014 was mainly due to an increase of \$89 million in litigation accruals offset by a decrease in expenses for LICH at UHB.

Depreciation and amortization expense recognized in fiscal years 2014 and 2013 totaled \$507 million and \$470 million, respectively. Other nonoperating expenses were \$416 million and \$387 million for the years ended June 30, 2014 and 2013, respectively. The increase in nonoperating expenses during fiscal year 2014 was mainly due to an increase in interest expense on capital related debt.

Economic Factors That Will Affect the Future

The State University is one of the largest public universities in the nation, with headcount enrollment of approximately 221,000 for fall 2014, on 29 State-operated campuses and five contract/statutory colleges. The State University's student population is directly influenced by State demographics, as the majority of students attending the State University are New York residents. The enrollment outlook remains stable for the State University based on its continued ability to attract quality students for its academic programs. Full-time equivalent (FTE) enrollment, excluding community colleges, for the fiscal year ended June 30, 2014 is approximately 195,400, a slight increase compared to June 30, 2013.

New York State appropriations remain the largest single source of revenues. The State University's continued operational viability is substantially dependent upon a consistent and proportionate level of ongoing State support. For the most recent fiscal year, State appropriations totaled \$3.09 billion which represented 30 percent of the total revenues of the State University. State appropriations consisted of direct support (\$1.02 billion), fringe benefits for State University employees (\$1.39 billion), debt service on educational facility and PIT bonds (\$587 million), and litigation (\$88 million). Debt service on educational facilities is paid by the State in an amount sufficient to cover annual debt service requirements; pursuant to annual statutory provisions, each of the State University's three teaching hospitals must reimburse the State for their share of debt service costs to finance their capital projects. To maintain budgetary equilibrium in an era of fiscal uncertainty, the State University is taking appropriate measures to identify operational efficiencies through shared services and is implementing cost containment measures on discretionary spending for non-personal service costs.

Beginning with the 2011-12 fiscal year, legislation was passed called the NY-SUNY 2020 Challenge Grant Program Act, which includes capital funds for investments in economic expansion and job creation at the State University campuses, as well as a predictable and rational tuition plan. The rational tuition plan authorizes the State University trustees to increase resident undergraduate tuition by up to \$300 per year for five years. The five year plan expires at the end of the 2015-16 academic year. In addition, the State University trustees can also increase non-resident undergraduate tuition up to 10 percent at all State-operated campuses as well as certain fees at the four University Centers after approval of their NY-SUNY 2020 Challenge grant plans.

Management's Discussion and Analysis

The State University depends on the State to provide appropriations in support of its capital programs. In 2004-05 and again in 2008-09, the State Budget provided nearly \$8.0 billion through two multi-year capital plans for strategic initiatives and critical maintenance projects for the preservation or rehabilitation of existing educational facilities. These cumulative multi-year funding authorizations provided the State University with the resources required to address the core critical maintenance needs of its existing buildings and infrastructure, as well as the means to make additional capital investments in a range of programmatic initiatives.

The 2013-14 State Budget provided no new funding to address the State University's critical maintenance needs or to support another statewide multi-year capital plan. The 2014-15 State Budget provides \$562 million in new appropriations for one year only, including \$402 million for critical maintenance and \$160 million for strategic initiatives. The lack of funding for another multi-year capital plan is directly attributable to State-imposed limits under the State Debt Reform

Act of 2000 that caps the level of outstanding debt. It is likely that the Debt Reform Act will continue to affect the State's ability to invest in the State University's capital programs in the near future.

The State University hospitals, which are all part of larger State University Academic Health Centers at Brooklyn, Stony Brook and Syracuse, serve large numbers of Medicaid and uninsured patients and, as a result, the Medicaid Disproportionate Share Hospital (DSH) Program revenue stream and Medicaid reimbursement is critical to their continued viability. With the pressure to reduce the Federal budget deficit, it is likely that both the federal and state governments will be under pressure to reduce their overall spending in future years. These spending reductions could result in significant cuts to Medicare and Medicaid rates, having a negative impact on each of the hospitals' overall revenue. The hospitals' financial and operational capabilities will also continue to be challenged by potential declines in direct State appropriation support and inflationary and contractual cost increases.

Balance Sheets

June 30, 2014 and 2013

In thousands

	<u>2014</u>	<u>2013</u>
<u>Assets and Deferred Outflows of Resources</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,334,898	1,347,112
Deposits with trustees	202,122	235,623
Short-term investments	243,537	217,618
Accounts, notes, and loans receivable, net	695,930	685,005
Appropriations receivable	145,243	197,339
Grants receivable	271,939	243,355
Other assets	73,324	70,550
Total current assets	<u>2,966,993</u>	<u>2,996,602</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	155,548	67,292
Deposits with trustees	400,291	413,432
Accounts, notes, and loans receivable, net	125,627	112,297
Appropriations receivable	509,027	444,499
Long-term investments	863,832	769,425
Other noncurrent assets	225,564	164,017
Capital assets, net	10,701,489	10,041,478
Total noncurrent assets	<u>12,981,378</u>	<u>12,012,440</u>
Total assets	<u>15,948,371</u>	<u>15,009,042</u>
Deferred outflows of resources	23,707	23,552
Total assets and deferred outflows of resources	<u>\$ 15,972,078</u>	<u>15,032,594</u>
<u>Liabilities and Net Position</u>		
Current Liabilities:		
Accounts payable and accrued liabilities	977,642	963,159
Interest payable	84,271	93,698
Unearned revenue	252,712	251,093
Long-term liabilities - current portion	665,073	678,644
Other liabilities	97,297	90,485
Total current liabilities	<u>2,076,995</u>	<u>2,077,079</u>
Noncurrent Liabilities:		
Long-term liabilities	14,577,141	13,531,482
Refundable government loan funds	141,622	141,380
Other noncurrent liabilities	211,080	85,836
Total noncurrent liabilities	<u>14,929,843</u>	<u>13,758,698</u>
Total liabilities	<u>17,006,838</u>	<u>15,835,777</u>
Net Position:		
Net investment in capital assets	1,090,418	940,031
Restricted - nonexpendable:		
Instruction and departmental research	141,658	126,261
Scholarships and fellowships	94,397	91,033
General operations and other	121,678	114,612
Restricted - expendable:		
Instruction and departmental research	139,455	101,365
Scholarships and fellowships	70,822	52,151
General operations and other	137,439	123,434
Unrestricted	<u>(2,830,627)</u>	<u>(2,352,070)</u>
Total net position	<u>(1,034,760)</u>	<u>(803,183)</u>
Total liabilities and net position	<u>\$ 15,972,078</u>	<u>15,032,594</u>

See accompanying notes to financial statements.

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2014 and 2013

In thousands

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Tuition and fees	\$ 1,970,521	1,846,529
Less scholarship allowances	<u>(552,202)</u>	<u>(534,776)</u>
Net tuition and fees	1,418,319	1,311,753
Federal grants and contracts	632,256	672,661
State and local grants and contracts	220,282	210,310
Private grants and contracts	416,921	460,117
Hospitals and clinics	2,499,595	2,538,544
Sales and services of auxiliary enterprises:		
Residence halls, net	432,148	408,172
Food service and other, net	208,763	206,195
Other sources	<u>221,047</u>	<u>201,122</u>
Total operating revenues	<u>6,049,331</u>	<u>6,008,874</u>
Operating expenses:		
Instruction	2,315,342	2,201,559
Research	765,033	817,282
Public service	305,970	303,248
Academic support	517,491	495,752
Student services	317,734	293,181
Institutional support	984,454	955,278
Operation and maintenance of plant	683,556	652,165
Scholarships and fellowships	214,144	210,004
Hospitals and clinics	2,708,912	2,673,713
Auxiliary enterprises:		
Residence halls	332,523	351,724
Food service and other	253,385	234,238
Depreciation and amortization expense	506,557	469,760
Other operating expenses	<u>31,181</u>	<u>29,736</u>
Total operating expenses	<u>9,936,282</u>	<u>9,687,640</u>
Operating loss	<u>(3,886,951)</u>	<u>(3,678,766)</u>
Nonoperating revenues (expenses):		
State appropriations	3,085,627	2,833,440
Federal and State nonoperating grants	536,326	521,957
Investment income, net	43,029	19,680
Net realized and unrealized gains	88,413	64,407
Gifts	103,071	86,130
Interest expense on capital related debt	(399,698)	(362,232)
Loss on disposal of plant assets	(16,228)	(10,517)
Other nonoperating revenues (expenses), net	<u>70,552</u>	<u>(14,124)</u>
Net nonoperating revenues	<u>3,511,092</u>	<u>3,138,741</u>
Loss before other revenues and gains	<u>(375,859)</u>	<u>(540,025)</u>
Capital appropriations	23,684	25,269
Capital gifts and grants	98,913	89,175
Additions to permanent endowments	<u>21,685</u>	<u>21,039</u>
Decrease in net position	<u>(231,577)</u>	<u>(404,542)</u>
Net position at the beginning of year	<u>(803,183)</u>	<u>(398,641)</u>
Net position at the end of year	\$ <u>(1,034,760)</u>	\$ <u>(803,183)</u>

See accompanying notes to financial statements.

