



ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2014

(With Independent Auditors' Report Thereon)

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements:	
Statement of Net Position as of June 30, 2014	14
Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2014	15
Statement of Cash Flows for the year ended June 30, 2014	16
Notes to Basic Financial Statements	17



KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditors' Report

The Board of Trustees
Rowan University:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Rowan University (the University), a component unit of the State of New Jersey, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Rowan University as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

Adoption of New Accounting Pronouncements

As discussed in notes 1 and 12 to the basic financial statements, in 2014, the University adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Governmental Accounting Standards Board Statement No. 69, *Governmental Combinations and Disposal of Government Operations*. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 3 through 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

October 31, 2014

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

Introduction

This section of Rowan University's (the University) financial statements presents our discussion and analysis of the University's financial performance for the fiscal year ended June 30, 2014 with comparative information for the year ended June 30, 2013. Since this discussion and analysis is designed to focus on current activities, it should be read in conjunction with the University's basic financial statements, which follows this section. Management has prepared the financial statements and the related note disclosures, along with the discussion and analysis.

University Overview

Rowan University is a medium-sized public research university located in Glassboro, New Jersey. It is recognized for its nationally ranked academic and athletic programs, talented professors and high-tech facilities. The University prides itself on being able to provide its more than 14,700 students an outstanding education at an exceptional value.

The University offers 57 undergraduate majors, including four undergraduate degree-completion programs, three dual bachelor's/master's degrees, more than 46 master's-level programs, 27 graduate-level certificate programs, three post-master's, three professional post-master's, four doctoral programs, including the M.D. and D.O. degrees from its two medical schools. Students can pursue their degrees at the main campus, its Camden campus, online or at several community colleges as well as the Cooper Medical School of Rowan University (CMSRU) and Rowan University School of Osteopathic Medicine (Rowan SOM).

On July 1, 2013 the "New Jersey Medical and Health Sciences Education Restructuring Act" became effective and the School of Osteopathic Medicine (SOM) in Stratford, NJ (formerly under The University of Medicine and Dentistry of New Jersey) was integrated with the University. As a result of this integration, Rowan receives an additional State appropriation to help support SOM operations and was designated as a public research institution. The amounts presented in the management's discussion and analysis, for the fiscal year ended June 30, 2013, were adjusted to reflect the unaudited activities of SOM for comparative purposes.

Rowan has been recognized by national organizations that evaluate colleges and universities. *U.S. News & World Report* ranked Rowan 19th among Best Regional Universities – North, third among the public institutions in the category. The Princeton Review named Rowan in its "Best in the Northeast" section of its website feature "2014 Best Colleges: Region by Region" and included the Rohrer College of Business in its edition of the "Best 296 Business Schools" out of more than 1,800 schools nationally.

The State of New Jersey (the State) recognizes the University as the state's second comprehensive research university and as a public institution of higher education. The New Jersey Legislature appropriates funds annually to support the University. However, the University operates autonomously from the State.

Financial Statements

The University's basic financial statements include three financial statements: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows, which have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). These statements focus on its assets,

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

liabilities, deferred outflows and deferred inflows of resources, revenues, expenses, and cash flows on an entity-wide basis.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of Rowan University. The Statement of Net Position presents end-of-the-year data concerning assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position.

Net position is one indicator of the current financial condition of the University while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position (assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources) and their availability for expenditure by the institution.

Net position is divided into three major categories. The first category, net investment in capital assets provides the institution's equity in property, plant, and equipment owned by the institution. The next category is restricted net position, expendable. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the institution for any lawful purpose of the institution.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

A summary of the University's assets, liabilities, and net position as of June 30, 2014 and 2013 follows (2013 balances were adjusted to include the adoption of GASB 65 and the unaudited activities of SOM for comparative purposes):

	<u>2014</u>	<u>2013</u>
	(In thousands)	
Current assets	\$ 223,092	201,799
Capital assets	672,026	634,779
Other noncurrent assets	<u>35,938</u>	<u>27,315</u>
Total assets	931,056	863,893
Deferred outflows	<u>18,596</u>	<u>7,958</u>
Total assets and deferred outflows of resources	<u>\$ 949,652</u>	<u>871,851</u>
Current liabilities	\$ 88,556	72,065
Noncurrent liabilities	<u>625,971</u>	<u>565,890</u>
Total liabilities	714,527	637,955
Deferred inflows of resources	<u>264</u>	<u>288</u>
Total liabilities and deferred inflows of resources	<u>\$ 714,791</u>	<u>638,243</u>
Net position:		
Net investment in capital assets	\$ 91,062	77,651
Restricted expendable	27,404	32,738
Unrestricted	<u>116,395</u>	<u>123,219</u>
Total net position	<u>\$ 234,861</u>	<u>233,608</u>

Current assets consist of cash and cash equivalents, deposits held by trustees under bond agreements for current principal and interest payments, receivables, current portion of investments and other current assets. Noncurrent assets consist of deposits held by trustees under agreements for capital activities, investments, loans receivable and net capital assets. Deferred outflows (inflows) of resources consist of loss (gain) on bond refinancing. Current liabilities consist of accounts payable and accrued expenses, unearned revenue and the current portion of bonds payable, other long-term debt and capital lease obligations. Noncurrent liabilities consists of student deposits, compensated absences, unearned revenue, other liabilities, deposits held in custody for others, bonds payable and other long-term debt.

Fiscal Year 2014 Compared to 2013

The University's total assets and deferred inflows of resources increased \$77.8 million from \$871.9 million at June 30, 2013 to \$949.7 million at June 30, 2014. Current assets increased \$21.3 million, capital assets increased \$37.3 million, other noncurrent assets increased \$8.6 million and deferred outflows of resources increased \$10.6 million. Within current assets, cash and cash equivalents increased \$18.1 million. \$10.7 million of this increase was a result of the sale of investments.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

Capital assets increased \$37.3 million and included construction and renovation projects, deferred maintenance projects, and two new capital leases. Within capital assets, the University invested over \$31 million in purchases of capital assets and acquired over \$38 million in capital assets through capital lease obligations. Depreciation expense was over \$33.5 million.

Other noncurrent assets increased \$8.6 million for the year ended June 30, 2014. Other noncurrent assets increased primarily due to the deposit of grant monies received under the New Jersey Higher Education Capital Facilities Grant Program, to trustee accounts. Deposits with trustees transferred to the University on July 1, 2013 were used to refinance debt. These two transactions resulted in an increase of approximately \$19.5 million in deposits held by trustees. This increase in noncurrent assets is being offset by the sale of \$10.7 million in investments during the fiscal year.

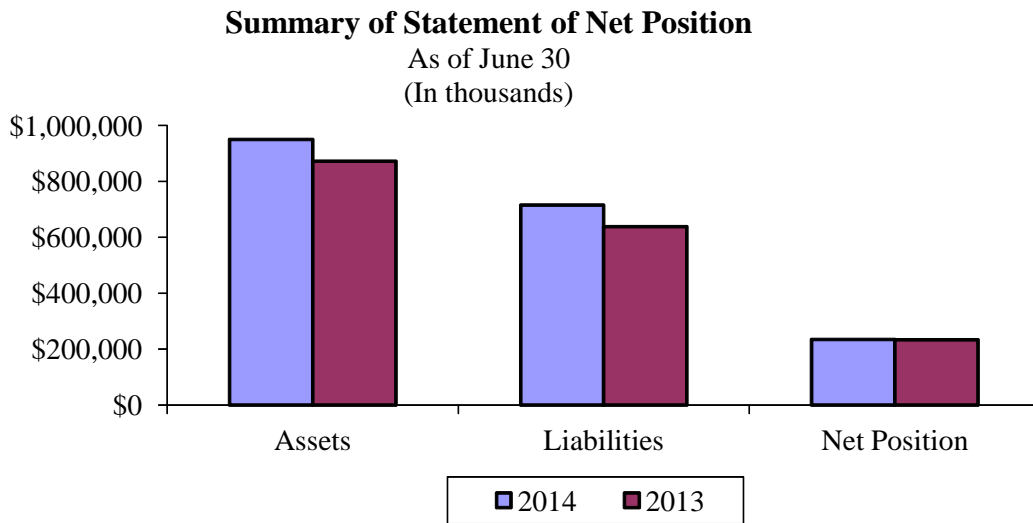
Deferred outflows of resources increased due to an \$11.7 million loss on the refinancing of the SOM debt. This loss is being amortized annually over the life of the bonds.

Current liabilities increased \$16.5 million. Approximately \$10.5 million of this increase can be attributed to an increase in unearned revenue. Unearned revenue consists primarily of grant funds received but not as yet expended as well as summer 2014 and fall 2014 tuition received, net of related waivers and receivables.

Noncurrent liabilities increased \$60 million. This increase is due primarily to the two new capital lease obligations of \$38.4 million as well as an increase in unearned revenue resulting from received but unspent monies from the Higher Education Capital Facilities Grant Program in the amount of \$20.8 million.

