



**STATE UNIVERSITY CONSTRUCTION FUND**

Financial Statements and Compliance Reports

March 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

# STATE UNIVERSITY CONSTRUCTION FUND

## Financial Statements and Compliance Reports

March 31, 2015 and 2014

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KPMG LLP  
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## Independent Auditors' Report

The Board of Trustees  
State University Construction Fund:

### Report on the Financial Statements

We have audited the accompanying financial statements of the State University Construction Fund (the Fund), which comprise the statements of net position as of March 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State University Construction Fund, as of March 31, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



## ***Other Matters***

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedule of funding progress for other postemployment benefits as listed in the table of contents 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

**KPMG LLP**

July 22, 2015

## STATE UNIVERSITY CONSTRUCTION FUND

### Management's Discussion and Analysis

(Unaudited)

March 31, 2015 and 2014

The following management's discussion and analysis (MD&A) presents management's analysis of the State University Construction Fund's (the Fund) financial performance during the fiscal year ended March 31, 2015 and 2014. Management has prepared the financial statements and related note disclosures along with this MD&A. This MD&A should be read in conjunction with the Fund's financial statements and accompanying notes.

#### **Overview of the State University Construction Fund**

The Fund is a corporate governmental agency constituting a public benefit corporation of the State of New York (the State). Pursuant to State Education Law, the Fund has been specifically designated to provide academic buildings, dormitories and other facilities for State operated institutions and statutory colleges under the jurisdiction of the State University of New York (SUNY).

The Fund is primarily responsible for administering capital funds for the educational and hospital facilities at State operated institutions and statutory colleges. Accordingly, the Fund's financial statements only reflect activity related to those facilities.

From 1998 to 2013, the State provided appropriations and bonding authorizations totaling nearly \$10 billion in support of three consecutive multi-year capital plans to address the critical maintenance needs of SUNY's aging academic and hospital facilities. A multiyear capital plan has not been provided for SUNY since the end of the last \$4.9 billion five year capital plan that was enacted in 2008.

Over the past four years, the annual State budget has provided sporadic funding for system-wide critical maintenance projects, appropriating \$402 million in 2014/15 and \$200 million in 2015/16. Additional appropriations were enacted for specific campus projects in 2013/14, 2014/15 and 2015/16, totaling \$289 million over those years (this excludes new appropriations made in support of the NYSUNY 2020 Challenge Grant Program). In recent years, the most significant new capital funding for SUNY has been related to the NYSUNY 2020 Challenge Grant Program.

#### ***NYSUNY 2020 Challenge Grant Program***

In 2011, the State University of New York and the Office of the Governor established the NYSUNY 2020 Challenge Grant Program to spur economic growth and strengthen SUNY's academic programs. Funding totaling \$365 million had been made available to support five rounds of 2020 grants. In addition, over \$300 million in special appropriations for sizeable 2020 projects at the University at Buffalo and the University at Albany have also been enacted.

To date, three rounds of competitively selected awards have been approved and it is anticipated that the fourth round of awards, totaling \$55 million will be announced in the fall of 2015. The 2015/16 Enacted State Budget provides for \$55 million for the fifth round of grants under NYSUNY 2020.

#### ***SUNY 2020 Round I***

In the first round of the program, the SUNY University Centers – University at Albany, University at Buffalo, Binghamton University, and Stony Brook University – were given approval to progress projects that total more than \$1.0 billion, funded through a blend of State support, reprogrammed capital funds and campus raised revenues.

## STATE UNIVERSITY CONSTRUCTION FUND

### Management's Discussion and Analysis

(Unaudited)

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The grants were awarded to projects that leverage private sector resources to fulfill long-term economic and academic plans.

#### ***SUNY 2020 Rounds II and III***

In June 2013 and September 2014, respectively, Governor Cuomo announced the second and third rounds of SUNY 2020 awards. The competitive process was open to all SUNY State-operated campuses (with the exception of the four University Centers), and Community Colleges, or regional consortiums including multiple campuses. Under Round II, four awards of \$15 million each were made to support transformational projects that leverage investment, advance academic research and provide significant economic impact and job creation. Under Round III, five awards were made totaling \$55 million for innovative economic development projects.

#### **Funding for the Capital Program**

SUNY's capital programs are largely supported by bond proceeds. The Fund does not issue debt, nor does it hold title to any of SUNY's facilities. Prior to February 2003, a major portion of the capital costs were financed by bonds issued by the Dormitory Authority of the State of New York (DASNY) under the State University Educational Facilities Revenue Bond Program. Under this arrangement, the Fund receives an annual debt service appropriation from the State and is responsible for making semi-annual debt service payments to DASNY. These payments are classified as contractual financing payments within the accompanying financial statements.

