

2013

The State University
of New York

ANNUAL
FINANCIAL
REPORT



SUNY

Board of Trustees

H. Carl McCall, Chairman
Joseph Belluck
Eric Corngold
Henrik Dullea
Ronald Ehrenberg
Angelo Fatta
Tina Good (Community Colleges)
Stephen J. Hunt
Peter Knuepfer (Faculty Senate)
Eunice A. Lewin
Marshall Lichtman
John L. Murad, Jr.
Tremayne Price (Student Trustee)
Linda S. Sanford
Richard Socarides
Carl Spielvogel
Cary Staller
Gerri Warren-Merrick

Chancellor

Nancy L. Zimpher

Chancellor's Cabinet

Executive Committee

Elizabeth L. Bringsjord
Interim Provost and Vice Chancellor

Johanna Duncan-Poitier
Senior Vice Chancellor for Community Colleges and the Education Pipeline

William F. Howard
Senior Vice Chancellor & General Counsel, Secretary of the University

James J. Malatras
Vice Chancellor for Policy & Chief of Staff

Robert Haelen
Interim Chief Financial Officer, Vice Chancellor for Capital Facilities, & General Manager of the Construction Fund

Brian Hutzley
Vice Chancellor for Shared Services and Regional Economic Development

Timothy Killeen
Vice Chancellor for Research & President of the Research Foundation

Stacey Hengsterman
Associate Vice Chancellor for Government Relations

Kaitlin Gambrill
Associate Vice Chancellor for Strategic Planning and University Advancement

Jennifer LoTurco
Assistant Vice Chancellor for External Affairs

Senior Staff

Mitch Leventhal
Vice Chancellor for Global Affairs

Curtis L. Lloyd
Vice Chancellor for Human Resources

Jason Lane
Associate Vice Chancellor for Academic Programs & Planning and Associate Provost for Graduate Education & Research

Carlos Medina
Associate Provost and Associate Vice Chancellor for Diversity, Equity and Inclusion

Lora Lefebvre
Associate Vice Chancellor for Health Affairs

Hao Wang
Chief Information Officer

David Doyle
Director of Communications

Shared Governance Leaders

Tremayne Price
President, Student Assembly

Peter Knuepfer
President, University Faculty Senate

Tina Good
President, Faculty Council of Community Colleges

Message from the Chancellor

I am pleased to present the Annual Financial Report of The State University of New York, providing an overview of SUNY's finances and operating results for the year ending June 30, 2013.

As outlined in the pages of this report, SUNY continues to make meaningful gains toward its mission to enhance educational excellence, affordability, and accessibility, and to serve as an economic engine in every region of New York State.

The preliminary enrollment headcount for fall 2013 is 458,975, which represents a slight decline of .7 percent from last fall. Preliminary enrollment at the state-operated campuses is 220,175, up .6 percent over last fall, while preliminary enrollment at the community colleges is 238,800, down 1.8 percent. Early indications are that SUNY's overall enrollment will remain relatively flat this year, though with the development of Open SUNY, it is our expectation that within the next three years the University will add approximately 100,000 students who will enroll in our vastly expanding array of online courses.

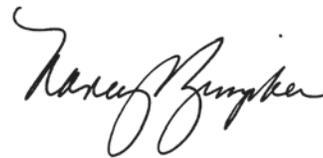
SUNY research continues to be strong. In the 2012-13 fiscal year, The Research Foundation for The State University of New York received 233 invention disclosures, filed 218 patent applications, was awarded 59 U.S. patents, executed 46 licenses, and received \$8.8 million in royalties. These achievements were the products of more than 6,980 projects that supported 16,330 employees statewide.

This spring, in partnership with Governor Andrew M. Cuomo, SUNY announced the creation of START-UP NY. Simply put, in size, scale, and scope there is nothing else, anywhere, like this plan in terms of making the most of the powerful relationships between SUNY and other New York State universities and industry. The initiative is in the early stages of getting underway, and we look forward to new developments and the benefits communities throughout the state will reap moving forward.

In June, in Round II of the NYSUNY 2020 Challenge Grant Program, Governor Cuomo awarded \$60 million to four innovative projects (\$15 million to each) that were developed and submitted by collaborations among 19 SUNY universities and community colleges. Each of the projects is designed to create good jobs for New Yorkers and greatly enhance and contribute to research, education, and workforce training programs.

SUNY continues to pursue operational efficiencies through shared services, strategic sourcing, and other collaborative efforts. This includes a variety of projects that are expected to provide significant savings in the areas of procurement, information technology, and service delivery. SUNY continues to encourage collaboration between campuses, resulting in savings, improved efficiency, and increased value to our students and taxpayers.

SUNY continues to be an outstanding investment for students and a critical resource for New York State. We take very seriously our responsibility as stewards of public dollars 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

To The Board of Trustees
State University of New York:

Report on the Financial Statements

We have audited the accompanying balance sheets and statements of revenues, expenses, and changes in net position, and cash flows of the business-type activities of the State University of New York (the University), as of and for the years ended June 30, 2013 and 2012, and the balance sheet and statement of activities of the aggregate discretely presented component units of the University as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

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 percent of the total assets and 68 percent 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 16 of 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, 2013 and 2012, 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, 2013, 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, 2013 or 2012, 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.

Adoption of New Accounting Pronouncements

As discussed in Notes 14 and 16 to the financial statements, in 2013, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment to GASB Statements Nos. 14 and 34* and GASB Statement No. 65, *Reporting Items Previously Recognized as Assets and Liabilities* as of July 1, 2011. Our opinions are not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited the University's 2012 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 October 31, 2012. 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, 2012 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 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 December 2, 2013 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.

December 2, 2013

Albany, NY

KPMG LLP

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

This page intentionally left blank

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, 2013 and 2012, 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.

In July 2011, the State University acquired Community General Hospital of Greater Syracuse (CGH) and in May 2011 acquired Long Island College Hospital (LICH).

The auxiliary services corporations, foundations, and student housing corporations meet the criteria of 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 separate pages in 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. Financial statement information for these component units is presented separately on pages 18 and 19 of the State University's financial statements.

Financial Highlights

At June 30, 2013 and 2012, total assets and deferred outflows of resources reported by the State University were \$15.03 billion and \$14.37 billion and total liabilities were \$15.84 billion and \$14.76 billion, respectively. The net position was (\$803) million and (\$399) million at June 30, 2013 and 2012, and experienced a decrease of \$405 million in 2013 and a decrease of \$389 million in 2012. The net position at June 30, 2013, 2012, and 2011 is summarized in the following categories (in thousands):

	2013	2012	2011
Net Position:			
Net investment in			
capital assets	\$ 1,010,832	984,370	723,494
Restricted - nonexpendable	331,906	308,608	288,564
Restricted - expendable	506,022	449,816	495,291
Unrestricted	(2,651,943)	(2,141,435)	(1,516,504)
Total net position	\$ (803,183)	(398,641)	(9,155)

The decrease in net position during 2013 and 2012 was driven by an increase in accrued postemployment and post-retirement benefit expenses of \$472 million and \$547 million, respectively. Revenues, expenses, and the change in net position for the 2013, 2012, and 2011 fiscal years are summarized as follows (in thousands):

	2013	2012	2011
Operating revenues	\$ 6,013,227	5,672,461	5,137,803
Nonoperating revenues	3,521,261	3,542,501	3,679,488
Other revenues	135,483	81,222	113,334
Total revenues	<u>9,669,971</u>	<u>9,296,184</u>	<u>8,930,625</u>
Operating expenses	9,687,640	9,288,862	8,947,341
Nonoperating expenses	386,873	396,808	499,373
Total expenses	<u>10,074,513</u>	<u>9,685,670</u>	<u>9,446,714</u>
Change in net position	\$ (404,542)	(389,486)	(516,089)

Management's Discussion and Analysis

Total revenues reported in 2013, 2012, and 2011 were \$9.67 billion, \$9.30 billion, and \$8.93 billion, respectively. Total revenues in 2013 and 2012 increased \$374 million and \$366 million compared to the previous years. The revenue increase in 2013 was driven by increases of \$127 million in private grants and contracts, net tuition revenues of \$88 million, \$79 million in hospital and clinic revenue, \$64 million in investment gains, \$50 million in capital appropriations and capital gifts and grants, and \$26 million in auxiliary enterprises. These increases were offset by a decrease of \$97 million in State appropriation revenue.

Total expenses for 2013, 2012, and 2011 were \$10.07 billion, \$9.69 billion, and \$9.45 billion, respectively. Total expenses in 2013 and 2012 increased \$389 million and \$239 million compared to the previous years. Expense growth in 2013 compared to the prior year was primarily due to increases of \$399 million in operating expenses.

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. As disclosed in note 1 of the financial statements, the State University was required to adopt two new GASB pronouncements. The adoption of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, resulted in the State University financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units of the State University's financial reporting entity. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of these pronouncements required a restatement to the amounts previously reported in the financial statements and MD&A.

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, 2013 and 2012 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* provides 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.