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

In thousands

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Tuition and fees	\$ 1,437,058	1,321,048
Grants and contracts:		
Federal	635,344	684,353
State and local	298,715	163,540
Private	449,989	481,205
Hospital and clinics	2,430,990	2,519,732
Personal service payments	(3,939,489)	(3,922,050)
Other than personal service payments	(2,737,981)	(2,797,476)
Payments for fringe benefits	(535,461)	(499,573)
Payments for scholarships and fellowships	(222,171)	(197,285)
Loans issued to students	(28,323)	(24,935)
Collection of loans to students	22,287	21,983
Auxiliary enterprise charges:		
Residence halls	436,330	405,540
Food service and other	205,407	208,693
Other receipts	241,339	123,945
Net cash used by operating activities	<u>(1,305,966)</u>	<u>(1,511,280)</u>
Cash flows from noncapital financing activities:		
State appropriations:		
Operations	1,016,843	1,178,914
Debt service	597,096	522,664
Federal and State nonoperating grants	536,326	521,957
Private gifts and grants	99,048	78,120
Proceeds from short-term loans	58,020	39,341
Repayment of short-term loans	(85,135)	(50,738)
Direct loan receipts	1,147,718	1,130,660
Direct loan disbursements	(1,147,718)	(1,130,660)
Other receipts (payments)	64,772	(120,435)
Net cash provided by noncapital financing activities	<u>2,286,970</u>	<u>2,169,823</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	1,475,159	1,584,740
Capital appropriations	22,357	25,269
Capital grants and gifts received	77,259	61,617
Proceeds from sale of capital assets	337	5,789
Purchases of capital assets	(190,758)	(196,670)
Payments to contractors	(959,851)	(1,265,691)
Principal paid on capital debt and leases	(925,576)	(735,731)
Interest paid on capital debt and leases	(461,915)	(410,910)
Deposits with trustees	47,365	251,950
Net cash used by capital and related financing activities	<u>(915,623)</u>	<u>(679,637)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	1,304,000	1,237,354
Interest, dividends, and realized gains on investments	54,196	33,190
Purchases of investments	(1,347,535)	(1,198,783)
Net cash provided by investing activities	<u>10,661</u>	<u>71,761</u>
Net change in cash	<u>76,042</u>	<u>50,667</u>
Cash - beginning of year	<u>1,414,404</u>	<u>1,363,737</u>
Cash - end of year	<u>\$ 1,490,446</u>	<u>1,414,404</u>
End of year cash comprised of:		
Cash and cash equivalents	<u>\$ 1,334,898</u>	<u>1,347,112</u>
Restricted cash and cash equivalents	<u>\$ 155,548</u>	<u>67,292</u>

Statements of Cash Flows (continued)

For the Years Ended June 30, 2014 and 2013

In thousands

	<u>2014</u>	<u>2013</u>
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	\$ (3,886,951)	(3,678,766)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	506,557	469,760
Fringe benefits and litigation	1,457,715	1,274,307
Change in assets and liabilities:		
Receivables, net	(22,640)	84,019
Other assets	(19,633)	15,051
Accounts payable and accrued liabilities	(28,185)	(79,781)
Unearned revenue	76,823	(6,051)
Other liabilities	610,348	410,181
Net cash used by operating activities	\$ <u>(1,305,966)</u>	<u>(1,511,280)</u>
Supplemental disclosures for noncash transactions:		
New capital leases / debt agreements	\$ <u>1,475,159</u>	<u>1,584,740</u>
Fringe benefits provided by the State	\$ <u>1,432,360</u>	<u>1,250,741</u>
Litigation costs provided by the State	\$ <u>25,355</u>	<u>23,566</u>
Noncash gifts	\$ <u>7,633</u>	<u>24,217</u>
Unrealized gains on investments	\$ <u>70,246</u>	<u>48,695</u>

See accompanying notes to financial statements.

State University of New York Component Units Balance Sheet

June 30, 2014 (with comparative financial information as of June 30, 2013)
In thousands

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 248,967	252,343
Accounts and notes receivable, net	44,794	35,930
Pledges receivable, net	185,140	196,361
Investments	1,950,894	1,677,573
Assets held for others	29,063	32,291
Other assets	75,119	77,738
Capital assets, net	620,272	628,604
Total assets	\$ 3,154,249	2,900,840
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued liabilities	75,139	69,100
Deferred revenue	21,787	12,286
Deposits held in custody for others	119,543	105,066
Other liabilities	63,704	82,977
Long-term debt	471,145	478,423
Total liabilities	751,318	747,852
Net Assets:		
Unrestricted:		
Board designated for:		
Fixed assets	195,721	193,684
Campus programs	102,004	84,691
Investments	218,099	181,533
General operations and other	51,780	46,562
Undesignated	147,984	110,943
Temporarily restricted:		
Scholarships and fellowships	203,211	155,630
Campus programs	443,460	379,829
Research	150,854	136,724
General operations and other	167,255	214,010
Permanently restricted:		
Scholarships and fellowships	310,608	292,945
Campus programs	315,139	275,058
Research	27,347	26,117
General operations and other	69,469	55,262
Total net assets	2,402,931	2,152,988
Total liabilities and net assets	\$ 3,154,249	2,900,840

See accompanying notes to financial statements.

State University of New York Component Units

Statement of Activities

For the Year Ended June 30, 2014 (with summarized financial information for the year ended June 30, 2013)
In thousands

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Revenues:					
Contributions, gifts, and grants	\$ 33,482	73,730	69,478	176,690	187,451
Food service	272,925	-	-	272,925	258,291
Other auxiliary services	75,352	-	-	75,352	75,846
Rental income	77,780	309	-	78,089	75,689
Sales and services	161,596	1,861	-	163,457	184,349
Program income and special events	47,230	1,421	64	48,715	51,698
Investment income, net	11,857	20,974	787	33,618	36,755
Net realized and unrealized gains	69,427	140,023	493	209,943	133,288
Other sources	10,483	2,332	3,660	16,475	16,256
Transfers of permanently restricted net assets	(380)	(464)	844	-	-
Endowment earnings transferred	-	120	(120)	-	-
Net assets released from restrictions	165,787	(165,787)	-	-	-
Total revenues	925,539	74,519	75,206	1,075,264	1,019,623
Expenses:					
Food service	215,689	-	-	215,689	211,466
Other auxiliary services	60,165	-	-	60,165	61,375
Program expenses	115,564	-	-	115,564	114,090
Health care services	155,079	-	-	155,079	170,008
Payments to the State University:					
Scholarships and fellowships	40,307	-	-	40,307	42,223
Other	81,673	-	-	81,673	38,914
Real estate expenses	20,831	-	-	20,831	22,739
Depreciation and amortization expense	34,793	-	-	34,793	34,001
Interest expense on capital related debt	20,623	-	-	20,623	21,141
Management and general	55,494	-	-	55,494	52,475
Fundraising	20,553	-	-	20,553	21,281
Other expenses	4,550	-	-	4,550	24,123
Total expenses	825,321	-	-	825,321	813,836
Change in net assets	100,218	74,519	75,206	249,943	205,787
Net asset reclassification	(2,043)	4,068	(2,025)	-	-
Total change in net assets	98,175	78,587	73,181	249,943	205,787
Net assets at the beginning of year	617,413	886,193	649,382	2,152,988	1,947,201
Net assets at the end of year	\$ 715,588	964,780	722,563	2,402,931	2,152,988

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2014 and 2013

1. Summary of Significant Accounting Policies and Basis of Presentation

Reporting Entity

For financial reporting purposes, the State University of New York (State University) consists of all sectors of the State University including the university centers, health science centers (including hospitals), colleges of arts and sciences, colleges of technology and agriculture, specialized colleges, statutory colleges (located at the campuses of Cornell and Alfred Universities), central services and other affiliated entities determined to be includable in the State University's financial reporting entity.

Inclusion in the reporting entity is based primarily on the notion of financial accountability, defined in terms of a primary government (State University) that is financially accountable for the organizations that make up its legal entity. Separate legal entities meeting the criteria for inclusion in the blended totals of the State University reporting entity are described below. The State University is included in the financial statements of the State of New York (State) as an enterprise fund, as the State is the primary government of the State University.

The Research Foundation for the State University of New York (Research Foundation) is a separate, private, nonprofit educational corporation that administers the majority of the State University's sponsored programs. These programs are for the exclusive benefit of the State University and include research, training, and public service activities of the State-operated campuses supported by sponsored funds other than State appropriations. The Research Foundation provides sponsored programs administration and innovation support services to State University faculty performing research in life sciences and medicine; engineering and technology; physical sciences and energy; social sciences; and computer and information services. The activity of the Research Foundation has been included in these financial statements using GASB measurements and recognition standards. The financial activity was primarily derived from audited financial statements of the Research Foundation for the years ended June 30, 2014 and 2013.