As of February 2003, bonds issued in support of the capital programs administered by the Fund are issued by DASNY and supported by either a dedicated portion of State Personal Income Tax Revenues or State Sales Tax revenues. Debt service payments for these bonds are made directly by the State, and the Fund receives no appropriation for debt service on these bonds. As the Fund is not required to make the debt service payments on these bonds, these payments are not reported in the Fund's financial statements.

#### **Required Financial Statements**

The financial statements of the Fund are based on U.S. generally accepted accounting principles and contain the following three statements that provide information on the Fund's financial activity and the results of its operations for the years ended March 31, 2015 and 2014:

- The statements of net position include all of the Fund's assets and liabilities and provide information about the nature and amount of investments in resources (assets) and the obligations to Fund creditors (liabilities). The statements of net position present the financial position of the Fund at the end of each fiscal year.
- The statements of revenues, expenses and changes in net position report the Fund's revenues and expenses and include the results of operations for each fiscal year.
- The statements of cash flows provide information about the Fund's cash receipts and cash payments during each fiscal year. The statements of cash flows report cash receipts, cash payments, and the net changes in cash resulting from operating, financing (capital and noncapital) and investing activities.

**STATE UNIVERSITY CONSTRUCTION FUND**

Management's Discussion and Analysis

(Unaudited)

March 31, 2015 and 2014

**Financial Statement Summary**

*Summary Schedule of Net Position*

As reported in the summary below, the total assets of the Fund as of March 31, 2015 decreased by \$372.7 million or 46.4% from March 31, 2014, and increased by \$252.7 million or 45.9% from March 31, 2013 to March 31, 2014. The total liabilities also decreased as of March 31, 2015 by \$370.7 million or 47.6% from March 31, 2014, and increased by \$253.4 million or 48.3% from March 31, 2013 to March 31, 2014. The following table shows a summary of changes from the prior year amounts:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 vs. 2014 Increase (decrease)</u>	<u>2014 vs. 2013 Increase (decrease)</u>
		(In thousands)			
Total assets	\$ 430,048	802,731	550,061	(46.4)%	45.9%
Total liabilities	407,923	778,588	525,167	(47.6)	48.3
Total net position	22,125	24,143	24,894	(8.4)	(3.0)

The decrease in assets and liabilities as of March 31, 2015 from March 31, 2014 is due primarily to a decision by the State to no longer classify the Fund's bonded capital appropriations as appropriated loans. The reimbursement of disbursements made from these appropriations is now flowing directly from DASNY (the issuer of the bonds) to the State. Also contributing to the decrease is the advance receipt and payment of the April and October 2015 contractual financing payments. The increase in assets and liabilities from March 31, 2013 to March 31, 2014 was due primarily to the delayed advance funds repayment, and the advance receipt of the April and October 2014 contractual financing payments.

The noncurrent assets of the Fund include a nominal amount of capital assets and a receivable for compensated absences. The noncurrent liabilities of the Fund include other postemployment benefits obligation and compensated absences. Project costs are shown as expenses and are not capitalized as capital assets within the Fund's financial statements. In addition, the debt issued to fund project costs is not a liability of the Fund, and therefore is not recorded as a long-term liability within the Fund's financial statements. The capital assets and corresponding liabilities, however, are recorded in the financial statements of SUNY.

**STATE UNIVERSITY CONSTRUCTION FUND**

Management's Discussion and Analysis

(Unaudited)

March 31, 2015 and 2014

***Summary Schedule of Revenues, Expenses and Changes in Net Position***

Total revenues and expenses of the Fund decreased by 9.4% and 9.3%, respectively, for the fiscal year ended March 31, 2015 as compared to the year ended March 31, 2014, and both revenues and expenses decreased by 26.3% for the fiscal year ended March 31, 2014 as compared to the year ended March 31, 2013. The following table shows a summary of changes from the prior year amounts:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 vs. 2014</u> <u>Increase</u> <u>(decrease)</u>	<u>2014 vs. 2013</u> <u>Increase</u> <u>(decrease)</u>
	(In thousands)				
Total revenues	\$ 856,464	945,377	1,283,070	(9.4)%	(26.3)%
Total expenses	(858,482)	(946,128)	(1,283,555)	(9.3)	(26.3)
Total change in net position	(2,018)	(751)	(485)	(168.7)	(54.8)

Revenue and expenses decreased during the fiscal year ended March 31, 2015 as a result of several factors. The 2008-09 multi-year appropriation for construction activity was cycling down, the projected state bonded disbursements were being closely monitored, and there was not a new multi-year capital appropriation which has resulted in a lower level of design and construction activity. In addition, during the fiscal year ended March 31, 2013, SUNY was a defendant in litigation to resolve a dispute over the price paid for land in an eminent domain action. The New York Court of Claims issued an opinion awarding the plaintiff what it was seeking plus interest. In July, 2012, the plaintiff was paid, and a portion of the settlement, \$135 million, was paid from the Fund's critical maintenance appropriation.