Balance Sheets

The balance sheets present the financial position of the State University at the end of its fiscal years. The State University's total assets and deferred outflows of resources increased \$667 million and \$1.26 billion in 2013 and 2012, respectively. Total liabilities during 2013 and 2012 increased \$1.07 billion and \$1.65 billion, respectively. The following table reflects the financial position at June 30, 2013, 2012, and 2011 (in thousands):

	2013	2012	2011
Current assets	\$ 3,156,397	3,350,346	3,257,461
Capital assets, net	10,041,478	8,984,590	7,890,735
Other noncurrent assets	1,811,167	2,020,781	1,944,121
Total assets	<u>15,009,042</u>	<u>14,355,717</u>	<u>13,092,317</u>
Deferred outflows of resources	23,552	9,959	10,812
Total assets and deferred outflows of resources	<u>15,032,594</u>	<u>14,365,676</u>	<u>13,103,129</u>
Current liabilities	2,074,879	2,330,059	2,027,062
Noncurrent liabilities	13,760,898	12,434,258	11,085,222
Total liabilities	<u>15,835,777</u>	<u>14,764,317</u>	<u>13,112,284</u>
Net position	<u>\$ (803,183)</u>	<u>(398,641)</u>	<u>(9,155)</u>

Management's Discussion and Analysis

Current Assets

Current assets at June 30, 2013 decreased \$194 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, 2013 and 2012 consist primarily of cash and cash equivalents of \$1.35 billion and \$1.29 billion, deposits with trustees of \$236 million and \$264 million, short-term investments of \$270 million and \$284 million, and receivables (accounts, interest, appropriations, and grants) of \$1.23 billion and \$1.42 billion, respectively. The decrease in current assets during 2013 is primarily due to a decrease of \$191 million in receivables.

Current Liabilities

Current liabilities decreased \$255 million compared to the previous year. Current liabilities at June 30, 2013 and 2012 consist principally of accounts payable and accrued expenses of \$963 million and \$1.16 billion, interest on debt of \$94 million and \$75 million, unearned revenue of \$251 million and \$296 million, and the current portion of long-term liabilities of \$676 million and \$688 million, respectively. The decrease in current liabilities at June 30, 2013 was driven principally by a decrease in accounts payable and accrued expenses of \$194 million mainly due to a \$135 million payable in the prior year for the Gyrodyne lawsuit and a decrease in hospital payables.

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 funding for construction and critical maintenance projects on SUNY educational and hospital facilities. The State University has entered into capital lease financing arrangements for residence hall facilities.

During the 2013 and 2012 fiscal years, capital assets (net of depreciation) increased \$1.06 billion and \$1.09 billion, respectively. The majority of the increase occurred at the State University campuses due to new building construction, renovations, and rehabilitation totaling \$910 million and \$480 million for the 2013 and 2012 fiscal years,

respectively. Equipment additions during 2013 and 2012 of \$180 million and \$171 million, respectively, also contributed to the increase.

Significant projects completed and capitalized during the 2013 fiscal year included construction of the Advanced Energy Research and Technology Center at Stony Brook University, an academic building at the College at Old Westbury, an Equal Opportunity Center at the College at Brockport, a 500 bed facility at the University at Albany and a 600 bed residence hall at Stony Brook University. Other significant projects included a convocation, athletic and recreation center at the College at Canton, the renovation of a science building at Buffalo State College, the improvement of a dining facility at the University at Buffalo and the historic preservation of an academic building at the College at Oswego.

A summary of capital assets, by major classification, and related accumulated depreciation for the 2013, 2012, and 2011 fiscal years is as follows (in thousands):

	2013	2012	2011
Land	\$ 547,995	503,136	380,709
Infrastructure and land improvements	872,259	825,008	772,034
Buildings	9,155,561	8,303,401	7,855,203
Equipment, library books and other	2,898,865	2,750,286	2,585,622
Construction in progress	<u>2,787,928</u>	<u>2,464,534</u>	<u>1,794,687</u>
Total capital assets	<u>16,262,608</u>	<u>14,846,365</u>	<u>13,388,255</u>
Less accumulated depreciation:			
Infrastructure and land improvements	430,698	405,629	383,356
Buildings	3,594,964	3,398,048	3,202,270
Equipment, library books and other	<u>2,195,468</u>	<u>2,058,098</u>	<u>1,911,894</u>
Total accumulated depreciation	<u>6,221,130</u>	<u>5,861,775</u>	<u>5,497,520</u>
Capital assets, net	<u>\$ 10,041,478</u>	<u>8,984,590</u>	<u>7,890,735</u>

Other Noncurrent Assets

Other noncurrent assets exclusive of capital assets were \$1.81 billion and \$2.02 billion at June 30, 2013 and 2012, respectively. Noncurrent assets at June 30, 2013 and 2012 include long-term investments of \$717 million and \$692 million, deposits with trustees of \$413 million and \$646

Management's Discussion and Analysis

million, restricted cash of \$67 million and \$71 million, and the noncurrent portion of receivables and other assets of \$613 million and \$611 million, respectively.

Long-term investments at June 30, 2013 and 2012 of \$717 million and \$692 million include investments held by the Cornell statutory colleges of \$647 million and \$635 million, Research Foundation of \$43 million and \$32 million, statutory College of Ceramics at Alfred University of \$20 million and \$19 million and State University campuses of \$7 million and \$6 million, respectively. Long-term investments increased \$25 million in 2013 compared to 2012 primarily due to investment gains.

During fiscal year 2013, the noncurrent portion of deposits with trustees, which generally represent funds available from the issuance of bonds by the Dormitory Authority of the State of New York (DASNY) used to finance capital projects and maintain debt service reserves for the State University's facilities, decreased \$233 million.

Restricted cash and cash equivalents represent unspent funds under various capital financing arrangements, cash held for others, and cash restricted for loan programs. At June 30, 2013 restricted cash balances decreased \$4 million compared to 2012. The noncurrent portion of receivables reported at June 30, 2013 and 2012 consisted of accounts, notes, and loan receivables of \$112 million and \$111 million and appropriation receivables of \$444 million and \$458 million, respectively.

Noncurrent Liabilities

Noncurrent liabilities at June 30, 2013 and 2012 of \$13.76 billion and \$12.43 billion, respectively, are largely comprised of debt on State University facilities, other long-term liabilities accrued for postemployment and post-retirement benefits, compensated absences, and litigation. 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 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, 2013, 2012, and 2011 is as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Educational facilities	\$ 6,880,924	6,296,313	5,973,236
Residence hall facilities	1,496,800	1,322,010	1,104,250
Postemployment and post-retirement obligations and compensated absences	3,831,291	3,363,586	2,822,590
Litigation	442,796	457,880	398,739
Other obligations	879,671	822,714	620,903
Long-term liabilities	<u>\$ 13,531,482</u>	<u>12,262,503</u>	<u>10,919,718</u>

During the year, PIT bonds were issued for the purpose of financing capital construction and major rehabilitation for educational facilities in the amount of \$825.9 million. Also, during the year PIT bonds were issued totaling \$249.6 million in order to refund \$303.9 million of the State University's existing educational facilities obligations. The State University also entered into agreements with DASNY during fiscal year 2013 to issue residence hall facility obligations totaling \$234.7 million for the purpose of financing capital construction and major rehabilitation for residence hall facilities.

The State University's credit ratings for educational and residence hall bonds were unchanged in 2013. The credit ratings at June 30, 2013 are as follows:

	<u>PIT Bonds</u>	<u>Educational Facilities</u>	<u>Residence Halls</u>
Moody's			
Investors Service	Aa2	Aa3	Aa2
Standard & Poor's	AAA	AA-	AA-
Fitch	AA	AA-	AA-

Management's Discussion and Analysis

Principal payments on educational and residence hall facilities obligations totaled \$479 million and \$53 million in 2013, \$1.28 billion (including \$979 million in refunded debt) and \$36 million in 2012, and \$324 million and \$32 million in 2011, respectively.

During fiscal years 2013 and 2012, the long-term portion of postemployment and post-retirement benefit obligations and compensated absences liabilities increased \$468 million and \$541 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 administers NYSHIP and has the authority to establish and amend benefit provisions offered. 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.

The State University has recorded a long-term litigation liability and a corresponding appropriation receivable of \$443 million and \$458 million at June 30, 2013 and 2012, respectively (almost entirely related to hospitals and clinics) for unfavorable judgments, both anticipated and awarded but not yet paid. The medical malpractice liability includes incurred but not reported (IBNR) loss estimates which are actuarially determined based on historical experience using a discounted present value of estimated future cash payments.

Refundable government loan funds at June 30, 2013 and 2012 totaled \$141.4 million and \$141.5 million, respectively. These revolving loan funds are principally those of the federal Perkins and Nursing Loan Programs established with an initial and, when available, continued federal capital contribution. Repayments of principal and interest and new contributions are deposited into a revolving loan fund for continual disbursement to students.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Covered Payroll ((b-a)/c)
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, 2013	125	303	178	41%	234	76%
June 30, 2012	107	298	191	36%	245	78%
June 30, 2011	101	279	178	36%	241	74%

Management's Discussion and Analysis

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. Total operating revenues of the State University were \$6.01 billion in 2013, \$5.67 billion in 2012, and \$5.14 billion in 2011. Nonoperating and other revenues, which include State appropriations, totaled \$3.66 billion, \$3.62 billion, and \$3.79 billion for fiscal years 2013, 2012, and 2011, respectively. Total expenses for 2013, 2012, and 2011 were \$10.07 billion, \$9.69 billion, and \$9.45 billion, respectively.