The State University Construction Fund (Construction Fund) is a public benefit corporation that designs, constructs, reconstructs and rehabilitates facilities of the State University pursuant to an approved master plan. Although the Construction Fund is a separate legal entity, it carries out operations which are integrally related to and for the exclusive benefit of the State University and, therefore, the financial activity related to the Construction Fund is included in the State University's financial statements as of the Construction Fund's fiscal years ended March 31, 2014 and 2013.

The State statutory colleges at Cornell University and Alfred University are an integral part of, and are administered by, those universities. The statutory colleges are fiscally dependent on State appropriations through the State University. The financial statement information of the statutory colleges of Cornell University and Alfred University has been included in the accompanying financial statements.

Most of the State University's campuses maintain auxiliary services corporations and some campuses maintain student housing corporations. These corporations are legally separate, nonprofit organizations which, as independent contractors, operate, manage, and promote educationally related services for the benefit of the campus community. Almost all of the State University campuses also maintain foundations, which are legally separate, nonprofit, affiliated organizations that receive and hold economic resources that are significant to, and that are entirely for the benefit of the State University, and are required to be included in the reporting entity using discrete presentation requirements. As a result, the combined totals of the campus-related auxiliary service corporations, student housing corporations and foundations are separately presented as an aggregate component unit on financial statement pages 18 and 19 in the State University's financial statements in accordance with display requirements prescribed by the Financial Accounting Standards Board (FASB). All of the financial data for these organizations was derived from each entity's individual audited financial statements, the majority of which have a May 31 or June 30 fiscal year end. The combined totals

Notes to Financial Statements

June 30, 2014 and 2013

1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

are also included in the financial statements of the State's discretely presented component unit combining statements.

The operations of certain related but independent organizations, i.e., clinical practice management plans, alumni associations and student associations, do not meet the criteria for inclusion, and are not included in the accompanying financial statements.

The State University administers State financial assistance to the community colleges in connection with its general oversight responsibilities pursuant to New York State Education Law. However, since these community colleges are sponsored by local governmental entities and are included in their financial statements, the community colleges are not considered part of the State University's financial reporting entity and, therefore, are not included in the accompanying financial statements.

The accompanying financial statements of the State University have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as prescribed by the GASB. The State University reports its financial statements as a special purpose government engaged in business-type activities, as defined by the GASB. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The financial statements of the State University consist of classified balance sheets, which separately classify deferred outflows of resources and deferred inflows of resources; statements of revenues, expenses, and changes in net position, which distinguish between operating and nonoperating revenues and expenses; and statements of cash flows, using the direct method of presenting cash flows from operations and other sources.

The State University's policy for defining operating activities in the statement of revenues, expenses, and changes in net position are those that generally result from exchange transactions, i.e., the payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities

and include the State University's operating and capital appropriations from the State, federal and State financial aid grants (e.g., Pell and TAP), investment income gains and losses, gifts, and interest expense.

Net Position

Resources are classified for accounting and financial reporting purposes into the following four net position categories:

Net investment in capital assets

Capital assets, net of accumulated depreciation and amortization and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Restricted – nonexpendable

Net position component subject to externally imposed conditions that the State University is required to retain in perpetuity.

Restricted – expendable

Net position component whose use is subject to externally imposed conditions that can be fulfilled by the actions of the State University or by the passage of time.

Unrestricted component of net position

The unrestricted component of net position includes amounts provided for specific use by the State University's colleges and universities, hospitals and clinics, and separate legal entities included in the State University's reporting entity that are designated for those entities and, therefore, not available for other purposes.

The State University has adopted a policy of generally utilizing restricted - expendable funds, when available, prior to unrestricted funds.

Revenues

Revenues are recognized in the period earned. State appropriations are recognized when they are made legally available for expenditure. Revenues and expenses arising from nonexchange transactions are recognized when all eligibility requirements, including time requirements, are met. Promises of private donations are recognized at fair value. Net patient service revenue for the hospitals is reported at

Notes to Financial Statements

June 30, 2014 and 2013

1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

the estimated net realizable amounts from patients, third party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors.

Tuition and fees and auxiliary sales and service revenues are reported net of scholarship discounts and allowances. Auxiliary sales and service revenue classifications for 2014 and 2013 were reported net of the following scholarship discount and allowance amounts (in thousands):

	<u>2014</u>	<u>2013</u>
Residence halls	\$ 85,000	83,219
Food service and other	31,666	22,593

Cash and Cash Equivalents

Cash and cash equivalents are defined as current operating assets and include investments with original maturities of less than 90 days, except for cash and cash equivalents held in investment pools which are included in short-term and long-term investments on the accompanying balance sheets.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent unspent funds under various capital financing arrangements, cash held for others, and cash restricted for loan and residence hall programs.

Investments

Investments in marketable securities are stated at fair value based upon quoted market prices. Investment income is recorded on the accrual basis, and purchases and sales of investment securities are reflected on a trade date basis. Any net earnings not expended are included as increases in restricted – nonexpendable net position if the terms of the gift require that such earnings be added to the principal of a permanent endowment fund, or as increases in restricted – expendable net position as provided for under the terms of the gift, or as unrestricted. At June 30, 2014 and 2013, the State University had \$287 million and \$218 million available for authorization for expenditure, including \$187

million and \$141 million from restricted funds and \$100 million and \$77 million from unrestricted funds, respectively.

The Investment Committee of the Cornell Board of Trustees establishes the investment policy for Cornell University as a whole, including investments that support the statutory colleges. Distributions from the pool are approved by the Cornell Board of Trustees and are provided for program support independent of the cash yield and appreciation of investments in that year. The Board applies the “prudent person” standard when making its decision whether to appropriate or accumulate endowment funds in compliance with the New York Prudent Management of Institutional Funds Act (NYPMIFA). Investments in the pool are stated at fair value and include limited use of derivative instruments including futures, forward, options and swap contracts designed to manage market exposure and to enhance the total return.

Alternative investments are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. The estimated fair value of these investments is based on the most recent valuations provided by the external investment managers. Because of the inherent uncertainty of valuation for these investments, the investment manager’s estimate may differ from the values that would have been used had a ready market existed.

Capital Assets

Capital assets are stated at cost, or in the case of gifts, fair value at the date of receipt. Building renovations and additions costing over \$100,000 and equipment items with a unit cost of \$5,000 or more are capitalized. Equipment under capital leases is stated at the present value of minimum lease payments at the inception of the lease. Generally, the net interest cost on debt during the construction period related to capital projects is capitalized. Capital interest totaled \$25 million and \$40 million in the 2014 and 2013 fiscal years, respectively. Intangible assets, including internally generated computer software of \$1 million or more are capitalized. Library materials are capitalized and amortized over a ten-year period. Works of art

Notes to Financial Statements

June 30, 2014 and 2013

1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

or historical treasures that are held for public exhibition, education, or research in furtherance of public service are capitalized. Capital assets, with the exception of land, construction in progress, and inexhaustible works of art or intangible assets, are depreciated on a straight-line basis over their estimated useful lives, using historical and industry experience, ranging from 2 to 50 years.

Deferred Outflows of Resources

Deferred outflows of resources are defined as a consumption of net assets by a government that is applicable to a future reporting period. Deferred outflows of resources resulting from a loss in the refinancing of debt represents the difference between the reacquisition price and the net carrying amount of the old debt and is amortized over the life of the related debt.

Compensated Absences

Employees accrue annual leave based primarily on the number of years employed up to a maximum rate of 21 days per year up to a maximum of 40 days.

Fringe Benefits

Employee fringe benefit costs (e.g., health insurance, workers' compensation, and pension and post-retirement benefits) for State University and statutory employees are paid by the State on behalf of the State University (except for the State University hospitals and Research Foundation, which pay their own fringe benefit costs) at a fringe benefit rate determined by the State. The State University records an expense and corresponding State appropriation revenue for fringe benefit costs based on the fringe benefit rate applied to total eligible personal service costs incurred.

Postemployment and Post-retirement Benefits

Postemployment benefits other than pensions are recognized on an actuarially determined basis as employees earn benefits that are expected to be used in the future. The amounts earned include employee sick leave credits expected to be used to pay for a share of post-retirement health insurance.

Tax Status

The State University and the Construction Fund are political subdivisions of the State and are, therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations.

The Research Foundation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally tax-exempt on related income, pursuant to Section 501(a) of the Code.

Reclassifications

Certain amounts displayed in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Use of Estimates

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

2. Cash and Cash Equivalents

Cash and cash equivalents represent State University funds held in the State treasury, in the short-term investment pool (STIP), or local depositories, and cash held by affiliated organizations. Cash held in the State treasury beyond immediate need is pooled with other State funds for short-term investment purposes.

Notes to Financial Statements

June 30, 2014 and 2013

2. Cash and Cash Equivalents (continued)

The pooled balances are limited to legally-stipulated investments which include obligations of, or are guaranteed by, the United States; obligations of the State and its political subdivisions; and repurchase agreements. These investments are reported at cost (which approximates fair value) and are held by the State's agent in its name on behalf of the State University.