***Summary Schedule of Cash Flows***

The following table shows a summary of changes in cash balances from the prior year amounts:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(In thousands)		
Net cash provided by (used in):			
Operating activities	\$ 53,667	78,870	(8,655)
Noncapital financing activities	(220,646)	103,942	116,565
Capital and related financing activities	(494)	(546)	(414)
Investing activities	220,512	(103,876)	(116,479)
Net change in cash	\$ <u>53,039</u>	<u>78,390</u>	<u>(8,983)</u>

The net change in cash for the current fiscal year is primarily due to decreased spending from sponsor funding. The noncapital financing and investing activities were impacted by the receipt of an additional deposits and payments in 2015 from the State in support of the Fund's contractual financing payments.

## **STATE UNIVERSITY CONSTRUCTION FUND**

Management's Discussion and Analysis

(Unaudited)

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### **Economic Factors that May Affect the Future**

The Fund is dependent upon State appropriations to support SUNY's capital programs. In 2004/05 and again in 2008/09, the State Budget provided nearly \$8.0 billion through two multi-year capital plans for strategic initiatives and critical maintenance projects for the preservation or rehabilitation of existing educational facilities.

These cumulative multi-year funding authorizations provided SUNY with the resources required to address the core critical maintenance needs of its existing buildings and infrastructure, as well as the means to make additional capital investments in a range of programmatic initiatives. However, the 2013/14 State Budget provided no new funding to address SUNY's system-wide critical maintenance needs or to support another statewide multi-year capital plan. The 2014/15 and 2015/16 State Budgets did provide \$562 million and \$244 million in new appropriations for one year only. The lack of funding for another multi-year capital plan is directly attributable to State-imposed limits under the State Debt Reform Act of 2000 that caps the level of outstanding debt. It is likely that the Debt Reform Act will continue to affect the State's ability to invest in SUNY's capital programs in the near future.

## STATE UNIVERSITY CONSTRUCTION FUND

### Statements of Net Position

March 31, 2015 and 2014

	<b>2015</b>	<b>2014</b>
<b>Assets:</b>		
Current assets:		
Cash	\$ 828,623	926,283
Cash deposits with the State of New York	273,120,499	219,983,441
Investments at fair value	31,370,369	31,422,244
Investments restricted for Contractual Financing Payments to the Dormitory Authority of the State of New York	—	220,348,603
Receivables:		
State of New York	122,131,262	1,372,796
Dormitory Authority of the State of New York	—	326,162,883
Accrued interest	32,294	24,397
Total current assets	427,483,047	800,240,647
Noncurrent assets:		
Receivable from the State of New York	1,444,965	1,476,313
Capital assets, net of accumulated depreciation	1,120,394	1,014,327
Total assets	430,048,406	802,731,287
<b>Liabilities:</b>		
Current liabilities:		
Project costs payable	72,577,024	48,513,265
Accounts payable and accrued expenses	1,234,831	1,399,821
Liability to the State of New York	—	226,239,099
Retention on construction contracts	49,321,271	57,059,752
Deferred revenue for contractual financing payments	—	220,507,157
Advances from sponsors	272,757,954	214,852,915
Total current liabilities	395,891,080	768,572,009
Noncurrent liabilities:		
Other postemployment benefits	10,587,208	8,540,253
Compensated absences	1,444,965	1,476,313
Total liabilities	407,923,253	778,588,575
<b>Net position:</b>		
Invested in capital assets	1,120,394	1,014,327
Restricted for contractual financing payments	29,412	141,220
Unrestricted	20,975,347	22,987,165
Total net position	\$ 22,125,153	24,142,712

See accompanying notes to financial statements.