Revenue Overview

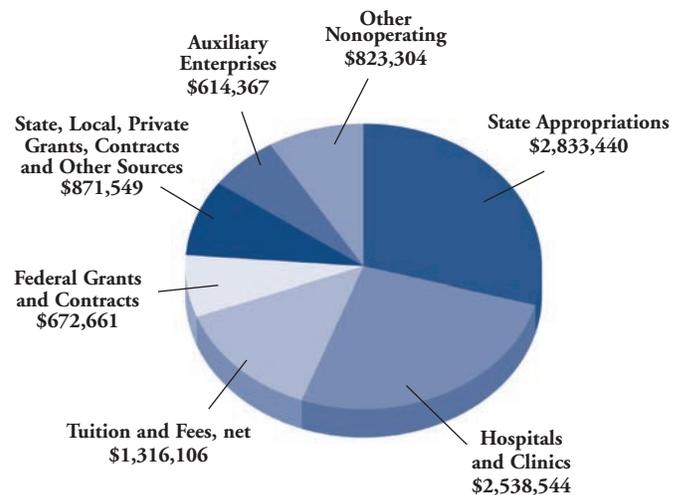
Revenues (in thousands):

	2013	2012	2011
Tuition and fees, net	\$ 1,316,106	1,227,984	1,151,523
Hospitals and clinics	2,538,544	2,459,497	2,011,711
Federal grants and contracts	672,661	699,818	722,156
State, local, private grants and contracts, and other sources	871,549	696,733	690,401
Auxiliary enterprises	614,367	588,429	562,012
Operating revenues	<u>6,013,227</u>	<u>5,672,461</u>	<u>5,137,803</u>
State appropriations	2,833,440	2,930,043	2,921,704
Other nonoperating	823,304	693,680	871,118
Nonoperating and other revenues	3,656,744	3,623,723	3,792,822
Total revenues	<u>\$ 9,669,971</u>	<u>9,296,184</u>	<u>8,930,625</u>

Tuition and Fees, Net

Tuition and fee revenue for the 2013, 2012, and 2011 fiscal years, net of scholarship allowances, was \$1.32 billion, \$1.23 billion, and \$1.15 billion, an increase of \$88 million and \$76 million in 2013 and 2012, respectively. These increases were mainly driven by a \$300 tuition rate increase for resident undergraduates and increases in professional and nonresident tuition rates in 2013 and 2012. Annual average full-time equivalent students, including undergraduate and graduate, were approximately 192,300, 193,700, and 195,300 for the fiscal years ended June 30, 2013, 2012, and 2011, respectively.

2013 Revenues (in thousands)



Hospitals and Clinics

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

Hospital and clinic revenue for the 2013, 2012, and 2011 fiscal years was \$2.54 billion, \$2.46 billion, and \$2.01 billion, respectively. During the 2013 fiscal year, hospital and clinic revenues increased \$79 million compared to the previous year primarily due to an increase in inpatient and outpatient volume.

Sponsored Research, Grant and Contract Revenue

During fiscal year 2013, the State University increased its volume of sponsored program activity. Total revenue from federal, state, local, private and capital grants and contracts administered by the Research Foundation was \$1.01 billion, \$882 million, and \$946 million for the fiscal years ended June 30, 2013, 2012, and 2011, respectively. Facilities and administrative recoveries earned on grants and contracts administered by the Research Foundation were \$140 million, \$146 million, and \$146 million for the fiscal periods ending June 30, 2013, 2012, and 2011, respectively.

The volume of research and other sponsored programs reported for 2013 and 2012 by the statutory colleges at Cornell University was \$157.2 million and \$176.8 million, and Alfred University

Management's Discussion and Analysis

was \$3.2 million and \$2.4 million, respectively.

Revenue from projects sponsored by the federal government (including federal flow-through funds) and administered by the Research Foundation totaled \$533 million and \$548 million during 2013 and 2012, respectively. Of these federally-sponsored projects, the Department of Health and Human Services was the largest sponsor for both fiscal years. Revenue from non-federal sponsors administered by the Research Foundation totaled \$473 million and \$334 million during 2013 and 2012, respectively. In fiscal years 2013 and 2012, the largest non-federal support of sponsored research programs were nanotechnology awards from the G450 Consortium as well as the Empire State Development Corporation.

Amounts received under the State's Tuition Assistance Program increased \$2 million from the prior year. Federal grants under the Pell and other federal student aid programs remained relatively flat from the previous year.

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 totaled \$614 million, \$588 million, and \$562 million in the 2013, 2012, and 2011 fiscal years, respectively. Of these amounts, residence halls operating revenue totaled \$408 million, \$396 million, and \$378 million for 2013, 2012, and 2011, respectively. Increases in revenue 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 73,715 for the fall of 2012, an increase of 532 students compared to the previous year. The overall utilization rate for the fall of 2012 was reported at 96 percent.

Food service and other auxiliary services generated \$206 million, \$192 million, and \$184 million in revenue for fiscal years 2013, 2012, and 2011, respectively.

State Appropriations

The State University's single largest source of revenues are State appropriations, which for financial reporting purposes are classified as non-operating revenues. State appropriations totaled \$2.83 billion, \$2.93 billion, and \$2.92 billion and represented approximately 29 percent, 31 percent, and 32 percent of total revenues for fiscal years 2013, 2012, and 2011, respectively. State support (both direct support for operations and indirect support for debt service, litigation, and fringe benefits) for State University campus operations, statutory colleges, and hospitals and clinics decreased \$97 million in 2013 and increased \$8 million in 2012, compared to the prior year. In 2013, State support for operating expenses decreased \$3 million and indirect State support for debt service and litigation decreased \$152 million and \$51 million, respectively, compared to the previous year. Indirect support for fringe benefits increased \$109 million compared to 2012.

Nonoperating and Other Revenue

Nonoperating and other revenue excluding State appropriations was \$823 million and \$694 million for the 2013 and 2012 fiscal years, respectively. The increase was primarily due to increases of \$64 million in investment gains and \$50 million in capital appropriations and capital gifts and grants.

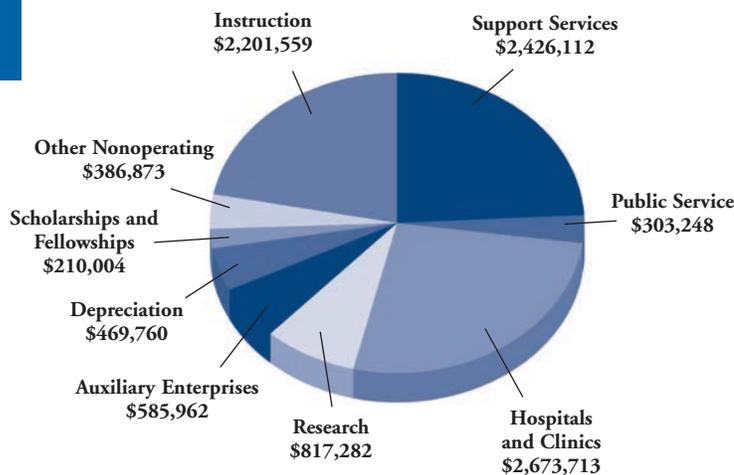
Management's Discussion and Analysis

Expense Overview

Expenses (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Instruction	\$ 2,201,559	2,107,314	2,200,938
Research	817,282	725,173	747,664
Public service	303,248	312,809	305,633
Support services	2,426,112	2,261,210	2,216,961
Scholarships and fellowships	210,004	198,446	208,652
Hospitals and clinics	2,673,713	2,652,311	2,301,319
Auxiliary enterprises	585,962	559,478	543,877
Depreciation and amortization	469,760	472,121	422,297
Other nonoperating	386,873	396,808	499,373
Total expenses	<u>\$ 10,074,513</u>	<u>9,685,670</u>	<u>9,446,714</u>

2013 Expenses (in thousands)



During the 2013 fiscal year, instruction expenses increased \$94 million predominately from an increase in fringe benefit expenses due to an increase in the State fringe benefit rate. Research expense also increased \$92 million during 2013 compared to 2012 primarily due to an increase in sponsored program activity.

Support services, which include expenses for academic support, student services, institutional support, and operation and maintenance of plant, increased \$165 million between fiscal years 2013 and 2012. This increase was mainly due to an increase in fringe benefit costs as well as an increase

in Research Foundation expenses. Support services remained relatively flat between 2012 and 2011.

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.

Total scholarships and fellowships, including federal and state grant programs, were \$846 million and \$785 million for the fiscal years ended June 30, 2013 and 2012, respectively. Of this amount, \$636 million and \$587 million were classified as scholarship allowances and \$210 million and \$198 million were reported as scholarship expense for fiscal years 2013 and 2012, respectively. Major scholarships and grants received include the State Tuition Assistance Program of \$193 million and \$191 million during fiscal years 2013 and 2012, respectively, and the federal Pell Program of \$270 million for both fiscal years.

Expenses at the State University's hospitals and clinics increased \$21 million and \$351 million during 2013 and 2012. The large increase in 2012 primarily relates to the acquisition of LICH and CGH.

During fiscal years 2013 and 2012, auxiliary enterprise expenses increased \$26 million and \$16 million, respectively. Residence halls expenses increased \$14 million and \$7 million for the 2013 and 2012 fiscal years, respectively, primarily due to increases in occupancy and rates. Food service and other auxiliary enterprise expenses for the years ended June 30, 2013 and 2012 increased \$12 million and \$9 million, respectively.