The New York State Comprehensive Annual Financial Report contains the GASB Statement No. 40 risk disclosures for deposits held in the State treasury. Deposits not held in the State treasury that are not covered by depository insurance and are (a) uncollateralized; or (b) collateralized with securities held by a pledging financial institution at June 30, 2014 and 2013, are as follows (in thousands):

	<u>Category a</u>	<u>Category b</u>
2014	\$ 5,492	19,742
2013	2,090	15,788

3. Deposits with Trustees

Deposits with trustees primarily represent DASNY bond proceeds needed to finance capital projects and to establish required building and equipment replacement and debt service reserves. Pursuant to financing agreements with DASNY, bond proceeds, including interest income, are restricted for capital projects or debt service. Also included are non-bond proceeds which have been designated for capital projects and equipment.

The State University's cash and investments which includes deposits with trustees are registered in the State University's name and held by an agent or in trust accounts in the State University's name. Cash and short-term investments held in the State treasury and money market accounts were approximately \$123 million and \$19 million at June 30, 2014 and 2013, respectively. The market value of investments held and maturity period are displayed in the following table (in thousands):

Fiscal Year 2014

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>
US Treasury notes/bonds	\$ 64,517	61,494	3,023
US Treasury bills	77,715	77,715	-
US Treasury strips	225,305	225,305	-
Federal Home Loan Mortgage Corp.*	68,997	68,997	-
Federal Home Loan Bank	42,415	42,355	60
Total	<u>\$ 478,949</u>	<u>475,866</u>	<u>3,083</u>

Fiscal Year 2013

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>
US Treasury notes/bonds	\$ 127,504	118,404	9,100
US Treasury bills	253,012	253,012	-
US Treasury strips	240,771	240,771	-
Federal Home Loan Mortgage Corp.*	2,215	2,215	-
Federal National Mortgage Assoc.*	4,117	4,117	-
Federal Home Loan Bank*	2,200	2,200	-
Total	<u>\$ 629,819</u>	<u>620,719</u>	<u>9,100</u>

*Rating on investment is AAA

4. Investments

Investments of the State University are recorded at fair value. Investment income is reported net of investment fees of approximately \$10 million for both fiscal years. Investments include those held by the statutory colleges at Cornell University and Alfred University (Alfred Ceramics), the Research Foundation, the Construction Fund, and State University campuses.

For financial reporting purposes, assets attributable to the statutory colleges at Cornell University are held in Cornell University's entire portfolio of investments and are invested in external investment pools. The assets are not managed by, or attributable to, any individual college and the statutory colleges do not have the authority to manage investment assets independently. The fair value of the statutory college's investments is

Notes to Financial Statements

June 30, 2014 and 2013

4. Investments (continued)

primarily based on the unit value of the pools and the number of shares owned in the various Cornell University investment pools. The credit quality of the external investment pools is considered to be the credit rating for Cornell University. The table below presents the unit value of each external pool, in addition to the fair value (in thousands) of assets attributable to statutory colleges at June 30.

	2014	
	Unit Value	Fair Value
Endowments		
Long-term		
Investment Pool	\$ 58.45	\$ 787,534
Charitable Gift Annuities		
Master Trust Units	1.44	12,351
Charitable Trusts		
Endowment Strategy	57.56	19,420
Common Trust Fund - Growth	33.65	7,896
Common Trust Fund - Income	13.57	2,941
Common Trust Fund - Premier	8.91	693
Pooled Life Income Funds		
PLIF A	1.37	720
PLIF B	2.53	1,042
Total External Pools		<u>\$ 832,597</u>
	2013	
	Unit Value	Fair Value
Endowments		
Long-term		
Investment Pool	\$ 53.30	\$ 696,193
Charitable Gift Annuities		
Master Trust Units	1.26	10,467
Charitable Trusts		
Endowment Strategy	52.85	17,539
Common Trust Fund - Growth	28.05	8,162
Common Trust Fund - Income	13.31	3,078
Common Trust Fund - Premier	8.71	677
Pooled Life Income Funds		
PLIF A	1.31	723
PLIF B	2.35	964
Total External Pools		<u>\$ 737,803</u>

The Research Foundation maintains a diverse investment portfolio and follows an investment policy and asset guidelines approved and monitored by its board of directors. The portfolio is mainly comprised of mutual funds, exchange-traded funds and alternative investments of high quality and liquidity. Investments are held with the investment custodian in the Research Foundation's name.

Investments of the Construction Fund are made in accordance with the applicable provisions of the laws of the State and the Construction Fund's investment policy and consist primarily of obligations of the United States government and its agencies. These investments are held by the State's agent in the State University Construction Fund's name.

Investments of Alfred Ceramics were derived from its individual financial statements.

The composition of investments at June 30, 2014 and 2013 is as follows (in thousands):

	2014	2013
Cash and money market funds	\$ 48,633	30,805
Non-equities	52,146	56,137
Domestic and international equities	40,324	46,174
Equity partnerships	2,667	10,319
Hedge funds	114,216	84,205
External investment pools	832,597	737,803
Other investments	16,786	21,600
Total investments	<u>\$ 1,107,369</u>	<u>987,043</u>
Short-term	<u>\$ 243,537</u>	<u>217,618</u>
	2014	2013
State University Campuses	\$ 5,918	6,881
Cornell Statutory Colleges	839,042	743,331
Alfred Ceramics	21,926	20,319
Research Foundation	209,061	185,347
State University Construction Fund	31,422	31,165
Total investments	<u>\$ 1,107,369</u>	<u>987,043</u>

Notes to Financial Statements

June 30, 2014 and 2013

4. Investments (continued)

At June 30, 2014 and 2013, the State University had the following non-equity investments and maturities as summarized in Table A.

Credit quality ratings of the State University's investments in debt securities, as described by Moody's, S&P, and Fitch as of June 30, 2014 and 2013 are summarized in Table B.

The State University did not have any exposure to foreign currency risk for investments held at June 30, 2014 and 2013.

Table A (in thousands)

Investment Type	Fiscal Year 2014					Fiscal Year 2013				
	Market Value	Less than 1 yr	1-5 yrs	6-10 yrs	More than 10 yrs	Market Value	Less than 1 yr	1-5 yrs	6-10 yrs	More than 10 yrs
US Treasury bills	\$ 14,558	14,558	-	-	-	14,154	14,154	-	-	-
US Treasury notes/bonds	15,267	277	14,990	-	-	15,871	15,467	404	-	-
Municipal bonds	939	291	535	113	-	1,312	20	1,075	217	-
Corporate bonds	117	-	34	31	52	303	47	256	-	-
Mutual funds – non-equities	21,265	790	2,965	17,267	243	24,498	638	4,514	10,654	8,692
Total investments	\$ 52,146	15,916	18,524	17,411	295	56,138	30,326	6,249	10,871	8,692

Table B (in thousands)

Credit Rating	AAA	AA	A	BBB	BB	B	Not Rated
<u>Investment Type - 2014</u>							
External investment pools	\$ -	832,597	-	-	-	-	-
Municipal bonds	-	575	201	-	-	-	163
Corporate bonds	-	-	22	19	6	12	58
Mutual funds - non-equities*	18,898	-	1,140	-	1,227	-	-
Total	\$ 18,898	833,172	1,363	19	1,233	12	221
<u>Investment Type - 2013</u>							
External investment pools	\$ -	737,803	-	-	-	-	-
Municipal bonds	66	409	660	-	-	-	177
Corporate bonds	-	21	159	123	-	-	-
Mutual funds - non-equities*	3,755	754	1,806	102	2,929	-	15,152
Total	\$ 3,821	738,987	2,625	225	2,929	-	15,329

*based on average credit quality of holdings

Notes to Financial Statements

June 30, 2014 and 2013

5. Accounts, Notes, and Loans Receivable

At June 30, accounts, notes, and loans receivable were summarized for years 2014 and 2013, as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Tuition and fees	\$ 40,011	82,587
Allowance for uncollectible	(9,592)	(9,218)
Net tuition and fees	<u>30,419</u>	<u>73,369</u>
Room rent	11,940	10,483
Allowance for uncollectible	(2,633)	(2,356)
Net room rent	<u>9,307</u>	<u>8,127</u>
Patient fees, net of contractual allowances	820,971	853,112
Allowance for uncollectible	(314,634)	(382,943)
Net patient fees	<u>506,337</u>	<u>470,169</u>
Other, net	138,662	112,781
Total accounts and notes receivable	<u>684,725</u>	<u>664,446</u>
Student loans	161,597	156,497
Allowance for uncollectible	(24,765)	(23,641)
Total student loans receivable	<u>136,832</u>	<u>132,856</u>
Total, net	<u>\$ 821,557</u>	<u>797,302</u>

6. Capital Assets

Capital assets, net of accumulated depreciation, totaled \$10.70 billion and \$10.04 billion at fiscal year ends 2014 and 2013, respectively. Capital asset activity for fiscal years 2014 and 2013 is reflected in Table C. In the table, closed projects and retirements represent capital assets retired and assets transferred from construction in progress for projects completed and added to the related capital assets category.