**STATE UNIVERSITY CONSTRUCTION FUND**

Statements of Revenues, Expenses and Changes in Net Position

March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Project cost recovery:		
State of New York	\$ 822,331,265	45,656,490
Sponsor	34,013,205	52,784,885
Dormitory Authority of the State of New York	—	846,885,422
Total operating revenues	<u>856,344,470</u>	<u>945,326,797</u>
Operating expenses:		
Project costs administered by:		
State University Construction Fund	550,371,695	567,432,567
State University of New York campuses	<u>307,971,203</u>	<u>378,695,936</u>
Total operating expenses	<u>858,342,898</u>	<u>946,128,503</u>
Operating loss	<u>(1,998,428)</u>	<u>(801,706)</u>
Nonoperating revenues (expenses):		
New York State appropriations for contractual financing payments to Dormitory Authority of the State of New York	388,975,847	232,909,259
Contractual financing payments to Dormitory Authority of the State of New York	(389,114,848)	(232,909,259)
Investment income, net	<u>119,870</u>	<u>50,280</u>
Total nonoperating (expenses) revenues, net	<u>(19,131)</u>	<u>50,280</u>
Change in net position	(2,017,559)	(751,426)
Net position – beginning of year	<u>24,142,712</u>	<u>24,894,138</u>
Net position – end of year	<u>\$ 22,125,153</u>	<u>24,142,712</u>

See accompanying notes to financial statements.

**STATE UNIVERSITY CONSTRUCTION FUND**

Statements of Cash Flows

March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from construction cost recovery	\$ 1,119,685,274	963,420,105
Cash payments for project costs	(1,066,018,280)	(884,549,284)
Net cash flows provided by operating activities	<u>53,666,994</u>	<u>78,870,821</u>
Cash flows from noncapital financing activities:		
Cash received from New York State contractual financing payment appropriations	168,468,690	336,851,427
Cash payments for contractual financing payments	(389,114,848)	(232,909,259)
Net cash (used) provided by noncapital financing activities	<u>(220,646,158)</u>	<u>103,942,168</u>
Cash flows from capital and related financial activities:		
Purchase of capital assets	(503,023)	(550,611)
Sale of capital assets	9,135	4,230
Net cash used by capital and related financing activities	<u>(493,888)</u>	<u>(546,381)</u>
Cash flows from investing activities:		
Investment income received	86,973	444,682
Proceeds from sales and maturities of investments	390,573,679	285,558,057
Purchase of investments	(170,148,202)	(389,878,588)
Net cash used by investing activities	<u>220,512,450</u>	<u>(103,875,849)</u>
Net change in cash	53,039,398	78,390,759
Cash beginning of year	<u>220,909,724</u>	<u>142,518,965</u>
Cash end of year	\$ <u><u>273,949,122</u></u>	<u><u>220,909,724</u></u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,998,428)	(801,706)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	392,953	303,754
Loss on disposition of capital assets	(5,131)	10,734
Changes in:		
State of New York receivables	(120,727,118)	(707,345)
Dormitory Authority of the State of New York receivables	326,162,883	(69,413,704)
Project costs payable	24,063,759	(90,853,216)
Accounts payable and accrued expenses	(164,990)	679,042
Liability to the State of New York	(226,239,099)	161,182,364
Retention on construction contracts	(7,738,481)	(10,492,524)
Advances from sponsors	57,905,039	88,229,918
Other postemployment benefits	2,046,955	961,399
Compensated absences	(31,348)	(227,895)
Net cash provided by operating activities	\$ <u><u>53,666,994</u></u>	<u><u>78,870,821</u></u>

See accompanying notes to financial statements.

# STATE UNIVERSITY CONSTRUCTION FUND

## Notes to Financial Statements

March 31, 2015 and 2014

### (1) Nature of Operations

The State University Construction Fund (the Fund) was created in 1962 as a corporate governmental agency constituting a public benefit corporation of the State of New York (the State). Pursuant to State Education Law, the Fund has been specifically designated to provide academic buildings, dormitories and other facilities for State-operated institutions and statutory colleges under the jurisdiction of the State University of New York (SUNY). The Fund is included as a component unit in the financial statements of SUNY.

The Fund is required to manage the debt service for certain facilities related debt which is funded through appropriations from the State, however this debt is not an obligation of the Fund.

### (2) Summary of Significant Accounting Policies

#### (a) *Financial Reporting*

The Fund follows U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

The Fund's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period which they are earned and expenses are recognized in the period which they are incurred.

The Fund reports its financial statements as a special purpose government engaged in business-type activities, as defined by GASB. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The financial statements of the Fund consist of classified statements of net position; statements of revenues and expenses and changes in net position; and statements of cash flows, using the direct method of presenting cash flows from operations and other sources.

#### (b) *Operating Revenues*

The Fund's principal sources of revenue to recover its operating expenses consists of support from the State and from campus sponsors. Revenue from campus sponsors consists of funds received from public and private sources. Sponsor funds are generally received in advance and recorded as advances from sponsors, and recorded as revenue when the corresponding project costs are incurred. All operating revenues are recorded at the time the related expenses are incurred.