Depreciation and amortization expense recognized in fiscal years 2013 and 2012 totaled \$470 million and \$472 million, respectively. Other nonoperating expenses were \$387 million and \$397 million for the years ended June 30, 2013 and 2012, respectively. The decrease in nonoperating expenses during fiscal year 2013 compared to 2012 was mainly due to the \$14 million of investment losses recorded in 2012.

Management's Discussion and Analysis

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 220,000 for fall 2013, on twenty-nine 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 strong 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, 2013 is approximately 192,300, a slight decrease compared to June 30, 2012.

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 \$2.83 billion which represented 29 percent of the total revenues of the State University. State appropriations consisted of direct support (\$1.04 billion), debt service on educational facility and PIT bonds (\$539 million), fringe benefits for State University employees (\$1.26 billion), and litigation (\$1 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 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 four State University Centers, 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.

The State University depends on the State to provide appropriations in support of its capital programs. The 2008-09 enacted State budget provided a \$1.7 billion multi-year appropriation for strategic initiatives and \$550 million for the first of five anticipated annual appropriations dedicated to critical maintenance efforts targeted for preservation or rehabilitation of existing educational facilities. Subsequent annual critical maintenance appropriations of \$550 million have been provided through the enacted 2012-13 State budget. In total, the State University has realized \$2.75 billion in multi-year critical maintenance appropriations over the five year period ending in 2012-13.

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, their dependency on the Medicaid Disproportionate Share Hospital (DSH) Program revenue stream and Medicaid reimbursement is critical to their continued viability. The overall stagnant economic climate increases the risk that the federal government will be under pressure to reduce its overall spending, and these spending reductions could result in significant cuts in Medicare and Medicaid programs and rates, having a negative impact on the hospitals' overall revenue. The hospitals' financial and operational capabilities will also continue to be challenged by potential declines in State support and inflationary and contractual cost increases.

Balance Sheets

June 30, 2013 and 2012
In thousands

	<u>2013</u>	<u>2012</u>
<u>Assets and Deferred Outflows of Resources</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,347,112	1,292,327
Deposits with trustees	235,623	264,412
Short-term investments	269,635	283,517
Accounts, notes, and loans receivable, net	792,783	849,606
Appropriations receivable	197,339	324,998
Grants receivable	243,355	250,367
Other assets	70,550	85,119
Total current assets	<u>3,156,397</u>	<u>3,350,346</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	67,292	71,410
Deposits with trustees	413,432	646,425
Accounts, notes, and loans receivable, net	112,297	111,030
Appropriations receivable	444,499	457,881
Long-term investments	717,408	691,874
Other noncurrent assets	56,239	42,161
Capital assets, net	10,041,478	8,984,590
Total noncurrent assets	<u>11,852,645</u>	<u>11,005,371</u>
Total assets	<u>15,009,042</u>	<u>14,355,717</u>
Deferred outflows of resources	23,552	9,959
Total assets and deferred outflows of resources	<u>\$ 15,032,594</u>	<u>14,365,676</u>
<u>Liabilities and Net Position</u>		
Current Liabilities:		
Accounts payable and accrued liabilities	963,159	1,156,940
Interest payable	93,698	75,419
Unearned revenue	251,093	296,120
Long-term liabilities - current portion	676,444	687,924
Other liabilities	90,485	113,656
Total current liabilities	<u>2,074,879</u>	<u>2,330,059</u>
Noncurrent Liabilities:		
Long-term liabilities	13,531,482	12,262,503
Refundable government loan funds	141,380	141,450
Other noncurrent liabilities	88,036	30,305
Total noncurrent liabilities	<u>13,760,898</u>	<u>12,434,258</u>
Total liabilities	<u>15,835,777</u>	<u>14,764,317</u>
Net Position:		
Net investment in capital assets	1,010,832	984,370
Restricted - nonexpendable:		
Instruction and departmental research	126,261	108,083
Scholarships and fellowships	91,033	87,519
General operations and other	114,612	113,006
Restricted - expendable:		
Instruction and departmental research	193,485	161,157
Scholarships and fellowships	60,684	53,725
General operations and other	251,853	234,934
Unrestricted	<u>(2,651,943)</u>	<u>(2,141,435)</u>
Total net position	<u>(803,183)</u>	<u>(398,641)</u>
Total liabilities and net position	<u>\$ 15,032,594</u>	<u>14,365,676</u>

See accompanying notes to financial statements.

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2013 and 2012

In thousands

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Tuition and fees	\$ 1,846,529	1,711,328
Less scholarship allowances	(530,423)	(483,344)
Net tuition and fees	1,316,106	1,227,984
Federal grants and contracts	672,661	699,818
State and local grants and contracts	210,310	181,353
Private grants and contracts	460,117	333,086
Hospitals and clinics	2,538,544	2,459,497
Sales and services of auxiliary enterprises:		
Residence halls, net	408,172	396,203
Food service and other, net	206,195	192,226
Other sources	201,122	182,294
Total operating revenues	<u>6,013,227</u>	<u>5,672,461</u>
Operating expenses:		
Instruction	2,201,559	2,107,314
Research	817,282	725,173
Public service	303,248	312,809
Academic support	495,752	465,644
Student services	293,181	266,642
Institutional support	955,278	880,541
Operation and maintenance of plant	652,165	617,174
Scholarships and fellowships	210,004	198,446
Hospitals and clinics	2,673,713	2,652,311
Auxiliary enterprises:		
Residence halls	351,724	337,471
Food service and other	234,238	222,007
Depreciation and amortization expense	469,760	472,121
Other operating expenses	29,736	31,209
Total operating expenses	<u>9,687,640</u>	<u>9,288,862</u>
Operating loss	<u>(3,674,413)</u>	<u>(3,616,401)</u>
Nonoperating revenues (expenses):		
State appropriations	2,833,440	2,930,043
Federal and state nonoperating grants	517,604	515,450
Investment income, net	19,680	17,446
Net realized and unrealized gains (losses)	64,407	(13,893)
Gifts	86,130	69,800
Interest expense on capital related debt	(362,232)	(361,732)
Loss on disposal of plant assets	(10,517)	(1,437)
Gain on acquisition	-	9,762
Other nonoperating expenses, net	(14,124)	(19,746)
Net nonoperating revenues	<u>3,134,388</u>	<u>3,145,693</u>
Loss before other revenues and gains	<u>(540,025)</u>	<u>(470,708)</u>
Capital appropriations	25,269	100
Capital gifts and grants	89,175	64,525
Additions to permanent endowments	21,039	16,597
Decrease in net position	<u>(404,542)</u>	<u>(389,486)</u>
Net position at the beginning of year, as restated	<u>(398,641)</u>	<u>(9,155)</u>
Net position at the end of year	<u>\$ (803,183)</u>	<u>(398,641)</u>

See accompanying notes to financial statements.

Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012

In thousands

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Tuition and fees	\$ 1,325,401	1,235,015
Grants and contracts:		
Federal	684,353	670,199
State and local	163,540	171,727
Private	481,205	337,621
Hospital and clinics	2,519,732	2,313,896
Personal service payments	(3,922,050)	(3,871,685)
Other than personal service payments	(2,746,618)	(2,318,340)
Payments for fringe benefits	(499,573)	(490,816)
Payments for scholarships and fellowships	(197,285)	(134,853)
Loans issued to students	(24,935)	(23,424)
Collection of loans to students	21,983	22,890
Auxiliary enterprise charges:		
Residence halls	405,540	396,178
Food service and other	208,693	192,443
Other receipts	73,087	101,314
Net cash used by operating activities	<u>(1,506,927)</u>	<u>(1,397,835)</u>
Cash flows from noncapital financing activities:		
State appropriations:		
Operations	1,178,914	1,032,232
Debt service	522,664	709,172
Federal and State nonoperating grants	517,604	515,452
Private gifts and grants	78,120	64,639
Proceeds from short-term loans	39,341	107,712
Repayment of short-term loans	(50,738)	(117,053)
Direct loan receipts	1,130,660	1,146,149
Direct loan disbursements	(1,130,660)	(1,146,149)
Other (payments) receipts	(120,435)	16,079
Net cash provided by noncapital financing activities	<u>2,165,470</u>	<u>2,328,233</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	1,584,740	2,187,170
Capital appropriations	25,269	110
Capital grants and gifts received	61,617	40,517
Proceeds from sale of capital assets	5,789	(182)
Purchases of capital assets	(196,670)	(255,322)
Payments to contractors	(1,265,691)	(1,039,230)
Principal paid on capital debt and leases	(735,731)	(1,408,906)
Interest paid on capital debt and leases	(410,910)	(450,074)
Deposits with trustees	251,950	(127,898)
Net cash used by capital and related financing activities	<u>(679,637)</u>	<u>(1,053,815)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	1,237,354	1,376,782
Interest, dividends, and realized gains on investments	33,190	25,815
Purchases of investments	(1,198,783)	(1,361,461)
Net cash provided by investing activities	<u>71,761</u>	<u>41,136</u>
Net change in cash	<u>50,667</u>	<u>(82,281)</u>
Cash - beginning of year, as restated	<u>1,363,737</u>	<u>1,446,018</u>
Cash - end of year	<u>\$ 1,414,404</u>	<u>1,363,737</u>
End of year cash comprised of:		
Cash and cash equivalents	<u>\$ 1,347,112</u>	<u>1,292,327</u>
Restricted cash and cash equivalents	<u>\$ 67,292</u>	<u>71,410</u>

Statements of Cash Flows (continued)

For the Years Ended June 30, 2013 and 2012

In thousands

	<u>2013</u>	<u>2012</u>
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	\$ (3,674,413)	(3,616,401)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	469,760	472,121
Fringe benefits, litigation, and other noncash expenses	1,274,307	1,157,615
Change in assets and liabilities:		
Receivables, net	84,019	(118,301)
Other assets	15,051	(13,873)
Accounts payable and accrued liabilities	(79,781)	193,608
Unearned revenue	(6,051)	(22,487)
Other liabilities	410,181	549,883
Net cash used by operating activities	\$ <u>(1,506,927)</u>	<u>(1,397,835)</u>
Supplemental disclosures for noncash transactions:		
New capital leases / debt agreements	\$ <u>1,584,740</u>	<u>2,187,170</u>
Fringe benefits provided by the State	\$ <u>1,250,741</u>	<u>1,145,475</u>
Litigation costs provided by the State	\$ <u>23,566</u>	<u>12,140</u>
Noncash gifts	\$ <u>25,217</u>	<u>4,867</u>
Unrealized gains (losses) on investments	\$ <u>41,095</u>	<u>(44,501)</u>

See accompanying notes to financial statements.