7. Long-term Liabilities

The State University has entered into capital leases and other financing agreements with DASNY to finance most of its capital facilities. The State University has also entered into financing arrangements with the New York Power Authority under the statewide energy services program. Equipment purchases are also made through DASNY's Tax-exempt Equipment Leasing Program (TELP), PIT Revenue Bonds, various state sponsored equipment leasing programs, and private financing arrangements. The State University is responsible for lease debt service payments sufficient to cover the interest and principal amounts due under these arrangements.

Table C (in thousands)

	June 30, 2012	Additions	Closed Projects & Retirements	June 30, 2013	Additions	Closed Projects & Retirements	June 30, 2014
Land	\$ 503,136	44,944	85	547,995	66,748	170	614,573
Infrastructure and land improvements	825,008	56,518	9,267	872,259	120,477	17,937	974,799
Buildings	8,303,401	909,615	57,455	9,155,561	1,446,217	80,650	10,521,128
Equipment, library books and other	2,750,286	228,805	80,226	2,898,865	182,147	72,454	3,008,558
Construction in progress	2,464,534	1,358,845	1,035,451	2,787,928	1,035,407	1,661,860	2,161,475
Total capital assets	<u>14,846,365</u>	<u>2,598,727</u>	<u>1,182,484</u>	<u>16,262,608</u>	<u>2,850,996</u>	<u>1,833,071</u>	<u>17,280,533</u>
Less accumulated depreciation:							
Infrastructure and land improvements	405,629	33,342	8,273	430,698	40,063	15,960	454,801
Buildings	3,398,048	243,794	46,878	3,594,964	279,907	70,847	3,804,024
Equipment, library books and other	2,058,098	191,704	54,334	2,195,468	182,217	57,466	2,320,219
Total accumulated depreciation	<u>5,861,775</u>	<u>468,840</u>	<u>109,485</u>	<u>6,221,130</u>	<u>502,187</u>	<u>144,273</u>	<u>6,579,044</u>
Capital assets, net	<u>\$ 8,984,590</u>	<u>2,129,887</u>	<u>1,072,999</u>	<u>10,041,478</u>	<u>2,348,809</u>	<u>1,688,798</u>	<u>10,701,489</u>

Notes to Financial Statements

June 30, 2014 and 2013

7. Long-term Liabilities (continued)

Total obligations as of June 30, 2014 and 2013, other than facilities obligations, which are included as of March 31, 2014 and 2013, are summarized in Table D.

Educational Facilities

The State University, through DASNY, has entered into financing agreements to finance various educational facilities which have a maximum 30-year life. Athletic facility debt is aggregated with educational facility debt. Debt service is paid by, or from specific appropriations of, the State.

In 2013, the State enacted legislation providing for the issuance of State Sales Tax Revenue Bonds. During the year, Sales Tax Revenue Bonds were issued with a par amount of \$465.3 million at a premium of \$32.7 million for the purpose of financing capital construction and major rehabilitation for educational facilities.

Personal Income Tax Revenue Bonds were also issued with a par amount of \$231.2 million at a premium of \$19.2 million for the purpose of financing capital construction and major

rehabilitation for educational facilities. Also, during the year PIT bonds were issued with a par amount of \$164.0 million at a premium of \$19.2 million in order to refund \$172.6 million of the State University's existing educational facilities obligations. The result will produce an estimated loss of \$2.9 million in future cash flow, with an estimated present value gain of \$8.6 million.

Residence Hall Facilities

The State University has entered into capital lease agreements for residence hall facilities. DASNY bonds for most of the residence hall facilities, which have a maximum 30-year life, are repaid from room rentals and other residence hall revenues. Upon repayment of the bonds, including interest thereon, and the satisfaction of all other obligations under the lease agreements, DASNY shall convey to the State University all rights, title, and interest in the assets financed by the capital lease agreements. Residence hall facilities revenue realized during the year from facilities from which there are bonds outstanding is pledged as a security for debt service and is assigned to DASNY to the extent required for debt service purposes. Any excess funds pledged to DASNY are available for residence hall capital and operating purposes.

Table D (in thousands)

<i>For the 2014 Fiscal Year</i>	July 1, 2013	Additions	Reductions	June 30, 2014	Current Portion
Long-term debt:					
Educational facilities	\$ 7,209,018	860,485	528,302	7,541,201	308,268
Unamortized bond premium - educational facilities	462,807	71,151	32,965	500,993	26,312
Residence hall facilities	1,546,315	-	331,255	1,215,060	50,805
Unamortized bond premium - residence hall facilities	78,941	-	2,971	75,970	2,971
Capital lease arrangements	182,006	49,173	54,823	176,356	50,816
Other long-term debt	44,714	50,811	7,348	88,177	11,516
Total long-term debt	<u>9,523,801</u>	<u>1,031,620</u>	<u>957,664</u>	<u>9,597,757</u>	<u>450,688</u>
Other long-term liabilities:					
Postemployment and post-retirement	3,732,255	718,598	280,070	4,170,783	-
Collateralized borrowing	-	472,414	1,080	471,334	3,910
Litigation	479,983	88,140	25,355	542,768	35,217
Other long-term liabilities	474,087	141,000	155,515	459,572	175,258
Total other long-term liabilities	<u>4,686,325</u>	<u>1,420,152</u>	<u>462,020</u>	<u>5,644,457</u>	<u>214,385</u>
Total long-term liabilities	<u>\$ 14,210,126</u>	<u>2,451,772</u>	<u>1,419,684</u>	<u>15,242,214</u>	<u>665,073</u>

Notes to Financial Statements

June 30, 2014 and 2013

7. Long-term Liabilities (continued)

Table D, continued (in thousands)

<i>For the 2013 Fiscal Year</i>	July 1, 2012	Additions	Reductions	June 30, 2013	Current Portion
Long-term debt:					
Educational facilities	\$ 6,612,512	1,075,420	478,914	7,209,018	328,094
Unamortized bond premium -					
Educational facilities	309,265	177,452	23,910	462,807	23,910
Residence hall facilities	1,364,250	234,720	52,655	1,546,315	49,515
Unamortized bond premium -					
residence hall facilities	44,465	37,447	2,971	78,941	2,971
Capital lease arrangements	194,896	37,224	50,114	182,006	51,142
Other long-term debt	186,194	8,491	149,971	44,714	7,202
Total long-term debt	8,711,582	1,570,754	758,535	9,523,801	462,834
Other long-term liabilities:					
Postemployment and post-retirement	3,261,435	731,716	260,896	3,732,255	-
Litigation	502,480	-	22,497	479,983	37,187
Other long-term liabilities	474,930	153,920	154,763	474,087	178,623
Total other long-term liabilities	4,238,845	885,636	438,156	4,686,325	215,810
Total long-term liabilities	\$ 12,950,427	2,456,390	1,196,691	14,210,126	678,644

In prior years, the State University defeased various obligations, whereby proceeds of new obligations were placed in an irrevocable trust to provide for all future debt service payments on the defeased obligations. Accordingly, the trust account assets and liabilities for the defeased obligations are not included in the State University's financial statements. As of March 31, 2014, \$247.6 million of outstanding educational facilities obligations were considered defeased.

Collateralized Borrowing

In March 2013, the State enacted legislation amending the Public Authorities Law and Education Law of the State. The amendments, among other things, authorized the State University to assign to DASNY all of the State University's rights, title and interest in dormitory facilities revenues derived from payments made by students and others for use and occupancy of certain dormitory facilities. The amendments further authorize DASNY to issue

Requirements of the long-term debt obligations as of June 30, 2014 are as follows (in thousands):

Fiscal year(s)	Educational Facilities		Residential Facilities		Other		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 308,268	376,207	50,805	57,947	91,615	4,724	450,688	438,878
2016	240,309	364,073	53,160	55,591	80,126	3,630	373,595	423,294
2017	207,934	352,335	53,075	53,252	66,625	2,963	327,634	408,550
2018	335,436	339,182	50,550	50,861	57,634	2,470	443,620	392,513
2019	286,548	324,299	44,975	48,531	53,975	1,997	385,498	374,827
2020-24	1,522,512	1,435,376	230,125	208,350	186,945	4,375	1,939,582	1,648,101
2025-29	1,602,344	1,008,504	198,245	155,941	120,110	689	1,920,699	1,165,134
2030-34	1,366,260	635,088	215,795	106,494	91,834	262	1,673,889	741,844
2035-39	1,217,765	295,229	216,865	51,319	61,171	-	1,495,801	346,548
2040-44	453,825	45,714	101,465	8,438	31,461	-	586,751	54,152
Total	\$ 7,541,201	5,176,007	1,215,060	796,724	841,496	21,110	9,597,757	5,993,841
	Interest rates range from 0.7% to 5.875%		Interest rates range from 2.0% to 5.25%		Interest rates range from 0.32% to 5.8%			

Notes to Financial Statements

June 30, 2014 and 2013

7. Long-term Liabilities (continued)

State University of New York Dormitory Facilities Revenue Bonds payable from and secured by the dormitory facilities revenues assigned to it by the State University. The enacted legislation also created a special fund to be held by the State's Commissioner of Taxation and Finance on behalf of DASNY. All dormitory facilities revenues collected by the State University are required to be deposited in this special fund.