Prior to the 2015 fiscal year, the Fund's appropriations were cited as appropriated loans in the State's enacted capital projects budget, whereby the Fund would spend against the advanced appropriation and reimburse the State with proceeds from bonds issued by the Dormitory Authority of the State of New York (DASNY) subject to the terms of annual repayment agreements between the State and the Fund. In the State's enacted 2015/2016 capital projects budget, the advanced appropriation language was removed. Additionally, there will be no new repayment agreements between the State and the Fund. Under this revised appropriation language the Fund is no longer obligated to reimburse the State for its spending against the appropriation. The State is now reimbursed for disbursements from the Fund's capital appropriations with proceeds from bonds issued by DASNY directly from DASNY. All other revenues are considered nonoperating.

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### Notes to Financial Statements

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**(c) Operating Expenses**

The Fund's operating expenses include design, construction, equipment, and administrative costs which total \$858,342,898 and \$946,128,503 for the years ended March 31, 2015 and 2014, respectively. These costs include administrative expenses of the Fund of \$25,629,954 and \$24,235,879 for the years ended March 31, 2015 and 2014, respectively; any other expenses are considered nonoperating. Expenses, other than those related to contractual financing payments, are recorded when the liability is incurred.

**(d) Investments**

The Fund carries all investments at fair value based on quoted market prices in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Deposit and inherent risks that could affect the Fund's ability to provide services and meet its obligations as they become due are reported in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with the Fund's Investment Guidelines, investments are limited to (1) obligations of the United States Government and its Agencies with a maturity of twelve years or less, (2) repurchase agreements with a maturity of ninety days or less that are collateralized by obligations of the United States Government and its Agencies, (3) certificates of deposit purchased from banks or trust companies located within New York State with a maturity of five years or less; to the extent a certificate of deposit is not insured by the Federal Deposit Insurance Corporation, it must be collateralized by obligations of the United States Government and its Agencies, and (4) commercial paper with a maturity of ninety days or less that carries the highest rating of two independent rating agencies.

**(e) Capital Assets**

All capital assets are carried at historical cost and depreciation is recorded in the statements of revenues, expenses and changes in net position with accumulated depreciation reflected in the statements of net position. Depreciation is provided over the assets' estimated useful lives, ranging from 5 to 15 years, using the straight-line method.

The Fund follows GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, to identify, account for and report intangible assets. Internally generated computer software recorded as of March 31, 2015 and 2014 was \$1,429,743 and \$1,174,534, respectively.

**(f) Contract Retention**

In accordance with standard construction industry practice, the Fund withholds payment on a portion of construction invoices pending satisfactory completion of the contract. The full amount of the invoice is recognized as an expense in the period in which the contract work is performed and the associated contract retention is recognized as a liability.

**(g) Deferred Revenue for Contractual Financing Payments**

New York State funding for contractual financing payments received by the Fund in advance of the period in which they are due to DASNY are reported as restricted assets and deferred revenue in the

## STATE UNIVERSITY CONSTRUCTION FUND

### Notes to Financial Statements

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statement of net position. The Fund had \$0 and \$220,507,157 in deferred revenue for contractual financing payments to DASNY at March 31, 2015 and 2014, respectively.

**(h) *Compensated Absences***

Employees accrue vacation leave, primarily based on the number of years of service, up to a maximum rate of 25 days per year and may accumulate no more than a maximum of 53 days. The recorded liability for annual vacation, including fringe benefits for social security, was \$1,444,965 and \$1,476,313 at March 31, 2015 and 2014, respectively.

**(i) *Net Position***

The Fund's net position is classified in the following categories: invested in capital assets, consisting of capital assets, net of accumulated depreciation; restricted for contractual financing payments, consisting of restricted assets reduced by related liabilities restricted for specific purposes by law or parties external to the Fund; and unrestricted, consisting of assets reduced by related liabilities that are not classified as invested in capital assets or restricted. When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first, and then unrestricted resources as they are needed.

**(j) *Income Taxes***

The income of the Fund is exempt from all State income and franchise taxes, under the provisions of the enabling legislation, and from Federal income taxes as a governmental agency of the State.

**(k) *Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates.

**(3) *Cash***

Cash consists of funds deposited in demand deposit accounts with a financial institution held by the New York State Commissioner of Taxation and Finance for the Fund. At March 31, 2015 and 2014, the Fund had deposits with book values and bank balances of \$828,623 and \$926,283, respectively.

**(4) *Cash Deposits with the State of New York***

Cash deposits with the State of New York represent funds held, on behalf of the Fund, in the State's Short-Term Investment Pool and are available on demand. The Fund's cash balances are pooled with other State funds for short-term investment purposes. These balances are limited to legally permitted investments which include: obligations, or guarantees of the United States; obligations of the State of New York and its political subdivisions; certificates of deposit, savings bank trust company notes, bankers' acceptance, corporate bonds, commercial paper and repurchase agreements.