State University of New York Component Units Balance Sheet

June 30, 2013 (with comparative financial information as of June 30, 2012)
In thousands

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 252,343	231,345
Accounts and notes receivable, net	35,930	49,696
Pledges receivable, net	196,361	207,574
Investments	1,677,573	1,549,483
Assets held for others	32,291	38,954
Other assets	77,738	80,110
Capital assets, net	628,604	605,831
Total assets	\$ 2,900,840	2,762,993
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued liabilities	69,100	73,475
Current portion of long-term debt	17,078	50,635
Deferred revenue	12,286	10,346
Deposits held in custody for others	105,066	116,819
Other liabilities	82,977	98,748
Long-term debt	461,345	465,769
Total liabilities	747,852	815,792
Net Assets:		
Unrestricted:		
Board designated for:		
Fixed assets	193,684	177,819
Campus programs	84,691	78,590
Investments	181,533	175,212
Other	46,562	45,756
Undesignated	110,943	92,603
Temporarily restricted:		
Scholarships and fellowships	155,630	122,574
Campus programs	379,829	337,870
Research	136,724	125,334
General operations and other	214,010	201,991
Permanently restricted:		
Scholarships and fellowships	292,945	273,688
Campus programs	275,058	234,322
Research	26,117	22,056
General operations and other	55,262	59,386
Total net assets	2,152,988	1,947,201
Total liabilities and net assets	\$ 2,900,840	2,762,993

See accompanying notes to financial statements.

State University of New York Component Units

Statement of Activities

For the Year Ended June 30, 2013 (with summarized financial information for the year ended June 30, 2012)
In thousands

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
Revenues:					
Contributions, gifts, and grants	\$ 28,128	102,464	56,859	187,451	308,720
Investment income, net	13,062	23,392	301	36,755	23,770
Net realized and unrealized gains (losses)	43,648	89,401	239	133,288	(9,947)
Food service	255,794	-	-	255,794	245,908
Other auxiliary services	78,343	-	-	78,343	79,896
Rental income	75,378	311	-	75,689	68,554
Sales and services	182,408	1,941	-	184,349	41,543
Program income and special events	49,913	1,376	409	51,698	49,953
Other sources	7,599	4,517	4,140	16,256	7,374
Gain from acquisition	-	-	-	-	32,706
Transfers of permanently restricted net assets	(2)	(176)	178	-	-
Endowment earnings transferred	-	56	(56)	-	-
Net assets released from restrictions	126,449	(126,449)	-	-	-
Total revenues	<u>860,720</u>	<u>96,833</u>	<u>62,070</u>	<u>1,019,623</u>	<u>848,477</u>
Expenses:					
Food service	209,375	-	-	209,375	201,343
Other auxiliary services	63,466	-	-	63,466	64,336
Program expenses	114,090	-	-	114,090	126,482
Health care services	170,008	-	-	170,008	28,353
Payments to the State University:					
Scholarships and fellowships	42,223	-	-	42,223	32,963
Other	38,914	-	-	38,914	31,228
Real estate expenses	22,739	-	-	22,739	22,881
Depreciation and amortization expense	34,001	-	-	34,001	29,081
Interest expense on capital-related debt	21,141	-	-	21,141	19,958
Management and general	52,475	-	-	52,475	57,121
Fundraising	21,281	-	-	21,281	19,705
Other expenses	24,123	-	-	24,123	11,468
Total expenses	<u>813,836</u>	<u>-</u>	<u>-</u>	<u>813,836</u>	<u>644,919</u>
Change in net assets	46,884	96,833	62,070	205,787	203,558
Net asset reclassification	<u>549</u>	<u>1,592</u>	<u>(2,141)</u>	<u>-</u>	<u>-</u>
Total change in net assets	47,433	98,425	59,929	205,787	203,558
Net assets at the beginning of year, as restated	<u>569,980</u>	<u>787,768</u>	<u>589,453</u>	<u>1,947,201</u>	<u>1,743,643</u>
Net assets at the end of year	<u>\$ 617,413</u>	<u>886,193</u>	<u>649,382</u>	<u>2,152,988</u>	<u>1,947,201</u>

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2013 and 2012

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, 2013 and 2012.

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 end of March 31, 2013 and 2012.

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 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 are also included in the financial statements of the State's discretely

Notes to Financial Statements

June 30, 2013 and 2012

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

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.

During 2013, the State University adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units that were blended and included in the consolidated State University reporting entity in certain circumstances. The amendments to the criteria for blending improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic. This pronouncement required a restatement to the State University's financial statements as of July 1, 2011 as certain component units previously included in the State University reporting entity meet the criteria for discrete presentation.

The State University also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This pronouncement required a restatement to the State University's financial statements as of July 1, 2011, as deferred financing costs that were previously classified as assets will now be expensed. As required, under this standard, any gains or losses resulting from a refunding of debt will be reported as a deferred inflow of resources or deferred outflow of resources, respectively.

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.

Notes to Financial Statements

June 30, 2013 and 2012

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

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 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 2013 and 2012 were reported net of the following scholarship discount and allowance amounts (in thousands):

	2013	2012
Residence halls	\$ 83,219	75,842
Food service and other	22,593	27,538

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 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, 2013 and 2012, the State University had \$218 million and \$181 million available for authorization for expenditure, including \$108 million and \$91 million from restricted funds and \$110 million and \$90 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.

Notes to Financial Statements

June 30, 2013 and 2012

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

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 \$40.1 million and \$54.5 million in the 2013 and 2012 fiscal years, respectively. Intangible assets for internally generated computer software of \$1,000,000 or more and \$100,000 for all other intangible assets are capitalized. Library materials are capitalized and amortized over a ten-year period. Works of art 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 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 tax-exempt on related income, pursuant to Section 501(a) of the Code.

Reclassifications

Certain amounts displayed in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Notes to Financial Statements

June 30, 2013 and 2012

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

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.

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; (b) collateralized with securities held by a pledging financial institution; or (c) collateralized with securities held by a pledging financial institution's trust department or agency, but not in the State University or affiliate's name at June 30, 2013 and 2012, are as follows (in thousands):

	Category a	Category b	Category c
2013	\$ 2,090	15,788	-
2012	4,204	9,141	-

3. Deposits with Trustees

Deposits with trustees primarily represent Dormitory Authority of the State of New York (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 \$19 million and \$68 million at June 30, 2013 and 2012, respectively. The market value of investments held and maturity period are displayed in the following table (in thousands):

Fiscal Year 2013				
Type of Investments	Fair Value	Less than 1 year	1-5 years	More than 5 years
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	\$ 629,819	620,719	9,100	-
Fiscal Year 2012				
Type of Investments	Fair Value	Less than 1 year	1-5 years	More than 5 years
US Treasury notes/bonds	\$ 142,206	137,919	4,287	-
US Treasury bills	255,468	255,468	-	-
US Treasury strips	314,461	314,461	-	-
Investment agreement	10,110	-	-	10,110
Federal Home Loan Mortgage Corp.*	78,151	78,151	-	-
Federal National Mortgage Assoc.*	1,670	1,670	-	-
Federal Home Loan Bank*	41,044	41,044	-	-
Total	\$ 843,110	828,713	4,287	10,110

*Rating on investment was AAA

Notes to Financial Statements

June 30, 2013 and 2012

4. Investments

Investments of the State University are recorded at fair value. Investment income is reported net of investment fees of approximately \$1 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.

Investments of the endowment and similar funds of the Cornell statutory colleges, except for separately invested funds with a fair value of \$41 million and \$37 million at June 30, 2013 and 2012, respectively, are pooled on a fair value basis in Cornell's long-term investment pool and living trust fund. Individual funds enter or withdraw from the pool based on each fund's share of the fair value of the pool's investments.

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 State University's financial position may be impacted through its market risk positions and by changes in economic conditions.