In August 2013, bonds with a par amount of \$175.1 million were issued by DASNY at a premium of \$10.3 million under this new program for the construction and rehabilitation of residential facilities. Also under this new program, bonds with a par amount of \$264.9 million at a premium of \$22.1 million were issued to refinance \$281.7 million of the State University's existing residential facility obligations. The result will produce an estimated gain of \$2.4 million in future cash flow, with an estimated present value gain of \$1.9 million. These bonds are special obligations of DASNY payable solely from the dormitory facilities revenues collected by the State University as agent for DASNY. The outstanding obligations under these bonds is reported as collateralized borrowing in the State University's financial statements since these bonds are not payable from any money of the State University or the State and neither the State University nor the State has any obligation to make any payments with respect to the debt service on the bonds. The pledge revenues recognized during the fiscal year ended June 30, 2014 amounted to \$505.2 million. There were no principal or interest payments due for the collateralized borrowings during the fiscal year ended June 30, 2014. Total principal and interest outstanding on the bonds were \$440.0 million and \$270.4 million, respectively, payable through July 1, 2043.

8. Retirement Plans

Retirement Benefits

There are three major retirement plans for State University employees: the New York State and Local Employees' Retirement System (ERS), the New York State Teachers' Retirement System (TRS), and the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF).

ERS is a cost-sharing, multiple-employer, defined benefit public plan administered by the State Comptroller. TRS is a cost-sharing, multiple-employer, defined benefit public plan separately administered by a nine-member board. TIAA-CREF is a multiple-employer, defined contribution plan administered by separate boards of trustees. Substantially all full-time employees participate in the plans.

Obligations of employers and employees to contribute, and related benefits, are governed by the New York State Retirement and Social Security Law (NYSRSSL) and Education Law. These plans offer a wide range of programs and benefits. ERS and TRS benefits are related to years of credited service and final average salary, vesting of retirement benefits, death and disability benefits, and optional methods of benefit payments. TIAA-CREF is a State University Optional Retirement Program (ORP) and offers benefits through annuity contracts.

ERS and **TRS** provide retirement benefits as well as death and disability benefits. Benefits generally vest after five years of credited service. For those joining after January 1, 2010, benefits generally vest after 10 years of credited service. The NYSRSSL provides that all participants in ERS and TRS are jointly and severally liable for any actuarial unfunded amounts. Such amounts are collected through annual billings to all participating employers. Employees who joined ERS and TRS after July 27, 1976 and before January 1, 2010, and have less than ten years of service or membership are required to contribute 3 percent of their salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.5 percent of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3 percent and 6 percent, dependent upon their salary, for their entire working career. Employee contributions are deducted from their salaries and remitted on current basis to ERS and TRS. Employer contributions are actuarially determined for ERS and TRS.

TIAA-CREF provides benefits through annuity contracts and provides retirement and death benefits to those employees who elected to participate in the ORP. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits generally vest after the

Notes to Financial Statements

June 30, 2014 and 2013

8. Retirement Plans (continued)

completion of one year of service if the employee is retained thereafter. Employees who joined TIAA-CREF after July 27, 1976, and have less than ten years of service or membership are required to contribute 3 percent of their salary. Those joining on or after April 1, 2012 are required to contribute between 3 percent and 6 percent, dependent upon their salary, for their entire working career. Employer contributions range from 8 percent to 15 percent depending upon when the employee was hired. Employee contributions are deducted from their salaries and remitted on a current basis to TIAA-CREF.

The State University's total retirement-related payroll was \$3.20 billion for both fiscal years. The payroll for 2014 and 2013 for State University employees covered by TIAA-CREF was \$1.80 billion and \$1.83 billion, ERS was \$1.26 billion and \$1.23 billion, and TRS was \$141 million and \$135 million, respectively. Employer and employee contributions under each of the plans were as follows for years 2014, 2013, and 2012, respectively (in millions):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Employer contributions:			
TIAA-CREF	\$ 199.8	206.4	202.3
ERS	130.3	116.1	93.4
TRS	11.9	12.0	10.7
Employee contributions:			
TIAA-CREF	\$ 21.0	19.0	21.2
ERS	18.6	18.1	17.4
TRS	1.4	1.4	1.3

The employer contributions are equal to 100 percent of the required contributions under each of the respective plans.

Each retirement system issues a publicly available financial report that includes financial statements and supplementary information. The reports may be obtained by writing to:

New York State and Local Employees'
Retirement System
110 State Street
Albany, New York 12244

New York State Teachers' Retirement System
10 Corporate Woods Drive
Albany, New York 12211

Teachers Insurance and Annuity Association/
College Retirement Equities Fund
730 Third Avenue
New York, New York 10017

As part of the Community General Hospital (CGH) acquisition, the State University assumed the assets and liabilities of a single employer defined benefit plan (Plan) for certain CGH retirees and those employees that elected to stay in the Plan. For those who opted out of the Plan, benefit accruals were frozen. No new participants can enter this plan. The Plan issues stand-alone financial statements on a calendar year basis (i.e., December 31). The annual required contribution (ARC) was determined as part of the actuarial valuation using the projected unit credit actuarial cost method. The funding policy is to contribute enough to the Plan to satisfy the ARC and the employer contributions. For the calendar years ended December 31, 2013 and 2012 employer contributions were \$2.6 million and \$3.0 million, respectively. Employees do not contribute to the Plan. The actuarial accrued liabilities at December 31, 2013 and 2012 were \$87.9 million and \$84.8 million and Plan assets were \$77.0 million and \$70.2 million, respectively. At June 30, 2014 the State University has a net pension obligation for the Plan of \$10.0 million.

The Research Foundation maintains a separate non-contributory plan through TIAA-CREF for substantially all nonstudent employees. Contributions are based on a percentage of earnings and range from 8 percent to 15 percent, depending on date of hire. Employees become fully vested after completing one year of service. Contributions are allocated to individual employee accounts. The payroll for Research Foundation employees covered by TIAA-CREF for its fiscal years ended June 30, 2014 and 2013 was \$359 million and \$355 million, respectively. The Research Foundation pension contributions were \$30.1 million for both fiscal years. These contributions are equal to 100 percent of the required contributions for each year.

Postemployment and Post-retirement Benefits

The State, on behalf of the State University, provides health insurance coverage for eligible retired State University employees and their spouses as part of the New York State Health Insurance Plan (NYSHIP). NYSHIP offers comprehensive benefits through various providers consisting of hospital, medical, mental health, substance abuse and prescription drug programs. The State administers

Notes to Financial Statements

June 30, 2014 and 2013

8. Retirement Plans (continued)

NYSHIP and has the authority to establish and amend the benefit provisions offered. NYSHIP is considered an agent multiple-employer defined benefit plan, is not a separate entity or trust, and does not issue stand-alone financial statements. The State University, as a participant in the plan, recognizes these other postemployment benefit (OPEB) expenses on an accrual basis.

Employee and retiree contribution rates for NYSHIP are established by the State and are generally 12 percent, and range from 10 to 16 percent for enrollee coverage. The dependent coverage rate is 27 percent and ranges from 25 to 31 percent. NYSHIP premiums are being financed on a pay-as-you-go basis. During the fiscal year, the State, on behalf of the State University, paid health insurance premiums of \$252.1 million. The State University's OPEB obligation and funded status of the plan for the years ended June 30, 2014, 2013, and 2012 were as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB cost \$	718,598	715,910	783,713
Benefits paid	(252,084)	(243,446)	(236,745)
Increase in OPEB Obligation	466,514	472,464	546,968
Net obligation at beginning of year	<u>3,551,419</u>	<u>3,078,955</u>	<u>2,531,987</u>
Net obligation at end of year	\$ <u>4,017,933</u>	<u>3,551,419</u>	<u>3,078,955</u>
Funded Status:			
Actuarial accrued liability (AAL)	13,932,707	13,932,707	12,200,313
Actuarial value of OPEB plan assets	-	-	-
Unfunded AAL (UAAL)	<u>\$ 13,932,707</u>	<u>13,932,707</u>	<u>12,200,313</u>
Actuarial valuation date	4/1/12	4/1/12	4/1/10
Funded ratio	-	-	-
Covered payroll \$	3,201,732	3,200,930	3,140,693
UAAL as a % of covered payroll	435%	435%	388%

The components of the State University's OPEB obligation include the total annual required contribution (ARC) of \$732.2 million (comprised of service costs of \$282.2 million, amortization of unfunded actuarial liability of \$427.9 million, and interest costs of \$22.1 million), ARC reduction of \$124.7 million, and interest costs of \$111.1 million.

The initial unfunded accrued actuarial liability is being amortized over an open period of thirty years using the level percentage of projected payroll amortization method.