**STATE UNIVERSITY CONSTRUCTION FUND**

Notes to Financial Statements

March 31, 2015 and 2014

**(5) Investments**

Investments are monitored by the New York State Department of Taxation and Finance and held in custodial accounts on behalf of the Fund. The Fund requires delivery to its custodian of all securities purchased as well as collateral for repurchase agreements. As of March 31, 2015 and 2014, all securities held for the Fund were registered in the Fund's name.

Investments restricted for contractual financing payments represent New York State funding received in advance for payments to DASNY. These funds are invested in U.S. Treasury Bills in the amount of \$220,348,603 as of March 31, 2014. In accordance with the Fund's investment policies, repurchase agreements are collateralized by certain U.S. government obligations held by the Fund's custodian. Such collateral is to be maintained at a fair value approximately equal to the par value, plus accrued interest of the repurchase agreement.

The following table summarizes the fair value of the Fund's investments and maturities as of March 31, 2015:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities in years</u>	
		<u>Less than 1 year</u>	<u>1 – 5 years</u>
Unrestricted:			
U.S. Treasury notes/bonds	\$ 15,015,240	15,015,240	—
U.S. Treasury bills	15,057,502	15,057,502	—
Certificates of deposit	1,297,627	1,297,627	—
Total	<u>\$ 31,370,369</u>	<u>31,370,369</u>	<u>—</u>

The following table summarizes the fair value and maturities of the Fund's investments as of March 31, 2014:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities in years</u>	
		<u>Less than 1 year</u>	<u>1 – 5 years</u>
Unrestricted:			
U.S. Treasury notes/bonds	\$ 14,990,040	—	14,990,040
U.S. Treasury bills	14,557,608	14,557,608	—
Certificates of deposit	1,874,596	1,874,596	—
Restricted:			
U.S. Treasury bills	220,348,603	220,348,603	—
Total	<u>\$ 251,770,847</u>	<u>236,780,807</u>	<u>14,990,040</u>

**STATE UNIVERSITY CONSTRUCTION FUND**

Notes to Financial Statements

March 31, 2015 and 2014

Net investment income for the years ended March 31, 2015 and 2014 consisted of interest income, realized gains and change in unrealized appreciation/depreciation aggregating \$119,870 and \$50,280, respectively.

**(6) Capital Assets**

Capital assets are comprised of the following:

	<b>March 31, 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>March 31, 2015</b>
Automobiles	\$ 460,360	155,074	(68,007)	547,427
Furniture, fixtures and equipment	180,173	92,741	(6,673)	266,241
Computer software	1,174,534	255,209	—	1,429,743
Sub-total	1,815,067	503,024	(74,680)	2,243,411
Less accumulated depreciation	(800,740)	(392,953)	70,676	(1,123,017)
Capital assets, net	\$ <u>1,014,327</u>	<u>110,071</u>	<u>(4,004)</u>	<u>1,120,394</u>

	<b>March 31, 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>March 31, 2014</b>
Automobiles	\$ 285,750	218,980	(44,370)	460,360
Furniture, fixtures and equipment	198,112	8,097	(26,036)	180,173
Computer software	851,000	323,534	—	1,174,534
Sub-total	1,334,862	550,611	(70,406)	1,815,067
Less accumulated depreciation	(552,428)	(303,754)	55,442	(800,740)
Capital assets, net	\$ <u>782,434</u>	<u>246,857</u>	<u>(14,964)</u>	<u>1,014,327</u>

Depreciation expense for the years ended March 31, 2015 and 2014 was \$392,953 and \$303,754, respectively, and is included in project costs administered by the Fund in the statements of revenues, expenses and changes in net position.

**(7) Receivables from/Liabilities to the State of New York**

Amounts receivable from the State represent accrued project expenses including contract retention and certain administrative costs accrued and will be paid by the State from capital appropriations.

For the fiscal year ended March 31, 2015, the Fund has not recorded a liability to the State, as the Fund's disbursements from capital appropriations are no longer classified as appropriated loans as defined by Article 4, Section 40A of the State Finance Law (see note 2b). For the fiscal year ended March 31, 2014, amounts due to the State represented project expenses paid by the State that were reimbursed to the State through bond funds received from DASNY.

## STATE UNIVERSITY CONSTRUCTION FUND

### Notes to Financial Statements

March 31, 2015 and 2014

**(8) DASNY Receivable**

For the fiscal year ended March 31, 2015, the reimbursement of disbursements made from the Fund's bonded appropriations flowed directly from DASNY (the issuer of the bonds) to the State and are therefore not reported as a receivable from DASNY in the 2015 financial statements. For the fiscal year ended March 31, 2014, amounts due to the Fund from DASNY represented amounts due for project and administrative costs paid or accrued, including contract retention, which were financed with DASNY/State University Personal Income Tax, State Sales Tax, and Educational Facilities Revenue Bond proceeds.