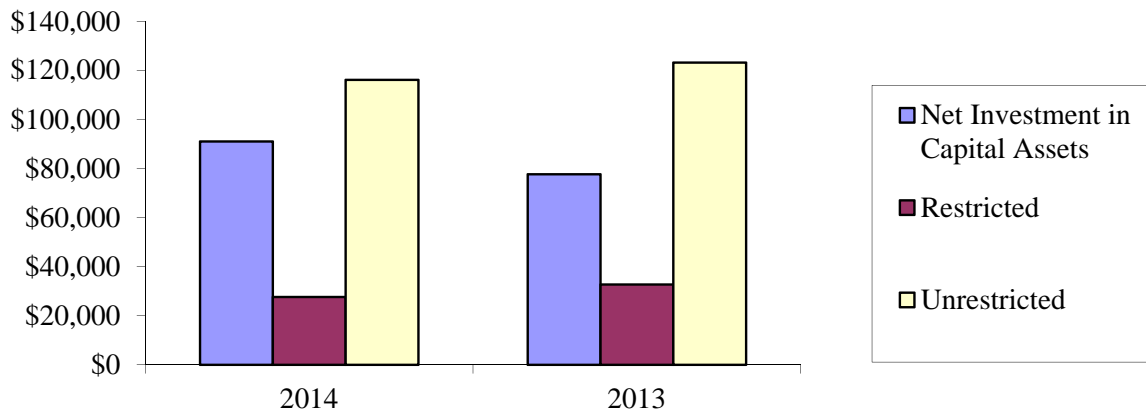
ROWAN UNIVERSITY
 (A Component Unit of the State of New Jersey)
 Management's Discussion and Analysis (Unaudited)
 June 30, 2014

Total net position increased by \$1.3 million at June 30, 2014 compared to June 30, 2013. Unrestricted net position decreased \$6.8 million. The decrease is primarily the result of the funding of capital projects from unrestricted funds.



ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

Comparative Net Position
As of June 30
(In thousands)



Statement of Revenues, Expenses, and Changes in Net Position

The year to year changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's results of operations. A summary of the University's revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013 follows (2013 balances were adjusted to include the adoption of GASB 65 and the unaudited activities of SOM for comparative purposes):

	2014	2013
	(In thousands)	
Operating revenues:		
Net student revenues	\$ 172,521	165,404
Grants	46,811	48,127
Professional services and contracts	60,176	52,693
Other	12,205	12,152
Total operating revenues	291,713	278,376
Operating expenses	427,614	400,691
Operating loss	(135,901)	(122,315)
Nonoperating revenues (expenses):		
State appropriations	158,062	124,789
Gifts	8,526	8,279
Investment income	631	665
Interest on capital asset related debt	(36,175)	(27,387)
Other nonoperating revenues (expenses), net	(1,856)	2,173
Net nonoperating revenues (expenses)	129,188	108,519
Loss before other revenues	(6,713)	(13,796)
Capital grants	7,966	6,315
Increase (decrease) in net position	1,253	(7,481)
Net position – beginning of year	233,608	241,089
Net position – end of year	\$ 234,861	233,608

Fiscal Year 2014 Compared to 2013

The University's net position increased \$1.3 million in fiscal year 2014. This net amount represents the total revenue available to the University of \$466.9 million compared to total expenses of \$465.6 million.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

Revenues

To fund its operations, the University receives revenues from a variety of sources including tuition and fees, auxiliary services, grants, professional services and contracts, State of New Jersey appropriations, gifts from the Rowan University Foundation and investment income. The University is continuing to seek additional funds from all possible sources to adequately fund operating activities. A summary of operating revenues for the years ended June 30, 2014 and 2013 follows:

	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percentage of total</u>	<u>Amount</u>	<u>Percentage of total</u>
	(Amounts in thousands)			
Operating revenues:				
Net student revenues	\$ 172,521	59.1%	\$ 165,404	59.4%
Grants	46,811	16.1	48,127	17.3
Professional services and contracts	60,176	20.6	52,693	18.9
Other	12,205	4.2	12,152	4.4
Total operating revenues	<u>\$ 291,713</u>	<u>100.0%</u>	<u>\$ 278,376</u>	<u>100.0%</u>

Operating Revenues

Fiscal Year 2014 Compared to 2013

Operating revenues for fiscal year ended June 30, 2014 increased \$13.3 million over fiscal year 2013. The majority of this increase is due to increases in net student revenues of \$7.1 million as well as a \$7.5 million increase in professional services and contracts. The increase in net student revenues is due to increases in enrollment and tuition and fee rates.

Nonoperating Revenues (Net)

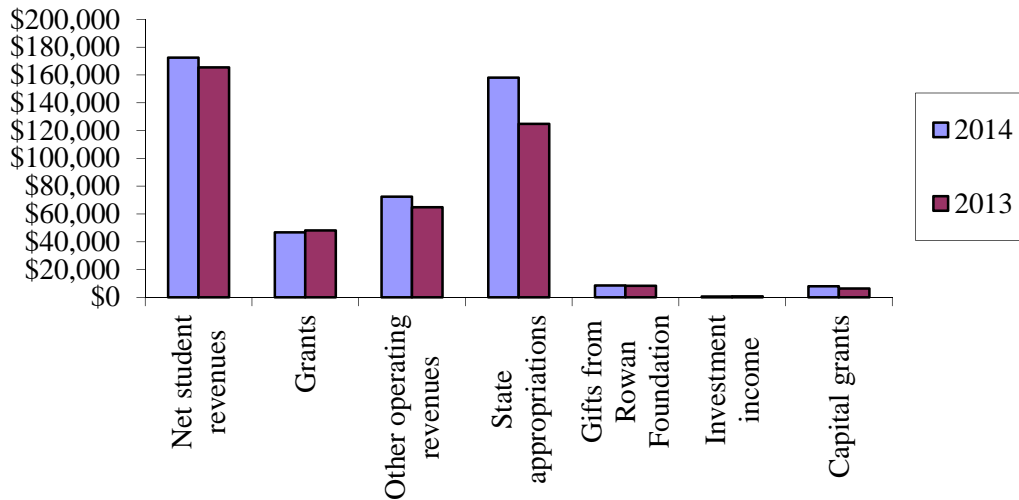
Fiscal Year 2014 Compared to 2013

Nonoperating revenues (net) for the years ended June 30, 2014 and 2013 totaled \$129.2 million and \$108.5 million, respectively, which is a \$20.7 million increase. The primary sources of nonoperating revenues were State of New Jersey appropriations, which increased \$33.3 million as the University recorded \$158.1 million for fiscal year 2014 and \$124.8 million for fiscal year 2013, as well as gifts from the Rowan University Foundation in the amount of \$8.5 million for fiscal year 2014 and \$8.3 million for fiscal year 2013 an increase of \$0.2 million. State of New Jersey appropriations include the University base appropriation as well as appropriations for the Cooper Medical School of Rowan University and the School of Osteopathic Medicine and the State paid fringe benefits. Interest payments on capital asset related debt increased \$8.8 million from \$27.4 million at June 30, 2013 to \$36.2 million at June 30, 2014. Other nonoperating revenues (expenses), net were \$(1.9) million and \$2.2 million, respectively for fiscal years 2014 and 2013. The majority of this change can be attributed to a one-time construction settlement of \$1.7 million recognized in fiscal year 2013 coupled with approximately \$1.2 million in bond issuance costs recognized in fiscal year 2014 related to the refinancing of debt.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

Capital grants increased in fiscal year 2014 by \$1.7 million primarily due to the University's capital grants awarded through the New Jersey Capital Facilities Grant Program.

Revenue by Source
For the Years Ended June 30
(In thousands)



Operating Expenses

Operating expenses are defined as expenses paid by an institution to acquire or produce goods and services used to carry out its mission, in return for operating revenues. For the years ended June 30, 2014 and 2013, the University incurred operating expenses totaling \$427.6 million and \$400.7 million, respectively. The increase of \$26.9 million in operating expenses for fiscal year 2014 versus 2013 is a result of additional expenses attributed to: providing instruction and services for the increased number of students, Medical school expenses as the enrollment of the Cooper Medical School of Rowan University increases, higher salaries due to contractual agreements with unions, a large increase in the State fringe benefit rate and the addition of the School of Osteopathic Medicine.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

A summary of operating expenses for the years ended June 30, 2014 and 2013 follows:

	2014		2013	
	<u>Amount</u>	<u>Percentage of total</u>	<u>Amount</u>	<u>Percentage of total</u>
	(Amounts in thousands)			
Instruction	\$ 137,586	32.2%	\$ 127,448	31.8%
Research	7,772	1.8	7,622	1.9
Public service	8,610	2.0	6,872	1.7
Academic support and student services	56,840	13.3	49,476	12.3
Institutional support	61,064	14.3	56,970	14.2
Operation and maintenance of plant	29,413	6.9	24,572	6.1
Student aid	1,840	0.4	1,691	0.4
Professional services and contracts	63,194	14.8	53,580	13.4
Auxiliary enterprises	27,210	6.4	22,311	5.6
Other activity related to SOM	—	—	19,639	4.9
Depreciation and amortization	34,085	7.9	30,510	7.7
Total operating expenses	<u>\$ 427,614</u>	<u>100.0%</u>	<u>\$ 400,691</u>	<u>100.0%</u>

Capital Assets and Debt Activities

The University continues to manage its financial resources so as to ensure adequate financial flexibility to access the capital markets as needed. The University maintains debt ratings from Standard and Poor's and Moody's Investors Service of A+ and A2, respectively.