The actuarial valuation utilizes a frozen entry age actuarial cost method. The actuarial assumptions include a 3.1 percent discount rate, payroll growth rate of 3.0 percent, and an annual healthcare cost trend rate for medical coverage of 9 percent initially, reduced by decrements to a rate of 4.75 percent after 7 years.

Projections of benefits are based on the plan and include the types of benefits provided at the time of each valuation. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of future events, and actual results are considered for future valuations. The actuarial methods and assumptions used are designed to reduce short-term volatility in reported amounts and reflect a long-term perspective.

The Research Foundation sponsors a separate single employer defined benefit post-retirement plan that covers substantially all nonstudent employees. The plan provides post-retirement medical benefits and is contributory for employees hired after 1985. In fiscal years 2011 and 2013, the Research Foundation amended the plan to increase the participant contribution rates for those hired after 1985 with the specific rates to be determined based on an employee's years of service.

Contributions by the Research Foundation are made pursuant to a funding policy established by its Board of Directors. Assets are held in a Voluntary Employee Benefit Association (VEBA) trust and are considered plan assets in determining the funded status or funding progress of the plan under GASB reporting and measurement standards. The plan issued stand-alone financial statements for the 2013 calendar year.

Notes to Financial Statements

June 30, 2014 and 2013

8. Retirement Plans (continued)

The Research Foundation's OPEB obligation and funded status of the plan for the years ended June 30, 2014, 2013, and 2012, respectively, were as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB cost	\$ (9,982)	15,805	(14,726)
Benefits paid	(9,557)	(9,493)	(9,638)
Contribution to plan	<u>(8,447)</u>	<u>(7,956)</u>	<u>(6,816)</u>
Change in OPEB Obligation	(27,986)	(1,644)	(31,180)
Net obligation at beginning of year	<u>180,836</u>	<u>182,480</u>	<u>213,660</u>
Net obligation at end of year	<u>\$ 152,850</u>	<u>180,836</u>	<u>182,480</u>
Funded Status:			
Actuarial accrued liability (AAL)	294,535	302,530	298,166
Actuarial value of OPEB plan assets	<u>148,675</u>	<u>124,829</u>	<u>106,602</u>
Unfunded AAL (UAAL)	<u>\$ 145,860</u>	<u>177,701</u>	<u>191,564</u>
Actuarial valuation date	6/30/14	6/30/13	6/30/12
Funded ratio	50%	41%	36%
Covered payroll	\$ 235,751	234,009	245,039
UAAL as a % of covered payroll	62%	76%	78%

The components of the Research Foundation OPEB obligation at June 30, 2014 include the total annual required contribution (ARC) of \$170.8 million (comprised of service costs of \$10.6 million and amortization of unfunded actuarial accrued liability of \$160.2 million), ARC reduction of \$193.5 million, and interest costs of \$12.7 million. The unfunded actuarial accrued liability is amortized over one year. The cost of the benefits provided under this plan is recognized on an actuarially determined basis using the projected unit cost method. Under this method, actuarial assumptions are made based on employee demographics and medical trend rates to calculate the accrued benefit cost. The actuarial assumptions include a 7 percent discount rate, and an initial healthcare cost trend rate range of 6.0 percent to 8.5 percent grading

down to 5 percent in 2021 and later. A blended discount rate was utilized using the expected investment return on investments of the plan and investments held in the operational pool expected to be used to fund future OPEB obligations.

9. Commitments

The State University has entered into contracts for the construction and improvement of various projects. At June 30, 2014, these outstanding contract commitments totaled approximately \$1.0 billion.

The State University is also committed under numerous operating leases covering real property and equipment. The Research Foundation also contracts with various entities to lease space as part of its mission to support the State University research and university-industry-government partnerships. Rental expenditures reported for the years ended June 30, 2014 and 2013 under such operating leases were \$89.3 million and \$77.4 million, respectively. The following is a summary of the future minimum rental commitments under non-cancelable real property and equipment leases with terms exceeding one year (in thousands):

Year ending June 30:

2015	\$ 86,400
2016	79,191
2017	71,808
2018	65,071
2019	64,195
2020-24	145,188
2025-29	39,038
2030-98	<u>44,802</u>
Total	<u>\$ 595,693</u>

10. Contingencies

The State is contingently liable in connection with claims and other legal actions involving the State University, including those currently in litigation, arising in the normal course of State University activities. The State University does not carry malpractice insurance and, instead, administers these types of cases in the same manner as all other claims against the State involving State University activities in that any settlements of judgments and claims are

Notes to Financial Statements

June 30, 2014 and 2013

10. Contingencies (continued)

paid by the State from an account established for this purpose. With respect to pending and threatened litigation, the medical malpractice liability includes incurred but not reported (IBNR) loss estimates. The estimate of IBNR losses is actuarially determined based on historical experience using a discounted present value of estimated future cash payments. The State University has recorded a liability and a corresponding appropriation receivable of approximately \$543 million and \$480 million at June 30, 2014 and 2013, respectively (almost entirely related to hospitals and clinics).

The State University is exposed to various risks of loss related to damage and destruction of assets, injuries to employees, damage to the environment or noncompliance with environmental requirements, and natural and other unforeseen disasters. The State University has insurance coverage for its residence hall facilities. However, in general, the State University does not insure its educational buildings, contents or related risks and does not insure its vehicles and equipment for claims and assessments arising from bodily injury, property damages, and other perils. Unfavorable judgments, claims, or losses incurred by the State University are covered by the State on a self-insured basis. The State does have fidelity insurance on State employees.

As part of the acquisition of Long Island College Hospital, a separate entity, Staffco of Brooklyn, LLC (Staffco), was created as a single member Limited Liability Company of the Health Science Center at Brooklyn Foundation, Inc. In 2011, Staffco entered into a professional employer agreement with the State University (acting through the Hospital) to provide non-physician staffing at the LICH campus. Staffco is responsible for providing all routine administrative and human resources functions with respect to the employment of the Staffco employees. The State University is responsible for reimbursing Staffco for its direct and indirect costs relating to the non-physician staffing.

Staffco contributes to a multiemployer defined benefit pension plan (multiemployer plan) under the terms of a collective-bargaining agreement that covers union-represented employees. Under this multiemployer plan, assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating

employers. If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be shared by the remaining participating employers. If Staffco were to stop participating in the multiemployer plan, Staffco may be required to pay this multiemployer plan an amount based on the underfunded status of the multiemployer plan, referred to as a withdrawal liability. In accordance with the professional employer agreement, the State University may be required to pay Staffco the amount of the withdrawal liability.

11. Related Parties

The State University's single largest source of revenue is State appropriations. State appropriations take the form of direct assistance, debt service on educational facility and PIT bonds, fringe benefits for State University employees, and litigation expenses for which the State is responsible. State appropriations totaled \$3.09 billion and \$2.83 billion and represented approximately 30 percent and 29 percent of total revenues for the 2014 and 2013 fiscal years, respectively. The State University's continued operational viability is substantially dependent upon a consistent and proportionate level of ongoing State support.

12. Federal Grants and Contracts and Third-Party Reimbursement

Substantially all federal grants and contracts are subject to financial and compliance audits by the grantor agencies of the federal government. Disallowances, if any, as a result of these audits may become liabilities of the State University. State University management believes that no material disallowances will result from audits by the grantor agencies.

The State University hospitals have agreements with third-party payors, which provide for reimbursement to the hospitals at amounts different from the hospitals' established charges. Contractual service allowances and discounts (reflected through State University hospitals and clinics sales and services) represent the difference between the hospitals' established rates and amounts reimbursed by third-party payors. The State University has made provision in the accompanying financial statements for estimated retroactive adjustments relating to third-party payor cost reimbursement items.