**(9) Other Construction Programs**

The Fund administers the State's 50% statutory share of community college capital projects on behalf of SUNY, but has no involvement in the design or construction of such projects. In addition, the Fund apportions its residence hall appropriation to SUNY which funds and administers the residence hall program. These revenues and project costs are recorded by SUNY and the other State agencies and, accordingly, are not included in the financial statements of the Fund.

**(10) Retirement Benefits**

The Fund participates in the New York State and Local Employees' Retirement System (ERS or the System), and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing, multiple-employer, defined benefit retirement systems. The ERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the ERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the ERS and the Plan, and for the custody and control of their funds. The ERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the New York State and Local Employees Retirement System, 110 State Street, Albany, NY 12236.

Most members of ERS who joined on or before July 26, 1976, are enrolled in a noncontributory plan. Members of ERS that joined after July 26, 1976 are enrolled in a contributory plan which requires a 3% contribution of their salary. As a result of Article 19, of the NYSRSSL, eligible Tier 3 and Tier 4 employees, with a membership date after July 26, 1976, who have ten or more years of membership or credited service with the System, are not required to contribute. Generally members of the System may retire at 55; however, members of Tier 2, 3, 4 and 5 will receive a reduced benefit if they retire before 62 with less than 30 years of service. Tier 5 members must be 62 years of age with at least 10 years of service credit to retire with full benefits. And employee with less than five years of service may withdraw and obtain a refund, including interest, of the accumulated employee contributions. The full benefit age for Tier 6 is 63 for ERS members and 62 for PFRS members. Tier 6 members with 10 years of service or more can retire as early as age 55 with reduced benefits. The contribution rate varies from 3% to 6% depending on salary. Members are required to contribute for all years of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension fund.

## STATE UNIVERSITY CONSTRUCTION FUND

### Notes to Financial Statements

March 31, 2015 and 2014

The Fund is required to contribute at an actuarially determined rate. The required contributions for the years ended March 31, 2015, 2014, and 2013 approximated \$2,559,200, \$2,605,800, and \$2,496,000, respectively, and equal 100% of the contributions required each year.

The Fund also participates in the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), a defined contribution retirement plan, as an optional retirement plan for certain employees previously participating in TIAA/CREF. The Fund assumes no liability for TIAA/CREF members other than the payment of contributions. TIAA/CREF provides retirement and death benefits for or on behalf of those full time employees electing to participate in this optional retirement program. Participation eligibility as well as contributory and noncontributory requirements are established by NYSRSSL. 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. TIAA/CREF is contributory for employees who joined after July 27, 1976, who contribute 3% of their salary. For those employees with ten years or more of membership the employee contributions are phased out over three years. Employer contributions range from 8% to 15% of salaries depending upon when the employee was hired. Employer contributions paid by the Fund to TIAA/CREF for the years ended March 31, 2015, 2014, and 2013 approximated \$116,800, \$110,300 and \$123,800, respectively, and equal 100% of the contribution required for each year.

#### **(11) Postemployment and Post-Retirement Benefits**

The State, on behalf of the Fund, provides health insurance coverage for eligible retired Fund employees and their spouses as part of the New York State Health Insurance Plan (NYSHIP). NYSHIP offers comprehensive benefits through various providers consisting of hospital, medical, mental health, substance abuse and prescription drug programs. The State administers NYSHIP and has the authority to establish and amend the benefit provisions offered. NYSHIP is considered an agent multiple-employer defined benefit plan, is not a separate entity or trust, and does not issue stand-alone financial statements. The Fund, as a participant in the plan, recognizes Other Postemployment Benefit (OPEB) expenses on an accrual basis. Employee contribution rates for NYSHIP are established by the State and are generally 10% for enrollee insurance premiums and 25% for dependent insurance premiums.

The Fund accounts for its OPEB obligation based on the approach provided in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The initial unfunded actuarial accrued liability is being amortized over an open period of thirty years using the level percentage of projected payroll amortization method. NYSHIP premiums are being financed on a pay-as-you-go basis.