The composition of investments at June 30, 2013 and 2012 is as follows (in thousands):

	2013	2012
Cash and money market funds	\$ 70,585	130,935
Non-equities	178,489	179,191
Domestic and international equities	177,732	143,210
Equity partnerships	295,996	270,844
Hedge funds	235,665	222,312
Other investments	28,576	28,899
Total investments	<u>\$ 987,043</u>	<u>975,391</u>
Short-term	<u>\$ 269,635</u>	<u>283,517</u>
	2013	2012
State University Campuses	6,881	5,909
Cornell Statutory Colleges	743,331	680,907
Alfred Ceramics	20,319	18,891
Research Foundation	185,347	238,585
State University Construction Fund	31,165	31,099
Total investments	<u>\$ 987,043</u>	<u>975,391</u>

Notes to Financial Statements

June 30, 2013 and 2012

4. Investments (continued)

At June 30, 2013 and 2012, 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, 2013 and 2012 are summarized in Table B.

Table A (in thousands)

Investment Type	Fiscal Year 2013					Fiscal Year 2012				
	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	\$ 14,154	14,154	-	-	-	10,894	10,894	-	-	-
US treasury notes/bonds	33,568	24,813	7,323	1,306	126	18,289	367	16,238	1,458	226
US treasury strips	-	-	-	-	-	2,677	2,677	-	-	-
Asset-backed securities	4,802	-	373	2,372	2,057	4,004	-	319	2,024	1,661
Municipals	4,181	92	304	99	3,686	3,290	4	326	231	2,729
Repurchase agreements	1,981	1,981	-	-	-	2,094	2,094	-	-	-
Corporate bonds	37,685	27,522	5,024	2,309	2,830	46,524	11,980	29,999	2,043	2,502
Commercial Paper	869	869	-	-	-	298	298	-	-	-
Mutual funds – non-equities	29,242	644	5,642	14,502	8,454	30,608	695	6,252	10,016	13,645
International – non-equities	25,559	9,728	8,243	3,933	3,655	22,406	2,194	13,336	3,727	3,149
US government TIPS	4,682	-	-	1,472	3,210	4,663	-	17	1,090	3,556
US government agencies	21,766	6,478	8,983	3,921	2,384	33,444	4,519	25,036	1,362	2,527
Total investments	\$ 178,489	86,281	35,892	29,914	26,402	179,191	35,722	91,523	21,951	29,995

Table B (in thousands)

Credit Rating	AAA	AA	A	BBB	BB	B	Other Rating	Not Rated
Investment Type - 2013								
Asset-backed securities	\$ 717	282	257	633	278	33	945	1,657
Municipals	164	1,449	300	-	324	1,046	665	233
Repurchase agreements	-	-	-	-	-	-	-	1,981
Corporate bonds	535	1,074	18,803	12,493	451	1,641	1,955	733
Commercial Paper	-	-	517	82	-	-	-	270
Mutual funds - non-equities*	3,836	1,228	1,925	49	3,089	-	-	19,115
International - non-equities	3,642	2,524	8,903	2,665	1,635	671	707	4,812
US government agencies	16,856	3,182	-	-	-	-	-	1,728
Total	\$ 25,750	9,739	30,705	15,922	5,777	3,391	4,272	30,529
Investment Type - 2012								
Asset-backed securities	\$ 651	68	107	637	11	250	784	1,496
Municipals	121	1,422	810	7	-	643	73	214
Repurchase agreements	-	-	-	-	-	-	-	2,094
Corporate bonds	233	8,947	18,230	14,030	649	2,206	1,081	1,148
Commercial Paper	-	-	148	-	-	-	-	150
Mutual funds - non-equities*	12,115	1,233	2,621	184	3,192	11	-	11,252
International - non-equities	2,698	1,785	9,711	2,119	1,847	800	-	3,446
US government agencies	-	31,127	-	-	-	177	-	2,140
Total	\$ 15,818	44,582	31,627	16,977	5,699	4,087	1,938	21,940

*based on average credit quality of holdings

Notes to Financial Statements

June 30, 2013 and 2012

4. Investments (continued)

The investment guidelines provide discretion for investment managers specializing in securities whose prices are denominated in foreign currencies to adjust foreign currency exposure of their investment portfolio as part of the State University's overall diversification strategy.

The State University's exposure to foreign currency risk for investments held at June 30, 2013 and 2012 was as follows (fair value in thousands):

Currency Denomination	2013	2012
Euro	\$ 6,413	5,889
British pound	5,507	7,089
South Korean won	4,991	4,070
Japanese yen	4,011	5,211
Hong Kong dollar	3,309	4,223
Taiwan dollar	2,960	2,011
Thailand baht	2,176	1,718
Turkish lira	2,123	909
Mexican Nuevo Peso	1,544	828
Swiss franc	1,471	898
Indonesian rupiah	1,366	725
Indian rupee	1,330	1,493
Brazil real cruzeiro	1,315	1,621
Australian dollar	1,139	407
Malaysian ringgit	655	681
So. African rand	628	495
Swedish krona	407	491
Norwegian krone	357	277
Canadian dollar	238	244
Polish zloty	229	407
Singapore dollar	105	693
Other	493	607
Total	\$ <u>42,767</u>	<u>40,987</u>

5. Accounts, Notes, and Loans Receivable

At June 30, accounts, notes, and loans receivable were summarized as follows (in thousands) for years 2013 and 2012, respectively:

	2013	2012
Tuition and fees	\$ 82,587	69,585
Allowance for uncollectible	(9,218)	(10,020)
Net tuition and fees	<u>73,369</u>	<u>59,565</u>
Room rent	10,483	9,511
Allowance for uncollectible	(2,356)	(2,230)
Net room rent	<u>8,127</u>	<u>7,281</u>
Patient fees, net of contractual allowances	853,112	824,294
Allowance for uncollectible	(382,943)	(289,623)
Net patient fees	<u>470,169</u>	<u>534,671</u>
Other, net	<u>220,559</u>	<u>228,145</u>
Total accounts and notes receivable	<u>772,224</u>	<u>829,662</u>
Student loans	156,497	154,720
Allowance for uncollectible	(23,641)	(23,746)
Total student loans receivable	<u>132,856</u>	<u>130,974</u>
Total, net	\$ <u>905,080</u>	<u>960,636</u>

6. Capital Assets

Capital assets, net of accumulated depreciation, totaled \$10.04 billion and \$8.98 billion at fiscal year end 2013 and 2012, respectively. Capital asset activity for fiscal years 2013 and 2012 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.

Table C (in thousands)

	June 30, 2011	Additions	Closed Projects & Retirements	June 30, 2012	Additions	Closed Projects & Retirements	June 30, 2013
Land	\$ 380,710	122,426	-	503,136	44,944	85	547,995
Infrastructure and land improvements	772,034	62,383	9,409	825,008	56,518	9,267	872,259
Buildings	7,855,203	480,210	32,012	8,303,401	909,615	57,455	9,155,561
Equipment, library books and other	2,585,622	239,948	75,284	2,750,286	228,805	80,226	2,898,865
Construction in progress	<u>1,794,686</u>	<u>1,280,364</u>	<u>610,516</u>	<u>2,464,534</u>	<u>1,358,845</u>	<u>1,035,451</u>	<u>2,787,928</u>
Total capital assets	<u>13,388,255</u>	<u>2,185,331</u>	<u>727,221</u>	<u>14,846,365</u>	<u>2,598,727</u>	<u>1,182,484</u>	<u>16,262,608</u>
Less accumulated depreciation:							
Infrastructure and land improvements	383,356	30,438	8,165	405,629	33,342	8,273	430,698
Buildings	3,202,270	222,182	26,404	3,398,048	243,794	46,878	3,594,964
Equipment, library books and other	<u>1,911,894</u>	<u>211,228</u>	<u>65,024</u>	<u>2,058,098</u>	<u>191,704</u>	<u>54,334</u>	<u>2,195,468</u>
Total accumulated depreciation	<u>5,497,520</u>	<u>463,848</u>	<u>99,593</u>	<u>5,861,775</u>	<u>468,840</u>	<u>109,485</u>	<u>6,221,130</u>
Capital assets, net	\$ <u>7,890,735</u>	<u>1,721,483</u>	<u>627,628</u>	<u>8,984,590</u>	<u>2,129,887</u>	<u>1,072,999</u>	<u>10,041,478</u>

Notes to Financial Statements

June 30, 2013 and 2012

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), various state sponsored equipment leasing programs, and private financing arrangements.

Total obligations as of June 30, 2013 and 2012, other than facilities obligations, which are included as of March 31, 2013 and 2012, 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.