As of June 30, 2014 and 2013, the University had \$91.1 million and \$77.7 million, respectively in net investment in capital assets. Outstanding long-term debt as of June 30, 2014 is \$614.2 million, compared to \$575.7 million as of June 30, 2013.

Significant transactions related to capital assets and bonded debt that occurred during fiscal year 2014 were as follows:

The issuance of the 2013A and 2013B bonds to refinance outstanding debt issued on behalf of UMDNJ and related to SOM that transferred to the University on July 1, 2013. The bonds were issued with a principal balance payable of \$56.6 million.

The parking garage and the retail, classroom and office building housing the College of Graduate and Continuing Education was completed. Upon completion of the building, the University started making payments on these capital leases. The asset and debt recorded in the University financial system for these obligations was \$38.4 million.

The University received institutional grant awards in the amount of \$117.7 million from the Higher Education Capital Financing Grant Program. Approximately \$31.3 million of this money was deposited to trustee accounts in the University's name. The University recorded debt in the amount of \$8.4 million for its portion of the debt service related to these awards.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Management's Discussion and Analysis (Unaudited)
June 30, 2014

Economic Outlook

State of New Jersey appropriations remain a vital source of funding for the University and the current budgetary issues with the State may have a negative impact on future funding. Although the University's unrestricted general operations appropriation from the State of New Jersey increased from fiscal year 2013 to fiscal year 2014 the University continues to experience uncertainty in its future level of state support. With increasing costs, particularly resulting from contractual obligations with faculty and staff and debt service, the University faces critical funding issues. Additionally, the University's desire to increase institutionally funded scholarships, continue building its academic program excellence and improve its capital assets will also impact on the University's financial outlook. The University will continue to meet the goals of its mission by monitoring operating costs and seeking additional revenue sources. The University will continue to monitor the situation and maintain a close watch over resources so as to provide the University with the ability to react to potential budgetary challenges that may occur.

Through the process of continuing strategic planning and self assessment, the University is committed in its efforts to continue to enrich the lives of those in the campus community and surrounding region.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Statement of Net Position
June 30, 2014

Assets and Deferred Outflows of Resources	Rowan University	Rowan University Foundation	South Jersey Technology Park at Rowan University, Inc.	Total
Current assets:				
Cash and cash equivalents (notes 2 and 13)	\$ 148,169,057	6,794,172	1,213,943	156,177,172
Restricted cash and cash equivalents (notes 2 and 13)	4,562,867	2,029,458	—	6,592,325
Receivables:				
Students, less allowance of \$1,503,000	2,294,704	—	—	2,294,704
Restricted contributions, net	—	1,285,081	—	1,285,081
Grants	20,927,590	—	—	20,927,590
State of New Jersey	3,844,421	—	—	3,844,421
Professional services and contracts receivable	10,439,617	—	—	10,439,617
Interest and other	3,235,319	—	71,746	3,307,065
Total receivables	40,741,651	1,285,081	71,746	42,098,478
Restricted deposits held by trustees (note 3)	28,179,275	—	—	28,179,275
Other current assets	1,438,901	—	—	1,438,901
Total current assets	223,091,751	10,108,711	1,285,689	234,486,151
Noncurrent assets:				
Restricted deposits held by trustees (note 3)	31,901,716	—	—	31,901,716
Investments, at fair value (notes 2 and 13)	770,702	48,580,075	—	49,350,777
Restricted investments, at fair value (note 13)	—	14,427,105	—	14,427,105
Restricted nonexpendable investments, at fair value (note 13)	—	113,143,074	—	113,143,074
Loans receivable	3,265,968	—	—	3,265,968
Restricted contributions receivable, net	—	5,056,576	—	5,056,576
Capital assets, net (note 4)	672,025,708	—	11,234,155	683,259,863
Total noncurrent assets	707,964,094	181,206,830	11,234,155	900,405,079
Total assets	931,055,845	191,315,541	12,519,844	1,134,891,230
Deferred outflows of resources:				
Loss on bond refinancing	18,596,531	—	—	18,596,531
Total assets and deferred outflows of resources	\$ 949,652,376	191,315,541	12,519,844	1,153,487,761
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Accounts payable and accrued expenses (note 7)	\$ 48,715,562	84,041	39,369	48,838,972
Unearned revenue	23,891,762	359,477	—	24,251,239
Annuities payable – current portion	—	18,569	—	18,569
Long-term debt – current portion (notes 8 and 9)	15,949,057	—	177,862	16,126,919
Total current liabilities	88,556,381	462,087	217,231	89,235,699
Noncurrent liabilities (note 9):				
Student deposits	553,601	—	—	553,601
Compensated absences – noncurrent portion (notes 9 and 11)	3,385,371	—	—	3,385,371
Unearned revenue	20,765,475	—	—	20,765,475
Other liabilities	1,774,241	—	—	1,774,241
Deposits held in custody for others	1,236,979	1,414,812	—	2,651,791
Annuities payable – noncurrent portion	—	130,472	—	130,472
Long-term debt – noncurrent portion (notes 8 and 9)	598,254,650	—	5,329,173	603,583,823
Total noncurrent liabilities	625,970,317	1,545,284	5,329,173	632,844,774
Total liabilities	714,526,698	2,007,371	5,546,404	722,080,473
Deferred inflows of resources:				
Gain on bond refinancing	264,069	—	—	264,069
Total liabilities and deferred inflows of resources	\$ 714,790,767	2,007,371	5,546,404	722,344,542
Net Position				
Net investment in capital assets	\$ 91,061,696	—	5,727,120	96,788,816
Restricted:				
Nonexpendable (note 13)	—	113,143,074	—	113,143,074
Expendable:				
Debt service and reserve	22,841,854	—	—	22,841,854
Inductotherm scholarships	—	176,858	—	176,858
Other scholarships	—	7,318,257	—	7,318,257
College of Business	—	4,153,205	—	4,153,205
Other	4,562,867	10,631,167	—	15,194,034
Unrestricted (note 11)	116,395,192	53,885,609	1,246,320	171,527,121
Total net position	\$ 234,861,609	189,308,170	6,973,440	431,143,219

See accompanying notes to financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2014

	<u>Rowan University</u>	<u>Rowan University Foundation</u>	<u>South Jersey Technology Park at Rowan University, Inc.</u>	<u>Total</u>
Operating revenues:				
Net student revenues:				
Tuition and fees	\$ 173,575,162	—	—	173,575,162
Auxiliary enterprises	42,072,662	—	—	42,072,662
Less scholarship allowances	(43,126,812)	—	—	(43,126,812)
Net student revenues	172,521,012	—	—	172,521,012
Grants	46,811,315	—	—	46,811,315
Self-funded programs	5,772,005	—	—	5,772,005
Fundraising events	—	123,009	—	123,009
Contributions	—	5,856,784	—	5,856,784
Net professional services and contracts (note 10)	60,176,423	—	—	60,176,423
Rental income (note 14)	—	—	980,432	980,432
Other operating revenues	6,432,430	—	4,713	6,437,143
Total operating revenues	291,713,185	5,979,793	985,145	298,678,123
Operating expenses:				
Instruction	137,585,628	—	—	137,585,628
Research	7,771,766	—	—	7,771,766
Public service	8,609,976	—	—	8,609,976
Academic support	31,299,421	—	—	31,299,421
Student services	25,541,005	—	—	25,541,005
Institutional support	61,064,355	448,693	515,614	62,028,662
Operation and maintenance of plant	29,413,352	—	120,984	29,534,336
Student aid	1,840,221	—	—	1,840,221
Professional services and contracts	63,193,362	—	—	63,193,362
Auxiliary enterprises	27,210,114	—	—	27,210,114
Depreciation and amortization	34,085,271	—	367,436	34,452,707
Total operating expenses	427,614,471	448,693	1,004,034	429,067,198
Operating (loss) income	(135,901,286)	5,531,100	(18,889)	(130,389,075)
Nonoperating revenues (expenses):				
State of New Jersey appropriations	30,716,000	—	—	30,716,000
State of New Jersey appropriations – CMSRU	27,847,000	—	—	27,847,000
State of New Jersey appropriations – Rowan SOM	30,229,000	—	—	30,229,000
State of New Jersey fringe benefits (note 5)	69,269,628	—	—	69,269,628
Student scholarships	—	(1,517,586)	—	(1,517,586)
Gifts from Rowan University Foundation (note 13)	8,526,564	(8,526,564)	—	—
Other grants	—	(6,597)	—	(6,597)
Investment income	630,586	27,399,988	2,673	28,033,247
Investment expenses	—	(158,945)	—	(158,945)
Interest on capital asset related debt	(36,174,591)	—	(195,575)	(36,370,166)
Other nonoperating revenues (expenses), net	(1,855,682)	7,683	—	(1,847,999)
Net nonoperating revenues (expenses)	129,188,505	17,197,979	(192,902)	146,193,582
Income (loss) before other revenues	(6,712,781)	22,729,079	(211,791)	15,804,507
Capital grants	7,966,564	—	—	7,966,564
Additions to permanent endowments	—	2,126,405	—	2,126,405
Increase (decrease) in net position	1,253,783	24,855,484	(211,791)	25,897,476
Net position as of beginning of year, as restated (note 12)	233,607,826	164,452,686	7,185,231	405,245,743
Net position as of end of year	\$ 234,861,609	189,308,170	6,973,440	431,143,219