**STATE UNIVERSITY CONSTRUCTION FUND**

Notes to Financial Statements

March 31, 2015 and 2014

The Fund's OPEB obligation and funded status of the plan as of March 31, 2015 and 2014 are as follows (in thousands):

	<b>2015</b>	<b>2014</b>
OPEB obligation:		
Annual required contribution and annual OPEB cost	\$ 3,236	2,163
Employer contributions paid	(1,189)	(1,202)
Increase in OPEB obligation	2,047	961
Net obligation at beginning of year	8,540	7,579
Net obligation at end of the year	\$ 10,587	8,540
Funded status:		
Actuarial accrued liability (AAL)	\$ 64,303	40,664
Actuarial value of OPEB plan assets	—	—
Unfunded Actuarial Accrued Liability (UAAL)	\$ 64,303	40,664
Actuarial valuation date	April 1, 2014	April 1, 2012
Funded ratio (actuarial value of plan assets/AAL)	—%	—%
Covered payroll	\$ 11,471	11,625
UAAL as a percentage of covered payroll	560%	350%

The actuarial valuation utilizes a frozen entry age actuarial cost method. The actuarial assumptions include a 3.1% discount rate, payroll growth rate of 3.0%, and an annual healthcare cost trend rate for medical coverage of 8.25% initially, reduced by decrements to a rate of 4.75% after 7 years. Refer to the required supplementary information for the Schedule of Finding process of the Fund's OPEB obligation.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined results are subject to continual revision as actual results are compared to past expectations and new estimates are made in the future. The actuarial methods and assumptions used are designed to reduce short-term volatility in reported amounts and reflect a long-term perspective.

**(12) Commitments and Contingencies**

**(a) Leases Expense**

The Fund leases office space from SUNY on a month-to-month basis. Rent expense is inclusive of maintenance, insurance and utilities. Rent expense for the years ended March 31, 2015 and 2014, approximated \$776,000 for each year.

**(b) Construction Projects**

The Fund, in its normal course of business, has entered into contracts for the design and construction of various projects. At March 31, 2015 and 2014, these outstanding contract commitments approximated \$1.2 billion and \$1.0 billion, respectively.

**STATE UNIVERSITY CONSTRUCTION FUND**

Notes to Financial Statements

March 31, 2015 and 2014

**(c) Pending Litigation, Claims and Disputes**

The Fund is involved in legal disputes with various contractors and professional service firms. These disputes are related to claims for extra work, late completion, and other matters generally applicable to construction and professional service contracts. In addition, the Fund is involved in personal injury related legal disputes. Based on information presently available, the Fund believes that there are substantial defenses in connection with these disputes and that its ultimate liability, if any, after considering insurance coverage will not materially affect its financial position.

**(d) Contractual Payments to DASNY**

In connection with DASNY/State University Educational Facilities Revenue Bond Program issues, the Fund has entered into a financing agreement with DASNY whereby the Fund provides for contractual payments to DASNY in semiannual installments due on or before each April 10 and October 10. Payments are made solely from contractual financing appropriations received from the State. The provisions of the agreement obligate the Fund only to the extent of monies made available to the Fund by these contractual financing appropriations. Therefore, a liability is only recorded to the extent of such monies received that have not yet been remitted to DASNY. For the years ended March 31, 2015 and 2014 these payments were \$389,114,848 and \$232,909,259, respectively. As of March 31, 2015, the approximate future minimum contractual financing payment commitments on DASNY bonds are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total commitment</b>
Year ending March 31:			
2016	\$ 118,849,151	64,269,037	183,118,188
2017	84,193,938	58,311,215	142,505,153
2018	196,178,726	50,941,759	247,120,485
2019	129,972,380	42,347,476	172,319,856
2020	73,903,696	37,522,735	111,426,431
2021–2025	384,423,922	137,399,440	521,823,362
2026–2030	299,660,000	37,006,500	336,666,500
2031–2032	20,540,000	513,500	21,053,500
	\$ 1,307,721,813	428,311,662	1,736,033,475

Since February 2003, Personal Income Tax (PIT) Bonds were issued by the State to support the capital program. The State also issued Sales Tax Bonds during the current 2014-15 fiscal year. The debt service on the PIT and Sales Tax Bonds is paid directly by New York State to DASNY and, accordingly, no contractual financing payments related to these bonds pass through to the Fund.

**(13) Subsequent Events**

The Fund has evaluated subsequent events from the statement of net position date of March 31, 2015 through July 22, 2015, the date at which the financial statements were available to be issued, and determined that there were no additional items to disclose.

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**STATE UNIVERSITY CONSTRUCTION FUND**

Required Supplementary Information

Schedule of Funding Progress for Other Postemployment Benefits (Unaudited)

(In thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) – Frozen Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
April 1, 2015	\$ —	64,303	64,303	—%	\$ 11,471	560
April 1, 2012	—	40,030	40,030	—	10,525	350
April 1, 2010	—	44,563	44,563	—	10,964	406
April 1, 2008	—	35,707	35,707	—	8,507	420
April 1, 2006	—	30,657	30,657	—	8,070	380

See accompanying independent auditors' report.