During the year, Personal Income Tax Revenue Bonds were issued in the amount of \$825.9 million for the purpose of financing capital construction

and major rehabilitation for educational facilities. Also, during the year PIT bonds were issued totaling \$249.6 million in order to refund \$303.9 million of the State University's existing educational facilities obligations. The result will produce an estimated savings of \$53.9 million in future cash flow, with an estimated present value gain of \$49.6 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 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
Residence hall facilities	1,364,250	234,720	52,655	1,546,315	49,515
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	<u>8,357,852</u>	<u>1,355,855</u>	<u>731,654</u>	<u>8,982,053</u>	<u>435,953</u>
Other long-term liabilities:					
Postemployment and post-retirement obligations and compensated absences	3,521,948	874,191	407,767	3,988,372	157,081
Loan from State	44,191	89	8,318	35,962	17,244
Litigation	502,480	-	22,497	479,983	37,187
Other long-term liabilities	523,956	226,255	28,655	721,556	28,979
Total other long-term liabilities	<u>4,592,575</u>	<u>1,100,535</u>	<u>467,237</u>	<u>5,225,873</u>	<u>240,491</u>
Total long-term liabilities	<u>\$ 12,950,427</u>	<u>2,456,390</u>	<u>1,198,891</u>	<u>14,207,926</u>	<u>676,444</u>

Notes to Financial Statements

June 30, 2013 and 2012

7. Long-term Liabilities (continued)

Table D, continued (in thousands)

<i>For the 2012 Fiscal Year</i>	July 1, 2011	Additions	Reductions	June 30, 2012	Current Portion
Long-term debt:					
Educational facilities	\$ 6,261,160	1,635,888	1,284,536	6,612,512	316,199
Residence hall facilities	1,139,920	260,000	35,670	1,364,250	42,240
Capital lease arrangements	195,847	61,590	62,541	194,896	51,380
Other long-term debt	162,970	47,566	24,342	186,194	35,655
Total long-term debt	7,759,897	2,005,044	1,407,089	8,357,852	445,474
Other long-term liabilities:					
Postemployment and post-retirement obligations and compensated absences	2,987,355	936,852	402,259	3,521,948	158,362
Loan from State	52,457	52	8,318	44,191	17,244
Litigation	462,575	51,122	11,217	502,480	44,600
Other long-term liabilities	313,636	233,261	22,941	523,956	22,244
Total other long-term liabilities	3,816,023	1,221,287	444,735	4,592,575	242,450
Total long-term liabilities	\$ 11,575,920	3,226,331	1,851,824	12,950,427	687,924

During the year, the State University entered into agreements with DASNY to issue residence hall facility obligations totaling \$234.7 million for the purpose of financing capital construction and major rehabilitation for residence hall facilities.

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, 2013, \$92.9 million of outstanding educational facilities obligations were considered defeased.

Capital Lease Arrangements

The State University leases equipment under DASNY TELP, New York State Personal Income Tax Revenue Bonds, certificates of participation (COPs), vendor financing, or through statewide lease purchase agreements. The State University is

Requirements of the long-term debt obligations as of June 30, 2013 are as follows (in thousands):

Fiscal year(s)	Educational Facilities		Residential Facilities		Other		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 328,094	367,291	49,515	74,359	58,344	4,510	435,953	446,160
2015	299,554	344,672	54,000	72,155	47,971	3,132	401,525	419,959
2016	242,066	332,070	56,495	69,635	36,355	2,169	334,916	403,874
2017	210,874	320,230	57,995	67,088	22,700	1,652	291,569	388,970
2018	333,094	306,977	58,620	64,370	13,533	1,334	405,247	372,681
2019-23	1,400,542	1,352,412	310,285	277,006	35,228	3,294	1,746,055	1,632,712
2024-28	1,549,347	967,868	308,810	199,603	7,124	863	1,865,281	1,168,334
2029-33	1,258,892	598,779	284,895	125,434	5,465	1,663	1,549,252	725,876
2034-38	1,125,370	288,292	226,315	62,285	-	-	1,351,685	350,577
2039-43	461,185	48,831	139,385	14,459	-	-	600,570	63,290
Total	\$ 7,209,018	4,927,422	1,546,315	1,026,394	226,720	18,617	8,982,053	5,972,433
	Interest rates range from 0.5% to 7.5%		Interest rates range from 2.0% to 5.25%		Interest rates range from 0.3% to 5.8%			

Notes to Financial Statements

June 30, 2013 and 2012

7. Long-term Liabilities (continued)

responsible for lease debt service payments sufficient to cover the interest and principal amounts due under these arrangements.

Loan From State

In prior years, the State University experienced operating cash-flow deficits precipitated by cash-flow difficulties experienced by its hospitals. In connection with these cash-flow deficits, as authorized by State Finance Law, the State University borrowed funds with interest from the short-term investment pool of the State. The amount outstanding under this borrowing from the State at June 30, 2013 and 2012 was \$36 million and \$44 million, respectively. A total of \$8.3 million was paid on these loans for both fiscal years.

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 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 and \$3.14 billion for the June 30, 2013 and 2012 fiscal years, respectively. The payroll for 2013 and 2012 for State University employees covered by TIAA-CREF was \$1.83 billion and \$1.81 billion, ERS was \$1.23 billion and \$1.19 billion, and TRS was \$135 million and \$133

Notes to Financial Statements

June 30, 2013 and 2012

8. Retirement Plans (continued)

million, respectively. Employer and employee contributions under each of the plans were as follows for years 2013, 2012, and 2011, respectively (in millions):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Employer contributions:			
TIAA-CREF	\$ 206.4	202.3	207.8
ERS	116.1	93.4	66.8
TRS	12.0	10.7	8.4
Employee contributions:			
TIAA-CREF	\$ 19.0	21.2	21.4
ERS	18.1	17.4	16.2
TRS	1.4	1.3	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 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 \$1.2 million for both years. Employees do not contribute to the Plan. The actuarial accrued liabilities at December 31, 2013 and 2012 were \$84.8 million and \$81.7 million and Plan assets were \$70.2 million and \$71.0 million, respectively. At June 30, 2013 the State University has a net pension obligation for the plan of \$10.3 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, 2013 and 2012 was \$355 million and \$372 million, respectively. The Research Foundation pension contributions for fiscal years 2013 and 2012 were \$30 million and \$32 million, respectively. 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 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

Notes to Financial Statements

June 30, 2013 and 2012

8. Retirement Plans (continued)

health insurance premiums of \$243.4 million. The State University's OPEB obligation and funded status of the plan for the years ended June 30, 2013, 2012, and 2011 were as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual OPEB cost	\$ 715,910	783,713	814,059
Benefits paid	(243,446)	(236,745)	(220,690)
Increase in OPEB Obligation	472,464	546,968	593,369
Net obligation at beginning of year	<u>3,078,955</u>	<u>2,531,987</u>	<u>1,938,618</u>
Net obligation at end of year	<u>\$ 3,551,419</u>	<u>3,078,955</u>	<u>2,531,987</u>
Funded Status:			
Actuarial accrued liability (AAL)	13,932,707	12,200,313	12,200,313
Actuarial value of OPEB plan assets	-	-	-
Unfunded AAL (UAAL)	<u>\$ 13,932,707</u>	<u>12,200,313</u>	<u>12,200,313</u>
Actuarial valuation date	4/1/12	4/1/10	4/1/10
Funded ratio	-	-	-
Covered payroll	3,200,930	3,140,693	3,036,860
UAAL as a % of covered payroll	435%	388%	402%

The components of the State University's OPEB obligation include the total annual required contribution (ARC) of \$727.6 million (comprised of service costs of \$293.3 million, amortization of unfunded actuarial liability of \$412.3 million, and interest costs of \$22 million), ARC reduction of \$107.5 million, and interest costs of \$95.8 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 2012 calendar year.

Notes to Financial Statements

June 30, 2013 and 2012

8. Retirement Plans (continued)

The Research Foundation's OPEB obligation and funded status of the plan for the years ended June 30, 2013, 2012, and 2011, respectively, were as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual OPEB cost	\$ 15,805	(14,726)	18,727
Benefits paid	(9,493)	(9,638)	(7,276)
Contribution to plan	<u>(7,956)</u>	<u>(6,816)</u>	<u>(8,829)</u>
Change in OPEB Obligation	(1,644)	(31,180)	2,622
Net obligation at beginning of year	<u>182,480</u>	<u>213,660</u>	<u>211,038</u>
Net obligation at end of year	<u>\$ 180,836</u>	<u>182,480</u>	<u>213,660</u>
Funded Status:			
Actuarial accrued liability (AAL)	302,530	298,166	278,695
Actuarial value of OPEB plan assets	<u>124,829</u>	<u>106,602</u>	<u>101,424</u>
Unfunded AAL (UAAL)	<u>\$ 177,701</u>	<u>191,564</u>	<u>177,271</u>
Actuarial valuation date	6/30/13	6/30/12	6/30/11
Funded ratio	41%	36%	36%
Covered payroll	234,009	245,039	241,069
UAAL as a % of covered payroll	76%	78%	74%

The components of the Research Foundation OPEB obligation at June 30, 2013 include the total annual required contribution (ARC) of \$198.3 million (comprised of service costs of \$11.3 million and amortization of unfunded actuarial accrued liability of \$187 million), ARC reduction of \$195.3 million, and interest costs of \$12.8 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 7.5 percent to 9.0 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, 2013, these outstanding contract commitments totaled approximately \$1.3 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, 2013 and 2012 under such operating leases were \$77.4 million and \$59.4 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:

2014	\$ 87,848
2015	83,013
2016	76,071
2017	68,462
2018	62,084
2019-23	193,213
2024-28	45,920
2029-98	<u>51,884</u>
Total	<u>\$ 668,495</u>

Notes to Financial Statements

June 30, 2013 and 2012

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 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 \$480 million and \$502 million at June 30, 2013 and 2012, 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.