See accompanying notes to financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Statement of Cash Flows
(Business-Type Activities – Rowan University only)
Year ended June 30, 2014

Cash flows from operating activities:	
Student revenues	\$ 172,307,456
Government and private grants	45,176,928
Professional services and contract	62,810,145
Payments to suppliers	(79,413,053)
Payments for employee salaries and benefits	(227,339,221)
Self-funded programs and other receipts	<u>12,100,793</u>
Net cash used by operating activities	<u>(14,356,952)</u>
Cash flows from noncapital financing activities:	
State of New Jersey appropriations	88,792,000
Gifts	<u>6,947,639</u>
Net cash provided by noncapital financing activities	<u>95,739,639</u>
Cash flows from capital and related financing activities:	
Proceeds from bond refunding	65,033,306
Drawdown of deposits with trustees	419,405
Capital grants	8,123,625
Purchases of capital assets	(31,124,374)
Bond defeasance	(65,033,306)
Principal paid on capital debt	(15,341,118)
Interest paid on capital debt	<u>(36,600,719)</u>
Net cash used by capital and related financing activities	<u>(74,523,181)</u>
Cash flows from investing activities:	
Sale of investments	10,672,905
Interest on investments	<u>608,747</u>
Net cash provided by investing activities	<u>11,281,652</u>
Net increase in cash and cash equivalents	18,141,158
Cash and cash equivalents as of beginning of the year, as restated (note 12)	<u>134,590,766</u>
Cash and cash equivalents as of end of the year	<u>\$ 152,731,924</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (135,901,286)
Adjustments to reconcile operating loss to net cash used by operating activities:	
State paid fringe benefits	69,269,628
Depreciation and amortization expense	34,085,271
Changes in assets and liabilities:	
Receivables	202,661
Other current assets	606,725
Accounts payable and accrued expenses	5,825,009
Unearned revenue	10,471,481
Student deposits	62,351
Other liabilities	999,588
Deposits held in custody for others	<u>21,620</u>
Net cash used by operating activities	<u>\$ (14,356,952)</u>
Noncash transaction:	
Noncash gifts	\$ 1,578,925
Unrealized gain on investments	24,616
Capital assets acquired through capital lease obligation	38,380,683
State paid fringe benefits	69,269,268
Construction fund direct vendor payments	1,789,926

See accompanying notes to financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Rowan University (the University), formerly Rowan College of New Jersey, was founded in 1923 and effective July 1, 1967, came under the general policy control of the New Jersey Board of Higher Education. Under the Higher Education Act of 1966, the University and all the other New Jersey State colleges became multipurpose institutions with emphasis on the liberal arts and sciences and various professional areas including the science of education and the art of teaching. The operation and management of the University is vested in the University's board of trustees.

The University is recognized as a public institution by the State of New Jersey (the State). Under the law, the University is an instrumentality of the State of New Jersey with a high degree of autonomy. However, the University is considered a component unit of the State of New Jersey for financial reporting purposes. Accordingly, the financial statements of the University are included in the State's Comprehensive Annual Financial Report.

On August 22, 2012 Governor Christie signed the "New Jersey Medical and Health Sciences Education Restructuring Act" (Law) into law. Effective July 1, 2013, the School of Osteopathic Medicine (SOM) in Stratford, NJ (formerly under The University of Medicine and Dentistry of New Jersey) was integrated with the University. The Law also establishes the University as a public research institution.

(b) Summary of Significant Accounting Policies

Basis of Presentation

The accounting policies of the University conform to accounting principles generally accepted in the United States of America as applicable to public colleges and universities. The University reports are based on all applicable GASB pronouncements.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories.

- *Net investment in capital assets*: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

- *Restricted*:

Nonexpendable – Net position subject to externally imposed stipulations that must be maintained permanently by the University.

Expendable – Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to the stipulations or that expire by the passage of time.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

- *Unrestricted:* Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the board of trustees.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting utilizing the economic resources measurement focus. The University reports as a business-type activity, as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Cash and Cash Equivalents

The University classifies as cash equivalents, funds that are in short-term, highly liquid investments, and are readily convertible to known amounts of cash with a portfolio maturity of three months or less.

The University maintains portions of its cash with three custodians, two banks and the State of New Jersey Cash Management Fund. All are interest-bearing accounts from which the funds are available upon demand.

Investments

Investments are reflected at fair value, which is based on quoted market prices. Purchases and sales of investments are accounted for on the trade-date basis. Investment income is recorded on an accrual basis. Realized and unrealized gains and losses are reported in investment income.

Capital Assets

Capital assets include land, land improvements, buildings, and equipment. Such assets are recorded at historical cost. Land, land improvements and building improvements costing over \$5,000, as well as equipment with a unit cost over \$5,000 are capitalized. Donated capital assets, including artwork, are recorded at the estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add value to the asset are not capitalized. Major outlays for capital assets are capitalized as projects are constructed. Artwork is considered inexhaustible and is not depreciated. Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Useful lives</u>
Land improvements	20 years
Buildings	20 – 40 years
Equipment	3 – 20 years

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

Deposits Held in Custody for Others

The University holds cash and cash equivalents as custodian primarily for the Student Government Association.

Financial Dependency

One of the University's largest sources of revenue is appropriations from the State of New Jersey, which include state paid fringe benefits. The University is economically dependent on these appropriations to carry on its operations.

Student Tuition and Fees

Student tuition and fees are presented net of scholarships applied to student accounts, while other payments made directly to students are presented as student aid expenses and are recognized in the period incurred. Student tuition and fees collected in advance of the fiscal year are recorded as unearned revenue in the accompanying statement of net position.

Professional Services and Contract Revenues

Professional services and contract revenues include the operations of SOM faculty practice plans and affiliated hospital billings. The professional services and contract revenues are recorded on an accrual basis and reported at the estimated net realizable amounts from patients, third party payors and others for services rendered. The housestaff and affiliations revenues are recorded on an actual basis based on contracts with various affiliated hospitals for reimbursement of salary, fringe and malpractice charges incurred by SOM.

Grants and Contracts

All grants and contracts are recognized when all eligibility requirements for revenue recognition are met which is generally the period in which related expenses are incurred. Amounts received from grants and contracts for which eligibility requirements have not been met under the terms of the agreement, are recorded as unearned revenue in the accompanying statement of net position.

Classification of Revenue

The University's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that serve the University's principal purpose and generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Examples include (1) student tuition and fees, net of scholarship allowances, (2) most Federal, State, and private grants and contracts, and (3) professional services and contract revenue. Nonoperating revenues include activities that have the characteristics of nonexchange transactions or do not result from the receipt or provision of goods and services, such as operating appropriations from the state, private gifts, and investment income. Interest expense is reported as a nonoperating expense.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

New Accounting Standards Adopted

In fiscal year 2014, the University adopted the following new accounting standards:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). With the adoption of GASB 65 the University will expense bond issuance costs in the period in which they are incurred. The University adopted the provision in 2014 effective for the fiscal year beginning July 1, 2013, resulting in a restatement of the 2013 financial statements as detailed below to reflect the elimination of bond issuance costs as assets and reclassification of deferred gains and losses on bond refinancing as deferred inflows and outflows of resources, respectively.

	As previously reported	Adjustments	As restated
Statement of net position as of June 30, 2013:			
Bond financing costs, net of accumulated amortization	\$ 3,945,921	(3,945,921)	—
Long-term debt – noncurrent	500,846,268	7,669,944	508,516,212
Deferred outflows	—	7,958,020	7,958,020
Deferred inflows	—	288,076	288,076
Net investment in capital assets	76,894,987	(3,945,921)	72,949,066
Statement of revenues, expenses, and changes in net position for the year ended June 30, 2013:			
Depreciation and amortization	\$ 26,539,540	(280,751)	26,258,789
Net position as of beginning of year	199,316,561	(4,226,672)	195,089,889
Net position as of end of year	208,968,479	(3,945,921)	205,022,558

GASB Statement No. 66, *Technical Corrections – 2012, An Amendment of GASB Statement No. 10 and No. 62 Liabilities* (GASB 66), removes the provision in GASB Statement No. 10 that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type and modifies the specific guidance in GASB Statement No. 62 on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. There was no impact as a result of adoption of this standard to the University’s financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69), establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The statement provides specific accounting and financial reporting for combinations in the governmental environment and improves the decision usefulness of financial reporting requiring disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. See note 12 for the impact of the adoption of this statement as a result of the integration of the SOM with the University.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70), improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees and requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB 70 also requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor and requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. New information must be disclosed by governments that receive nonexchange financial guarantees. There was no impact as a result of adoption of this standard to the University's financial statements.