Notes to Financial Statements

June 30, 2014 and 2013

13. Condensed financial statement information of the Research Foundation

The condensed financial statement information of the Research Foundation, contained in the combined totals of the State University reporting entity in accordance with GASB accounting and reporting requirements, is shown below (in thousands):

Condensed Balance Sheet

	2014	2013
<u>Assets</u>		
Current assets	\$ 463,305	420,390
Capital assets	206,673	147,521
Other assets	41,552	25,579
Total assets	\$ <u>711,530</u>	<u>593,490</u>
<u>Liabilities</u>		
Current liabilities	319,663	303,092
Noncurrent liabilities	322,467	259,480
Total liabilities	<u>642,130</u>	<u>562,572</u>
<u>Net position</u>		
Invested in capital assets, net	33,982	49,618
Unrestricted	35,418	(18,700)
Total net position	<u>69,400</u>	<u>30,918</u>
Total liabilities and net position	\$ <u>711,530</u>	<u>593,490</u>

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

	2014	2013
<u>Operating revenues</u>		
Federal grants and contracts	\$ 499,688	532,581
State grants and contracts	173,531	180,436
Private grants and contracts	230,039	289,646
Other operating revenues	78,460	65,350
Total operating revenues	<u>981,718</u>	<u>1,068,013</u>
<u>Operating expenses</u>		
Instruction	79,220	72,024
Research	562,313	601,933
Public service	122,706	126,780
Institutional support	149,209	187,191
Other operating expenses	43,542	50,992
Depreciation and amortization expense	37,025	27,741
Total operating expenses	<u>994,015</u>	<u>1,066,661</u>
Operating (loss) income	<u>(12,297)</u>	<u>1,352</u>
Net nonoperating revenues	50,779	19,800
Increase in net position	<u>38,482</u>	<u>21,152</u>
Net position at the beginning of the year	<u>30,918</u>	<u>9,766</u>
Net position at the end of the year	\$ <u>69,400</u>	<u>30,918</u>

Condensed Statement of Cash Flows

	2014	2013
Cash flows from operating activities	\$ 114,025	(13,698)
Cash flows from noncapital financing activities	(18,797)	(3,079)
Cash flows from capital and related financing activities	(93,801)	(47,697)
Cash flows from investing activities	(2,100)	64,450
Net change in cash	<u>(673)</u>	<u>(24)</u>
Cash - beginning of year	892	916
Cash - end of year	\$ <u>219</u>	<u>892</u>

14. Subsequent Events

In July 2014, PIT Revenue Bonds were issued totaling \$694 million for the purpose of financing capital construction and major rehabilitation for educational facilities.

On June 30, 2014, the State University through a related party, Downstate at LICH Holding Company, entered into a Purchase and Sale Agreement with Fortis Property Group, LLC (Fortis) to sell the LICH property. Under the agreement, the real estate, improvements and related personal property will be sold to an affiliate of Fortis. A healthcare provider will provide healthcare services, including an off-campus emergency department at the LICH campus. The Agreement was approved by the New York State Offices of the Attorney General and the State Comptroller on October 28, 2014. The State University ceased to operate the emergency department on October 31, 2014. It is anticipated that the entire transaction will close in stages over the course of the next four years.

15. Component Units

The reported totals of the discretely presented component units include campus-related foundations, auxiliary services corporations, and student housing corporations. These related entities are campus-based, legally separate, nonprofit organizations. The campus-related foundations are responsible for the fiscal administration of revenues and support received for the promotion, development and advancement of the welfare of campuses, the State University and its students,

Notes to Financial Statements

June 30, 2014 and 2013

15. Component Units (continued)

faculty, staff and alumni. The foundations receive the majority of their support and revenues through contributions, gifts and grants and provide benefits to their campus, students, faculty, staff and alumni. The auxiliary services corporations act as independent contractors, operate, manage, and promote educationally related services for the benefit of the campus community. In addition, the reported amounts include student housing corporations, nonprofit organizations that operate and administer certain housing and related services for students.

All these organizations are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. All of the financial data for these organizations was derived from each entity's individual audited financial statements, reported in accordance with generally accepted accounting principles promulgated by FASB, the majority of which have a May 31 or June 30 fiscal year end. The financial statements of the discretely presented component units were not audited in accordance with Government Auditing Standards.

Separately issued financial statements of the component unit entities may be obtained by writing to:

The State University of New York
Office of the University Controller
State University Plaza, N-514
Albany, New York 12246

Net Asset Classifications

Unrestricted net assets represent resources whose uses are not restricted by donor-imposed stipulations and are generally available for the support of the State University campus and affiliated entity programs and activities. Temporarily restricted net assets represent resources whose use is limited by donor-imposed stipulations that either expire by the passage of time or are removed by specific actions. Permanently restricted net assets represent resources that donors have stipulated must be maintained permanently. The income derived from the permanently restricted net assets is permitted to be spent in part or in whole, restricted only by the donors' wishes.

Investments

All investments with readily determinable fair values have been reported in the financial statements at fair value. Realized and unrealized gains and losses are recognized in the statement of activities. Gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investments of the State University discretely presented component units were \$1.95 billion and \$1.68 billion as of June 30, 2014 and 2013, respectively.

The composition of investments is as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Equities - domestic	\$ 606,335	533,877
Equities - international	317,140	254,680
Non-equities	451,870	388,945
Multi-strategy funds	222,738	190,010
Hedge funds	132,798	114,680
Equity partnerships	111,035	97,043
Real assets	91,315	72,078
Other investments	17,663	26,260
Total investments	<u>\$ 1,950,894</u>	<u>1,677,573</u>

Capital Assets

Capital assets are stated at cost, if purchased, or fair value at date of receipt, if acquired by gift. Land improvements, buildings, and equipment are depreciated over their estimated useful lives using the straight-line method. Capital assets, net of accumulated depreciation, totaled \$620.3 million and \$628.6 million at fiscal year end 2014 and 2013, respectively. Capital asset classifications are summarized as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 38,405	40,402
Buildings	687,497	681,640
Equipment	116,728	108,488
Artwork and library books	26,634	25,678
Construction in progress	31,766	23,423
Total capital assets	901,030	879,631
Less accumulated depreciation	<u>280,758</u>	<u>251,027</u>
Capital assets, net	<u>\$ 620,272</u>	<u>628,604</u>

Notes to Financial Statements

June 30, 2014 and 2013

15. Component Units (continued)

Long-term Debt

The component units have entered into various financing arrangements, principally through the issuance of Industrial Development Agency, Local Development Corporation, and Housing Authority bonds, for the construction of student residence hall facilities. The following is a summary of the future minimum annual debt service requirements for the next five years and thereafter (in thousands):

Year ending June 30:

2015	\$ 17,248
2016	15,249
2017	15,571
2018	15,076
2019	14,802
Thereafter	393,199
	<u>\$ 471,145</u>

Condensed financial statement information

The table below displays the combined totals of the foundations (including student housing corporations) and auxiliary services corporations (ASCs) (in thousands):

Combined Balance Sheets

	2014			2013		
	Foundations	ASCs	Total	Foundations	ASCs	Total
Assets:						
Investments	\$ 1,873,178	77,716	1,950,894	1,618,680	58,893	1,677,573
Capital assets, net	516,131	104,141	620,272	531,294	97,310	628,604
Other assets	423,783	159,300	583,083	451,121	143,542	594,663
Total assets	<u>\$ 2,813,092</u>	<u>341,157</u>	<u>3,154,249</u>	<u>2,601,095</u>	<u>299,745</u>	<u>2,900,840</u>
Liabilities:						
Current liabilities	167,590	112,583	280,173	177,775	91,654	269,429
Long-term debt/notes	440,683	30,462	471,145	444,843	33,580	478,423
Total liabilities	<u>608,273</u>	<u>143,045</u>	<u>751,318</u>	<u>622,618</u>	<u>125,234</u>	<u>747,852</u>
Net Assets:						
Unrestricted	517,951	197,637	715,588	443,378	174,035	617,413
Temporarily restricted	964,548	232	964,780	885,960	233	886,193
Permanently restricted	722,320	243	722,563	649,139	243	649,382
Total net assets	<u>2,204,819</u>	<u>198,112</u>	<u>2,402,931</u>	<u>1,978,477</u>	<u>174,511</u>	<u>2,152,988</u>
Total liabilities and net assets	<u>\$ 2,813,092</u>	<u>341,157</u>	<u>3,154,249</u>	<u>2,601,095</u>	<u>299,745</u>	<u>2,900,840</u>

Combined Statements of Activities

Revenues:						
Contributions, gifts and grants	\$ 176,690	-	176,690	187,451	-	187,451
Food and auxiliary services	-	348,277	348,277	-	334,137	334,137
Sales and services	163,457	-	163,457	184,349	-	184,349
Other revenue	378,727	8,113	386,840	306,076	7,610	313,686
Total revenues	<u>718,874</u>	<u>356,390</u>	<u>1,075,264</u>	<u>677,876</u>	<u>341,747</u>	<u>1,019,623</u>
Expenses:						
Food and auxiliary services	-	275,854	275,854	-	272,841	272,841
Program expenses	105,517	10,047	115,564	104,070	10,020	114,090
Health care services	155,079	-	155,079	170,008	-	170,008
Other expenses	231,936	46,888	278,824	213,214	43,683	256,897
Total expenses	<u>492,532</u>	<u>332,789</u>	<u>825,321</u>	<u>487,292</u>	<u>326,544</u>	<u>813,836</u>
Total change in net assets	226,342	23,601	249,943	190,584	15,203	205,787
Net assets at the beginning of year	1,978,477	174,511	2,152,988	1,787,893	159,308	1,947,201
Net assets at the end of year	<u>\$ 2,204,819</u>	<u>198,112</u>	<u>2,402,931</u>	<u>1,978,477</u>	<u>174,511</u>	<u>2,152,988</u>

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



KPMG LLP
515 Broadway
Albany, NY 12207-2974

The Board of Trustees
State University of New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities and the aggregate discretely presented component units of the State University of New York (the University) as of and for the year ended June 30, 2014, and related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 5, 2014. Our report includes a reference to other auditors who audited the financial statements of certain discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

November 5, 2014
Albany, New York

KPMG LLP



ANNUAL FINANCIAL REPORT 2014

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