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 \$2.83 billion and \$2.93 billion and represented approximately 29 percent and 31 percent of total revenues for the 2013 and 2012 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, 2013 and 2012

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

	2013	2012
<u>Assets</u>		
Current assets	\$ 376,552	447,954
Capital assets	147,521	76,227
Receivable from SUNY	9,518	10,000
Other assets	59,899	42,722
Total assets	<u>593,490</u>	<u>576,903</u>
<u>Liabilities</u>		
Total current liabilities	300,892	350,863
Total noncurrent liabilities	261,680	216,274
Total liabilities	<u>562,572</u>	<u>567,137</u>
<u>Net position</u>		
Invested in capital assets, net	120,419	42,097
Unrestricted	(89,501)	(32,331)
Total net position	<u>30,918</u>	<u>9,766</u>
Total liabilities and net position	\$ <u>593,490</u>	<u>576,903</u>

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

	2013	2012
<u>Operating revenues</u>		
Federal grants and contracts	\$ 532,581	548,261
State grants and contracts	180,436	145,904
Private grants and contracts	289,646	179,393
Other operating revenues	65,350	59,423
Total operating revenues	<u>1,068,013</u>	<u>932,981</u>
<u>Operating expenses</u>		
Instruction	72,024	67,226
Research	601,933	501,685
Public service	126,780	144,202
Institutional support	187,191	136,792
Other operating expenses	50,992	54,688
Depreciation and amortization expense	27,741	15,562
Total operating expenses	<u>1,066,661</u>	<u>920,155</u>
Operating Income	<u>1,352</u>	<u>12,826</u>
Net nonoperating revenues	19,800	34,076
Increase in net position	<u>21,152</u>	<u>46,902</u>
Net position at the beginning of the year	<u>9,766</u>	<u>(37,136)</u>
Net position at the end of the year	\$ <u>30,918</u>	<u>9,766</u>

Condensed Statement of Cash Flows

	2013	2012
Cash flows from operating activities	\$ (13,698)	(33,006)
Cash flows from noncapital financing activities	(3,079)	(1,024)
Cash flows from capital and related financing activities	(47,697)	2,110
Cash flows from investing activities	<u>64,450</u>	<u>31,759</u>
Net change in cash	(24)	(161)
Cash - beginning of year	916	1,077
Cash - end of year	<u>\$ 892</u>	<u>916</u>

14. Restatement of beginning of the year net position

The provisions of GASB Statements No. 61 and No. 65 have been applied to the beginning of the 2012 fiscal year net position. The following is a reconciliation of the total net position as previously reported at July 1, 2011 to the total restated net position (in thousands):

Total net position as previously reported at July 1, 2011	\$ 235,823
Change due to adoption of GASB 61	(152,906)
Change due to adoption of GASB 65	<u>(92,072)</u>
Total net position at July 1, 2011 (restated)	<u>\$ (9,155)</u>

As the result of adopting GASB Statement No. 61, auxiliary service corporations, which were previously blended in the consolidated financial reporting entity of the State University, are now reported in the totals of the discretely presented component units. In addition, with the adoption of GASB Statement No. 65, deferred financing costs that were previously classified as assets are now expensed. The resulting effect of adopting these pronouncements was a reduction in net position of \$245 million.

Notes to Financial Statements

June 30, 2013 and 2012

15. Subsequent Events

In July 2013, Personal Income Tax Revenue Bonds were issued totaling \$231 million for the purpose of financing capital construction and major rehabilitation for educational facilities.

In August 2013, the State University entered into agreements with DASNY to issue obligations totaling \$440 million for the purpose of financing capital construction and major rehabilitation for residence hall facilities and to refinance the State University's existing residence hall obligations. This financing was issued under a self-supporting program to finance SUNY Dormitory facilities under a new DASNY Dormitory Facilities Revenue Bond resolution in accordance with enacted legislation. Under this bond program, bonds are not considered state-supported debt and do not carry a State University general obligation pledge.

16. Component Units

Due to the adoption of GASB Statement No. 61, auxiliary services corporations, which were previously blended in the consolidated financial reporting entity of the State University, are now reported in the totals of the discretely presented component units. These corporations are campus-based, legally separate, nonprofit organizations which, as independent contractors, operate, manage, and promote educationally related services for the benefit of the campus community. Discretely presented component unit information also includes the campus-related foundations. These foundations are nonprofit organizations 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, 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. 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 \$1.68 billion and \$1.55 billion as of June 30, 2013 and 2012, respectively.

Notes to Financial Statements

June 30, 2013 and 2012

Investments (continued)

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

	<u>2013</u>	<u>2012</u>
Equities - domestic	\$ 548,842	477,284
Equities - international	254,680	229,147
Non-equities	395,118	418,260
Hedge funds	172,207	155,101
Multi-strategy funds	111,345	99,758
Equity partnerships	97,043	98,293
Real assets	72,078	56,855
Other investments	26,260	14,785
Total investments	<u>\$ 1,677,573</u>	<u>1,549,483</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 \$628.6 million and \$605.8 million at fiscal year-end 2013 and 2012, respectively. Capital asset classifications are summarized as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 40,402	40,939
Buildings	681,640	639,966
Equipment	108,488	101,599
Artwork and library books	25,678	23,502
Construction in progress	23,423	34,997
Total capital assets	<u>879,631</u>	<u>841,003</u>
Less accumulated depreciation	251,027	235,172
Capital assets, net	<u>\$ 628,604</u>	<u>605,831</u>

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:

2014	\$ 17,078
2015	14,772
2016	14,942
2017	15,222
2018	14,847
Thereafter	<u>401,562</u>
	<u>\$ 478,423</u>

Restatement of beginning of the year net assets

The adoption of GASB No. 61 required a restatement of the discretely presented component unit financial statements as of July 1, 2011, as certain component units previously included in the State University reporting entity meet the criteria for discrete presentation. The following is a reconciliation of the total net assets as previously reported at July 1, 2011 to the total restated net assets (in thousands):

Total net assets as previously reported at July 1, 2011	\$ 1,590,737
Change due to adoption of GASB 61	<u>152,906</u>
Total net assets at July 1, 2011 (restated)	<u>\$ 1,743,643</u>

Notes to Financial Statements

June 30, 2013 and 2012

16. Component Units (continued)

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

	2013			2012		
	Foundations	ASCs	Total	Foundations	ASCs	Total
Assets:						
Investments	\$ 1,618,680	58,893	1,677,573	1,494,452	55,031	1,549,483
Capital assets, net	531,294	97,310	628,604	528,042	77,789	605,831
Other assets	<u>451,121</u>	<u>143,542</u>	<u>594,663</u>	<u>459,996</u>	<u>147,683</u>	<u>607,679</u>
Total assets	<u>2,601,095</u>	<u>299,745</u>	<u>2,900,840</u>	<u>2,482,490</u>	<u>280,503</u>	<u>2,762,993</u>
Liabilities:						
Current liabilities	177,775	91,654	269,429	205,081	94,307	299,388
Long-term debt/notes	<u>444,843</u>	<u>33,580</u>	<u>478,423</u>	<u>489,516</u>	<u>26,888</u>	<u>516,404</u>
Total liabilities	<u>622,618</u>	<u>125,234</u>	<u>747,852</u>	<u>694,597</u>	<u>121,195</u>	<u>815,792</u>
Net Assets:						
Unrestricted	443,378	174,035	617,413	411,137	158,843	569,980
Temporarily restricted	885,960	233	886,193	787,547	222	787,769
Permanently restricted	<u>649,139</u>	<u>243</u>	<u>649,382</u>	<u>589,209</u>	<u>243</u>	<u>589,452</u>
Total net assets	<u>1,978,477</u>	<u>174,511</u>	<u>2,152,988</u>	<u>1,787,893</u>	<u>159,308</u>	<u>1,947,201</u>
Total Liabilities and Net Assets	\$ <u>2,601,095</u>	<u>299,745</u>	<u>2,900,840</u>	<u>2,482,490</u>	<u>280,503</u>	<u>2,762,993</u>

Combined Statement of Activities

Revenues:						
Contributions, gifts and grants	\$ 187,451	-	187,451	308,720	-	308,720
Food and auxiliary services	-	334,137	334,137	-	325,804	325,804
Sales and services	184,349	-	184,349	41,543	-	41,543
Other revenue	<u>306,076</u>	<u>7,610</u>	<u>313,686</u>	<u>169,807</u>	<u>2,603</u>	<u>172,410</u>
Total revenues	<u>677,876</u>	<u>341,747</u>	<u>1,019,623</u>	<u>520,070</u>	<u>328,407</u>	<u>848,477</u>
Expenses:						
Food and auxiliary services	-	272,841	272,841	-	265,679	265,679
Program expenses	104,070	10,020	114,090	115,792	10,690	126,482
Health care services	170,008	-	170,008	28,353	-	28,353
Other expenses	<u>213,214</u>	<u>43,683</u>	<u>256,897</u>	<u>178,769</u>	<u>45,636</u>	<u>224,405</u>
Total expenses	<u>487,292</u>	<u>326,544</u>	<u>813,836</u>	<u>322,914</u>	<u>322,005</u>	<u>644,919</u>
Total change in net assets	190,584	15,203	205,787	197,156	6,402	203,558
Net assets at the beginning of year	<u>1,787,893</u>	<u>159,308</u>	<u>1,947,201</u>	<u>1,590,737</u>	<u>152,906</u>	<u>1,743,643</u>
Net assets at the end of year	\$ <u>1,978,477</u>	<u>174,511</u>	<u>2,152,988</u>	<u>1,787,893</u>	<u>159,308</u>	<u>1,947,201</u>



ANNUAL FINANCIAL REPORT 2013

The State University of New York
State University Plaza
Albany, NY 12246
www.suny.edu