Use of Estimates

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

Tax Status

The University is exempt from income taxes on related income pursuant to federal and state tax laws as an instrumentality of the State of New Jersey.

(2) Cash, Cash Equivalents, and Investments

The University has an investment policy, which establishes guidelines for permissible investments. Short-term investment options include, but are not limited to, the use of the New Jersey Cash Management Fund, and other investment vehicles (i.e. certificates of deposit, repurchase agreements, etc.) that are deemed appropriate and within the risk parameters as determined by the University Board of Trustees and the University Executive Staff.

The University's long-term investment options include, but are not limited to, the purchase of U.S. Treasury securities, U.S. Government obligations, and other investment vehicles (i.e. stock, corporate

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

bonds, NJ Municipal obligations, etc.) that are deemed appropriate and within the risk parameters as determined by the University Board of Trustees and the University Executive Staff.

Cash, cash equivalents, and investments are carried in the financial statements at fair value and consist of the following:

	Amount
Cash	\$ 72,696,824
State of New Jersey Cash Management Fund	612,879
Money market accounts	79,422,221
Total cash and cash equivalents	\$ 152,731,924
Investments:	
U.S. Treasury note	\$ 631,740
Equity securities	138,962
Total investments	\$ 770,702

The University's cash and cash equivalents, investments and deposits held by trustees are subject to various risks. Among these risks are custodial credit risk, credit risk and interest rate risk. Each one of these risks is discussed in more detail below.

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Cash and money market accounts were held at a depository and bank balances amounted to \$155.3 million as of June 30, 2014. Of these amounts, \$500,000 was FDIC insured and the excess is collateralized pursuant to New Jersey Statute 52:18-16-1.

The University participates in the State of New Jersey Cash Management Fund (NJCMF) wherein amounts also contributed by other State entities are combined in a large-scale investment program. The University deposits in the NJCMF were \$612,879 as of June 30, 2014. These amounts are collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes, but not in the University's name.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's). The University's investment policy requires that U.S. Agency bonds are rated Aaa/AAA by Moody's and the corporate bonds are rated Baa. The University's investment in the State of New Jersey Cash Management Fund is unrated with a portfolio of maturity of less than one year.

The U.S. Treasury note was rated AAA as of June 30, 2014.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The University's investment policy does not specifically address limitations in the maturities of investments. The U.S. Treasury note matures in 2022. See table in note 3 for ratings of deposits held by trustees.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

(3) Restricted Deposits Held by Trustees

Deposits held by trustees include restricted funds held by three Board approved trustees. Deposits held by trustees are carried in the financial statements at fair value and consist of cash, money market investments and fixed income holdings. Deposits held by trustees include funds for construction, debt service reserve, and debt service.

	Amount
Construction funds	\$ 31,901,716
Debt service and debt service reserve funds	28,179,275
	60,080,991
Less current portion	28,179,275
Noncurrent deposits held by trustees	\$ 31,901,716

The following table summarizes the maturities and agency ratings of the fixed income securities included in the University's deposits held by trustees as of June 30, 2014:

	Rating	Fair value	Less than 1 year	1 – 5 years
G.E. Capital commercial paper	P1	\$ 2,474,033	2,474,033	—
		\$ 2,474,033	2,474,033	—

The remaining deposits held by trustees consist of money market investments that are unrated.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

(4) Capital Assets

The detail of capital assets activity for the year ended June 30, 2014 is as follows (beginning balances were adjusted to reflect the amounts recorded for SOM on July 1, 2013):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions/ transfers</u>	<u>Ending balance</u>
Nondepreciable assets:				
Land	\$ 47,654,583	1,851,280	—	49,505,863
Artwork	755,000	1,450,000	—	2,205,000
Construction in progress	29,582,201	30,405,960	(16,068,776)	43,919,385
Total nondepreciable assets	<u>77,991,784</u>	<u>33,707,240</u>	<u>(16,068,776)</u>	<u>95,630,248</u>
Depreciable assets:				
Land improvements	40,227,859	731,649	—	40,959,508
Buildings	770,603,559	48,707,803	(1,621,716)	817,689,646
Equipment	60,867,763	4,399,506	—	65,267,269
Total depreciable assets	<u>871,699,181</u>	<u>53,838,958</u>	<u>(1,621,716)</u>	<u>923,916,423</u>
Less accumulated depreciation:				
Land improvements	15,275,138	1,858,741	—	17,133,879
Buildings	255,845,456	27,305,368	(909,728)	282,241,096
Equipment	43,792,516	4,353,472	—	48,145,988
Total accumulated depreciation	<u>314,913,110</u>	<u>33,517,581</u>	<u>(909,728)</u>	<u>347,520,963</u>
Total capital assets, net	<u>\$ 634,777,855</u>	<u>54,028,617</u>	<u>(16,780,764)</u>	<u>672,025,708</u>

Depreciation expense for the year ending June 30, 2014 was \$33,517,581. The estimated cost to complete capital projects included in construction in progress as of June 30, 2014 approximates \$183,600,000. Financing for these projects is approximately \$112,600,000 in grant funds, \$51,200,000 in future bond funding and \$19,800,000 in University funds.

(5) State of New Jersey Fringe Benefits

The State of New Jersey, through separate appropriations, pays certain fringe benefits, principally pension costs, health benefits, and FICA taxes, on behalf of University employees and retirees. The costs of these benefits, \$69,269,628 for fiscal year 2014, were paid directly by the State of New Jersey on behalf of the University and are included in the accompanying financial statements as State of New Jersey fringe benefits revenue and as expenses.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

(6) Retirement Plans

(a) Plan Descriptions

The University participates in several retirement plans covering its employees – Public Employees’ Retirement System (PERS), the Alternate Benefit Program (ABP), the Teachers’ Pension and Annuity Fund (TPAF), the Police and Fireman’s Retirement System (PFRS) and the Defined Contribution Retirement Program (DCRP). Generally all employees, except certain part-time employees, participate in one of these plans. Under these plans, participants make annual contributions, and the State, in accordance with State statutes, makes employer contributions on behalf of the University for these plans with the exception of the DCRP. Employer contributions to DCRP are paid by the University and are reflected in the accompanying financial statements as expenses. The University is charged for pension costs through a fringe benefit charge assessed by the State which is included with the State of New Jersey fringe benefits in the accompanying financial statements.

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

ABP presently makes contributions to six state approved investment carriers. ABP alternatives are administered by a separate board of trustees.

Certain faculty members of the University participate in the TPAF, which is a State of New Jersey cost sharing contributory defined benefit pension plan with a special funding situation. TPAF was established under the provisions of N.J.S.A. 18:66 to provide coverage to substantially all full-time public school teachers of the State of New Jersey.

PFRS is a defined benefit pension fund established in 1944. It is open to all police officers and firefighters appointed after June 1944. Chapter 204. P.L. 1989 changed eligibility criteria for membership in the PFRS which included State College employees (campus police). If a State police or fire title does not meet eligibility requirements then PERS membership is required.

DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit along with life insurance and disability coverage. DCRP enrollment eligibility criteria includes employees who: (1) earn below a minimum base salary, or (2) do not work a minimum number of hours per week, or (3) are enrolled in PERS and make in excess of the established “maximum contribution” limits. Participating eligibility, as well as contributory and noncontributory requirements are established by the State of New Jersey Retirement and Social Security Law.

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

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

(b) PERS Funding Policies

PERS members contribute at a uniform rate. The full normal employee contribution rate became 6.78% of annual compensation, effective July 1, 2013. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits. The State of New Jersey contributes to PERS on behalf of the University. The contribution requirements of the plan members and the University are established and may be amended by the State of New Jersey.

(c) Alternate Benefit Program (ABP) Information

ABP provides the choice of six investment carriers. The University assumes no liability for ABP members other than payment of contributions. ABP provides retirement and death benefits for or on behalf of those full-time professional employees and faculty members electing to participate in this optional retirement program. Participation eligibility as well as contributory and noncontributory requirements are established by the State of New Jersey Retirement and Social Security Law.

Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits vest after the completion of one year of service. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting. Participating University employees contribute 5% of salary and may contribute a voluntary additional contribution up to the maximum Federal statutory limit, on a pre-tax basis. Employer contributions are 8%. During the years ended June 30, 2014, ABP investment carriers received employer and employee contributions as follows:

		<u>Amount</u>
Employer contributions	\$	8,739,065
Employee contributions		12,274,152
Basis for contributions:		
Participating employee salaries	\$	109,238,309

Employer contributions to ABP are paid by the State of New Jersey and are reflected in the accompanying financial statements as State of New Jersey fringe benefit revenue and as expenses.

(d) Defined Contribution Retirement Program (DCRP)

DCRP has one investment carrier, Prudential, which jointly administers the DCRP investments with the Division of Pensions and Benefits. The University assumes no liability for DCRP members other than payment of contributions. Benefits are determined by the amount of individual accumulations and the retirement option selected. All benefits vest immediately for employees who are enrolled in PERS or after one year for employees not in PERS. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

Participating University employees contribute 5.5% of their eligible wages. Employer contributions are 3%. During the year ended June 30, 2014, Prudential received employer and employee contributions as follows:

		<u>Amount</u>
Employer contributions	\$	30,627
Employee contributions		16,706
Basis for contributions:		
Participating employee salaries	\$	556,858

(e) Post Employment Benefits Other than Pensions

The State of New Jersey is legally responsible for contributions to the other postemployment benefits plan that covers the employees of the University. The employees of the University are employees of the State of New Jersey, therefore the other postemployment benefit plans liability is reported by the State of New Jersey.

(7) Accounts Payable and Accrued Expenses

The components of accounts payable and accrued expenses are as follows:

		<u>Amount</u>
Vendors and other	\$	15,351,961
Salaries and benefits		12,510,637
Due to State of New Jersey		3,792,650
Compensated absences – current portion		6,857,084
Accrued interest payable		<u>10,203,230</u>
Total accounts payable and accrued expenses	\$	<u><u>48,715,562</u></u>

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

(8) Long-Term Debt

Bonds Payable

Capital assets are financed through revenue bonds of the New Jersey Educational Facilities Authority (NJEFA) and the Camden County Improvement Authority (CCIA). The following obligations were outstanding as of June 30, 2014:

	Interest rate	Amount
NJEFA Series 2004 C Revenue Bonds, due serially to 2014	4.0% – 5.0%	\$ 2,320,000
NJEFA Series 2005 D Revenue Refunding Bonds, due serially to 2030	3.25% – 5.25%	45,700,000
NJEFA Series 2006 G Revenue Bonds, due serially to 2031	4.0% – 4.5%	62,025,000
NJEFA Series 2007 B Revenue Refunding Bonds, due serially to 2034	3.0% – 5.5%	115,630,000
NJEFA Series 2008 B Revenue Refunding Bonds, due serially to 2027	4.0% – 5.0%	35,205,000
CCIA Series 2010 A Build America Bonds, due serially to 2035	5.055% – 7.847%	93,885,000
CCIA Series 2010 B Revenue Bonds, due serially to 2016	1.50% – 5.00%	8,975,000
NJEFA Series 2011 C Revenue Refunding Bonds, due serially to 2025	3.0% – 5.0%	26,410,000
CCIA Series 2013 A Rowan SOM Revenue Refunding Bonds, due serially to 2032	3.0% – 5.0%	26,540,000
CCIA Series 2013 B Rowan SOM Revenue Refunding Bonds due serially to 2032	0.89% – 5.16%	28,165,000
		444,855,000
Plus:		
Bond premium		3,476,416
Total bonds payable		\$ 448,331,416

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

Future annual debt service requirements approximate the following:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total amount</u>
Year ending June 30:			
2015	\$ 16,525,000	21,663,159	38,188,159
2016	17,415,000	20,889,843	38,304,843
2017	18,455,000	20,028,863	38,483,863
2018	19,445,000	19,139,676	38,584,676
2019	20,290,000	18,193,256	38,483,256
2020–2024	114,420,000	75,056,317	189,476,317
2025–2029	133,510,000	43,626,211	177,136,211
2030–2034	87,125,000	15,135,157	102,260,157
2035–2036	17,670,000	574,793	18,244,793
	<u>\$ 444,855,000</u>	<u>234,307,275</u>	<u>679,162,275</u>

In July 2013, the Camden County Improvement Authority issued Series 2013A and 2013B Bonds. The 2013A lease revenue refunding bonds totaled \$26,880,000 with coupon rates ranging from 3.0% to 5.0% maturing through 2032. The 2013B, federally taxable, lease revenue refunding bonds totaled \$29,690,000 with coupon rates ranging from 0.89% to 5.16% maturing through 2032. The proceeds from these bond issues, together with other available funds, were used to refinance outstanding debt issued on behalf of the University of Medicine and Dentistry of New Jersey and related to the School of Osteopathic Medicine which was transferred to the University on July 1, 2013 as a result of the “New Jersey Medical and Health Sciences Education Restructuring Act” becoming effective. The University completed the refinancing of the debt in order to reduce its total debt service payments by \$7,557,849, which resulted in an economic loss (difference between the present values of the old and new debt service payments less escrow funds used) of \$(69,301).

Funds are on deposit with escrow agents to provide for the payment of principal, interest, and call premiums, when due, on Series 2004 C and Series 2009 B Bonds. Accordingly, these bonds are not considered outstanding obligations of the University as of June 30, 2014, therefore, they are not reflected in the accompanying financial statements. The principal amounts of these bonds were approximately \$81,977,000 as of June 30, 2014.

Capital Lease Obligation

In 2008, the University entered into a lease agreement with SORA Housing LLC (SORA). SORA constructed two four story student housing facilities with a total of 242 units, consisting of 884 total beds, on a leasehold interest in land that was conveyed to SORA by the Borough of Glassboro. SORA agreed to lease the land, the facilities and the facilities equipment together with the fixtures, improvements and equipment to the University. Rental payments are due in semiannual installments on September 1 and February 1, each year. The University has a capital lease payable as of June 30, 2014 in the amount of \$68,135,834.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

In 2008, the University entered into a lease agreement with SORA RETAIL LLC (SORA). SORA constructed an approximately thirty six thousand square foot two story building for use as a university bookstore and other uses compatible with a university bookstore. The bookstore, which also contains a coffee shop, is being sub-leased to Barnes & Noble College Booksellers, Inc. Rental payments are due in monthly installments. The University has a capital lease payable as of June 30, 2014 in the amount of \$11,057,791.

In 2011, the University entered into a lease agreement with SORA A-1 Housing Urban Renewal Entity, LLC (SORA). SORA constructed a mixed-use building on land it owns in Glassboro, New Jersey. The building consists of a five-story, mid-rise apartment building with ground floor retail. Within this building, on the second through fifth floor, SORA constructed apartment units, classrooms, offices and other administrative spaces. The administrative space, in addition to classrooms and offices, includes lounges, study rooms, recreational rooms together with all common elements, including elevators, laundry facilities, recreational and fitness facilities and other amenities. The University's lease pertains to the apartment units and administrative areas only. The apartment units are being occupied by University honor students and consist of 280 beds. Rental payments are due in semi-annual installments on September 1 and February 1, each year. The University has a capital lease payable as of June 30, 2014 in the amount of \$32,729,962.

In 2012, the University entered into a Master Lease Agreement to restructure the three leases above into a single lease. The Master Lease will be for a thirty year term thru 2042. The University has the option to purchase all, but not less than all, of the Premises at any time during the Term of the Lease in accordance with terms listed in the Agreement. If no election to purchase the Premises occurs during the term, upon the payment in full of all rent and other charges due under the Lease, the Premises shall be conveyed to the University at the conclusion of the term without additional consideration. The University received a landlord contribution of \$8,150,000 to help defray the costs of implementation of the property to its intended use.

In April 2012, the University entered into a lease agreement with Nexus Holdings, LLC (Nexus). Nexus is constructing a multi-level parking garage consisting of approximately 1,200 parking spaces. The construction started in July 2012 and was completed for the Fall 2013 semester. The University's lease pertains to the use of 900 parking spaces as well as the use of all common areas of the parking garage. The term of the lease shall be for a period of thirty (30) years starting on the date when the facility becomes ready for occupancy. At the completion of the lease term, the University will have the option of extending the lease for an additional four (4) terms of ten (10) years each. The University will have the option to purchase 900 spaces in the garage at fair market value at any time within the first five (5) years after the expiration of the initial term of the lease. The University began to pay rent in August 2013 and has a capital lease payable as of June 30, 2014 in the amount of \$21,402,066.

In April 2012, the University entered into a second lease agreement with Nexus to construct a five-story retail, classroom and office building. The construction started in July 2012 and was completed for the Fall 2013 semester. The University's lease pertains to the second through fifth floors, which will contain classrooms and office space, as well as the central lobby of the building and the lobby and stairwells connecting the building to an adjacent parking garage. The first floor of the building will be for retail operations. The term of the lease will be for a period of twenty (20) years starting on the date when the facility becomes ready for occupancy (Commencement date). The University will have the option to

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

purchase the leased portion of the property, at the end of the term, for \$1.00 consideration. The University began to pay rent in September 2013 and has a capital lease payable as of June 30, 2014 in the amount of \$16,656,126.

Future minimum lease payments under the capital leases are as follows:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total amount</u>
Year ending June 30:			
2015	\$ (1,366,763)	14,276,463	12,909,700
2016	(1,219,573)	14,405,692	13,186,119
2017	(1,067,454)	14,521,398	13,453,944
2018	(896,121)	14,622,700	13,726,579
2019	(607,646)	14,704,040	14,096,394
2020–2024	1,092,730	73,861,629	74,954,359
2025–2029	12,103,580	71,366,880	83,470,460
2030–2034	30,483,423	62,024,824	92,508,247
2035–2039	55,067,144	43,175,006	98,242,150
2040–2043	56,392,459	10,180,604	66,573,063
	<u>\$ 149,981,779</u>	<u>333,139,236</u>	<u>483,121,015</u>

Other Long-Term Debt

Other long-term debt consists of the following:

- (A) The Higher Educational Capital Improvement Fund Act was established to finance capital improvements and related costs at public and private institutions of higher education within the State of New Jersey. Funding was provided from bonds issued by the New Jersey Educational Facilities Authority. The total University allocation for this program was \$23,887,250. The University is required to pay 1/3 of the debt service on its allocation of the bond proceeds, plus administrative fees of the trustees and the Authority. The outstanding balance as of June 30, 2014 is \$5,147,293, with maturities through August 15, 2022.
- (B) On August 14, 2001, the New Jersey Educational Facilities Authority issued bonds to finance the University's loan amount request pursuant to the Dormitory Safety Trust Fund Act (P.L. 2000, C56). The University's loan under this Act was \$1,780,720 and will be repaid in annual installments from January 15, 2002 through January 15, 2016. The outstanding balance as of June 30, 2014 was \$245,568.
- (C) As a result of the New Jersey Medical and Health Sciences Education Restructuring Act, Higher Educational Capital Improvement Fund Act outstanding debt of UMDNJ, related to SOM, was transferred to the University on July 1, 2013. The outstanding balance on this debt, as of June 30, 2014, is \$2,087,795.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

- (D) In July 2013, the University received notification of an institutional grant award from the New Jersey Higher Education Capital Facilities Grant Program. The University was awarded \$26.6 million from the Higher Educational Capital Improvement Fund Act. The University is required to pay 1/3 of the debt service on its allocation of the bond proceeds plus administrative fees of the Trustees and the Authority. The outstanding balance as of June 30, 2014, is \$8,246,628 with maturities through August 15, 2033.
- (E) In July 2013, the University received notification of an institutional grant award from the New Jersey Higher Education Capital Facilities Grant Program. The University was awarded \$0.75 million from the Higher Education Equipment Leasing Fund. The University is required to pay 1/4 of the debt service on its allocation of the bond proceeds plus administrative fees of the Trustees and the Authority. The outstanding balance as of June 30, 2014, is \$163,228.

Principal and interest payments for these obligations are as follows:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total amount</u>
Year ending June 30:			
2015	\$ 790,820	648,142	1,438,962
2016	1,105,471	665,852	1,771,323
2017	1,029,824	618,555	1,648,379
2018	1,079,712	568,956	1,648,668
2019	1,128,657	518,002	1,646,659
2020-2024	5,509,908	1,749,645	7,259,553
2025-2029	2,320,423	901,679	3,222,102
2030-2034	2,925,697	358,053	3,283,750
	<u>\$ 15,890,512</u>	<u>6,028,884</u>	<u>21,919,396</u>

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

(9) Noncurrent Liabilities

Noncurrent liabilities activity for the year ended June 30, 2014 was as follows (Beginning balances were adjusted to reflect the amounts recorded for SOM on July 1, 2013):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Student deposits	\$ 491,250	62,351	—	553,601	—
Compensated absences	9,264,503	7,757,972	6,780,020	10,242,455	6,857,084
Unearned revenue	13,420,281	44,657,237	13,420,281	44,657,237	23,891,762
Other liabilities	774,653	999,588	—	1,774,241	—
Deposits held in custody for others	1,215,359	5,258,363	5,236,743	1,236,979	—
Bonds payable	457,423,301	59,332,787	68,424,672	448,331,416	16,525,000
Other long-term debt	8,081,745	8,409,856	601,089	15,890,512	790,820
Capital lease obligation	110,178,145	38,380,683	(1,422,951)	149,981,779	(1,366,763)
Total noncurrent liabilities	<u>\$ 600,849,237</u>	<u>164,858,837</u>	<u>93,039,854</u>	<u>672,668,220</u>	<u>46,697,903</u>

(10) Professional Services and Contract Revenues

The Rowan SOM Faculty Practice Plan revenues primarily consist of fee for service payments, inclusive of quality incentives and capitation payments, from the Centers for Medicare & Medicaid Services (CMS) and other third party insurance providers for inpatient and outpatient services provided by the Rowan SOM faculty. In addition, significant contract payments for medical directorships and other contracted service agreements, such as behavioral health and hospitalist services, account for approximately one-third of the revenues.

The components of professional services and contract revenues are as follows:

	<u>Amount</u>
Faculty practice revenues:	
Gross charges	\$ 61,672,321
Contractual and other allowances	(22,618,874)
Provision for bad debts	(3,270,726)
Bad debt recovery	298,071
Total faculty practice	<u>36,080,792</u>
House staff and affiliation revenues:	
House staff billings	21,520,312
Affiliation billings	2,575,319
Total house staff and affiliation	<u>24,095,631</u>
Total professional services and contract revenue	<u>\$ 60,176,423</u>

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

Gross charges pertain to the following payors:

	Percentage
Medicare	32%
Medicaid and Medicaid HMO	11
Contracts	23
Other third party payors	30
Uninsured, charity care and self pays	4
Total	100%

Faculty practice gross accounts receivable pertain to the following payors:

	Percentage
Medicare	17%
Medicaid and Medicaid HMO	9
Contracts	48
Other third party payors	16
Self pays	10
	100%

(11) Commitments and Contingencies

(a) Operating Leases

The University leases certain space and equipment used in general operations. Rental expense was approximately \$1,556,000 during fiscal year 2014. Future minimum annual rental commitments approximate the following:

	Amount
Year ending June 30:	
2015	\$ 1,068,000
2016	694,000
2017	529,000
2018	472,000
2019	462,000
2020 and thereafter	132,000
	\$ 3,357,000

(b) Compensated Absences

The University recorded a liability for accumulated vacation time in the amount of approximately \$6,857,000 as of June 30, 2014, which is included in accounts payable and accrued expenses in the

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

accompanying statement of net position. The liability is calculated based upon employees' accrued vacation leave as of the statement of net position date.

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from University service prior to retirement are not entitled to payments for accumulated sick leave balances. Accordingly, the University recorded a liability for accumulated sick leave balances in the amount of approximately \$2,874,000 as of June 30, 2014, which is included in compensated absences in the accompanying statement of net position.

During fiscal year 2010, bargaining unit employees were required to take seven unpaid furlough days. Three of these days were banked for either future use or pay out upon separation. A liability for the accumulated leave bank in the amount of approximately \$512,000 as of June 30, 2014 is recorded in compensated absences in the accompanying statement of net position.

(c) ***Unrestricted Net Position***

Net position is required to be classified for accounting and reporting purposes into one of four net position categories according to externally imposed restrictions. Unrestricted net position, as defined by GASB Statement No. 35, is not subject to externally imposed stipulations. They may, however, be subject to internal designations for specific purposes by action of the University management or the University Board of Trustees. Listed below is a detail of unrestricted net position as of June 30, 2014:

	Amount
Designated:	
University operating reserve	\$ 12,456,157
Self-supporting programs	22,908,470
Designated renewal and replacement funds	3,462,879
Medical School construction fund	16,886,162
Board designated reserve for capital projects	15,517,139
Board designated reserve for Medical School	20,000,000
Reserve for debt service	25,164,385
Total unrestricted net position	\$ 116,395,192

(d) ***Risk Management***

The University is exposed to various risks of loss. The University purchased and funds property and casualty insurances through a joint insurance program with the nine State of New Jersey Public Colleges and Universities. The University's risk management program involves insurance for all property risk in the joint insurance program and all liability risk and employee benefit exposures are self-funded programs maintained and administered by the State of New Jersey (including tort liability, medical professional liability, auto liability, trustees and officers liability, workers'

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

compensation, unemployment, temporary and long term disability, unemployment liability, life insurance and employee retirement programs).

Buildings, plants, and equipment and lost revenue are fully insured on an all risk replacement basis to the extent that losses exceed \$100,000 per occurrence with a per occurrence limit of \$1,500,000,000. Money and securities coverage provides for the actual loss in excess of \$25,000 with a per loss limit of \$5,000,000. In addition to the insurance purchased and maintained through the consortium, the University maintains an additional student professional liability policy to cover students participating in medical arts internships with a limit of \$1,000,000 per claim and a \$3,000,000 aggregate.

As an instrumentality of the State of New Jersey the liability of the University is subject to all of the provisions of the New Jersey Tort Claims Act (NJSA 59:1-1 et seq.), the New Jersey Contractual Liability Act (NJSA 59:13-1 et seq.), and the availability of appropriations. The Tort Claims Act also creates a fund and provides for payment of claims under the Act against the State of New Jersey or against its employees for which the State of New Jersey is obligated to indemnify against tort claims, which arise out of the performance of their duties.

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

(e) *Medical Malpractice Self-Insurance Fund*

The University participates in a Trust Fund administered by the State of New Jersey known as the Medical Malpractice Self-Insurance Fund (the Fund), which is used to pay malpractice claims and related insurance premiums. The University and the State approve the payment of claims and the University is required to collect contributions to the Fund from the SOM Faculty Practice Plan and its affiliated hospitals. Monies in the Fund, existing commercial excess liability insurance coverage, and coverage provided by the New Jersey Tort Claims Act are used to meet the cost of claims against SOM. The State has the ultimate liability for any claims in excess of the Fund's assets.

Payment of claims from the Fund totaled \$1,791,634 in fiscal year 2014 for SOM. Included in accounts payable and accrued expenses is approximately \$2,400,000 which represents the University's contribution to the Fund for the year ended June 30, 2014.

(f) *Corporate Integrity Agreement*

The University of Medicine and Dentistry (UMDNJ) had operated under a five-year Corporate Integrity (CIA) with the Department of Health and Human Services Offices of the Inspector General (DHHS-OIG) since September 2009. This agreement was assignable to successor organizations. Upon the integration of SOM into Rowan University, the Board of Trustees of Rowan University adopted a healthcare compliance program consistent with relevant laws and practices, and to fulfill the requirements of the CIA and the 15 remaining months of the agreement. The CIA requirements

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

will expire September 2014, but the compliance measures that have been developed and implemented will be continued.

(g) Other Contingencies

The University is involved in several claims and lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the University.

(12) Integration of the School of Osteopathic Medicine

Effective July 1, 2013, the School of Osteopathic Medicine (SOM) in Stratford, New Jersey (formerly under The University of Medicine and Dentistry of New Jersey) was integrated with the University as a result of the New Jersey Medical and Health Sciences Education Restructuring Act. The University accounted for the transaction according to the provisions of GASB Statement No. 69. The following was recognized as of the date of transfer July 1, 2013 (in thousands):

	<u>As of</u> <u>July 1, 2013</u>	<u>Adjustments</u>	<u>Adjusted as</u> <u>of July 1, 2013</u>
Assets:			
Current assets	\$ 26,927	—	26,927
Capital assets, net	60,066	—	60,066
Other assets	10,129	—	10,129
Total assets	<u>97,122</u>	<u>—</u>	<u>97,122</u>
Liabilities:			
Current liabilities	15,610	—	15,610
Noncurrent liabilities	52,927	—	52,927
Total liabilities	<u>68,537</u>	<u>—</u>	<u>68,537</u>
Net position:			
Net investment in capital assets	4,700	—	4,700
Restricted expendable	13,503	(7,962) (a)	5,541
Restricted nonexpendable	4,745	(4,745) (a)	—
Unrestricted	5,637	12,707 (a)	18,344
Total net position	<u>\$ 28,585</u>	<u>—</u>	<u>28,585</u>

(a) Adjustments to the restricted expendable and nonexpendable net position categories as previously reported by SOM were necessary to conform to the accounting policies of the University.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

Restatement of Net Position

The beginning of the year net position as of July 1, 2013 was restated for the effects of the transfer, as well as the adoption of GASB 65, as follows:

	<u>Net investment in capital assets</u>	<u>Unrestricted</u>	<u>Restricted expendable</u>	<u>Total net position</u>
University net position, as previously reported June 30, 2013	\$ 76,894,987	104,874,946	27,198,546	208,968,479
Impact of adoption of GASB 65 (note 1)	<u>(3,945,921)</u>	<u>—</u>	<u>—</u>	<u>(3,945,921)</u>
Total net position restated for GASB 65	72,949,066	104,874,946	27,198,546	205,022,558
Transfer of net position related to SOM	<u>4,700,000</u>	<u>18,344,427</u>	<u>5,540,841</u>	<u>28,585,268</u>
University net position, as restated July 1, 2013	<u>\$ 77,649,066</u>	<u>123,219,373</u>	<u>32,739,387</u>	<u>233,607,826</u>

Restatement of Cash and Cash Equivalents

Included in the transfer of assets to the University were cash and cash equivalents of \$10,038,722. Cash and cash equivalents as of July 1, 2013 were restated to \$134,590,766 on the statement of cash flows.

(13) Rowan University Foundation

Component Unit

Rowan University Foundation (the Foundation) is a legally separate, tax-exempt component unit of the University with a fiscal year-end of June 30. The Foundation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation acts primarily as a fund-raising entity to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the Foundation's assets are used exclusively for the benefit, support, and promotion of the University and its educational activities. Because these resources held by the Foundation can only be used by, or are for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented as part of the University's financial statements.

During the year ended June 30, 2014 the University received \$8,526,564 from the Foundation. Complete financial statements of the Foundation can be obtained from the Office of the Chief Financial Officer, Rowan University, Glassboro, New Jersey.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

Cash, Cash Equivalents, Restricted Nonexpendable Investments and Investments

Cash, cash equivalents, restricted nonexpendable investments and investments are carried in the financial statements at fair value and consist of the following as of June 30, 2014:

	Amount
Cash and cash equivalents	\$ 6,794,172
Restricted cash and cash equivalents	2,029,458
Investments:	
Bond mutual funds (domestic)	\$ 24,046,207
Common stock mutual funds (domestic)	62,066,940
Common stock mutual funds (international)	32,036,732
Realty investments	5,144,602
Alternative investments	52,855,773
	\$ 176,150,254

As of June 30, 2014 the Foundation's investments are reported on the statement of net position as follows:

	Amount
Investments	\$ 48,580,075
Restricted investments	14,427,105
Restricted nonexpendable investments	113,143,074
	\$ 176,150,254

For the year ended June 30, 2014 the increase in fair value on investments was \$10,120,047 and the net realized gain on investments was \$15,202,589. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year.

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 alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

The Foundation maintains a diverse investment portfolio. Alternative investments include interests in real estate, limited partnerships, and other domestic and international investment funds. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity,

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

absence of regulatory oversight, dependence on key individuals, and nondisclosure of portfolio composition. The Foundation reviews the performance and risks associated with these investments on at least a monthly basis. In addition, the Foundation utilizes the services of an investment consultant who continually monitors the individual investment fund performance, any changes in management at the investment fund or any other significant matters affecting the fund and advises the Foundation of any such changes.

As the Foundation is dependent on investment return to fund a significant portion of the operations of the Foundation, a significant decrease in investment return may have a material impact on the financial position, changes in net position, and cash flows of the Foundation.

The Foundation has an investment policy which establishes guidelines for permissible investments. The Foundation may invest in domestic equity securities, international equity securities, fixed income securities, real estate investments and venture capital investments. The Foundation's investments are subject to various risks. Among these risks are credit risk and interest rate risk. Each one of these risks are discussed below.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Standard and Poors. The Foundation's investment policy requires fixed income securities to replicate the Barclays Capital Aggregate characteristics with regard to maturity, structure, duration, credit quality, sector distribution, etc. The Foundation's investments in bond mutual funds are unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not specifically address limitations in the maturities of investments. The Foundation's investments in bond mutual funds are all considered to have a maturity of one year or less.

Restricted Nonexpendable Net Position

Restricted nonexpendable net position as of June 30, 2014 consists of the following:

	Amount
Henry and Betty Rowan for general operations	\$ 97,000,118
William G. Rohrer Professorial Chair in the College of Business	1,000,000
Lawrence & Rita Salva Medical School	1,000,000
King Family Professorial Chair	1,000,000
Thomas N. Bantivoglio Honors Program for scholarships	1,103,082
Rohrer Scholars for scholarships	1,080,832
John B. Campbell Professorial Chair	1,176,282
Keith and Shirley Campbell Endowment to support library operations	1,641,896
Other endowment funds	8,140,864
	\$ 113,143,074

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Basic Financial Statements

June 30, 2014

(14) South Jersey Technology Park at Rowan University, Inc.

Component Unit

South Jersey Technology Park at Rowan University, Inc. (SJTP) was established and is being maintained as part of the educational mission of the University, its initial sole member. SJTP hopes to create jobs and job training and provide new and varied “hands-on” educational experiences for the University students as well as combat community deterioration. The goal of SJTP is to create job opportunities and job training for the under-employed and unemployed of the South Jersey region. SJTP is an organization described under Section 501(c)(3) of the Internal Revenue Code and therefore exempt from Federal income taxes under Section 501(a) of the Code. SJTP’s assets are used exclusively for the benefit, support, and promotion of the University and its educational activities. Because the members of the SJTP Board of Directors are appointed by the Board of Trustees of the University, SJTP is considered a component unit of the University and is discretely presented as part of the University’s financial statements.

Related Party Transactions

Lease Agreements

In fiscal year 2008, the University Board of Trustees approved a long-term lease agreement for the SJTP to use a parcel of land owned by the University. The lease commenced on January 1, 2008 and is for 50 years with a renewal term of 20 years. Under the lease agreement, SJTP is to pay \$1,000 each year. The rental payment of \$1,000 is included in professional and other services expenses in the accompanying statement of revenues, expenses, and changes in net position for fiscal year 2014.

The University Board of Trustees approved a lease agreement by and between the University and the SJTP to lease the first floor of the Samuel H. Jones Innovation Center to support its educational mission. For the year ended June 30, 2014, SJTP recognized \$504,026 in rental income related to this lease agreement. The University also reimbursed SJTP \$86,088 for utility charges associated with this lease for fiscal year 2014.

Business Operating Agreement

SJTP and the University entered into a business operating agreement for the University to provide certain services and functions to SJTP. SJTP pays the University for these services and functions which include salaries and benefits of employees who perform functions for SJTP, accounting services, custodial services, landscaping services, repairs and maintenance, and other indirect charges. The charges amounted to \$346,881 for fiscal year 2014 and are reflected in professional and other services expenses in the accompanying statement of revenues, expenses, and changes in net position.