

**Montclair State University**  
(A Component Unit of the State of New Jersey)

Basic Financial Statements and  
Management's Discussion and Analysis and  
Schedule of Expenditures of Federal Awards and  
State Financial Assistance

June 30, 2017 and 2016

(With Independent Auditors' Reports Thereon)

**Montclair State University**  
(A Component Unit of The State of New Jersey)

Financial Statements

June 30, 2017 and 2016

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## Independent Auditors' Report

**The Board of Trustees  
Montclair State University**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Montclair State University (the University), a component unit of the State of New Jersey, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements which collectively comprise the University's basic financial statements as listed in the table of contents.

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

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

#### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Montclair State University as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of employer contributions and schedules of proportionate share of the net pension liability be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 regarding 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 September 29, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 Montclair State University's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

September 29, 2017

**Montclair State University**  
(A Component Unit of The State of New Jersey)

**Management’s Discussion and Analysis (Unaudited)**

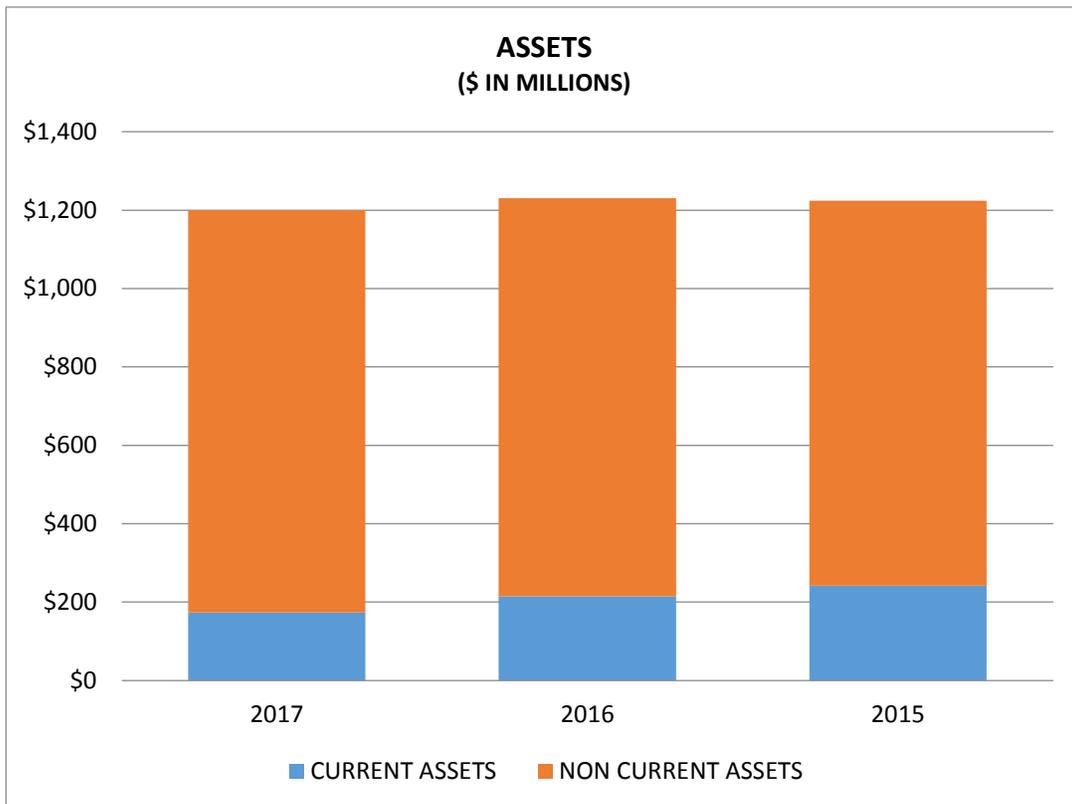
The objective of Management’s Discussion and Analysis is to help readers of the Montclair State University financial statements better understand the financial position and operating activities of the University as of and for the year ended June 30, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. Management prepared this discussion and it should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2017, 2016, 2015) in this discussion refer to the fiscal years ended June 30.

Montclair State University’s financial report communicates financial information for Montclair State University (the “University” or “MSU”), and its foundation, Montclair State University Foundation (“MSUF”) through three primary financial statements and notes to the financial statements - the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows. The MSUF financial statements are presented discretely from the University. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

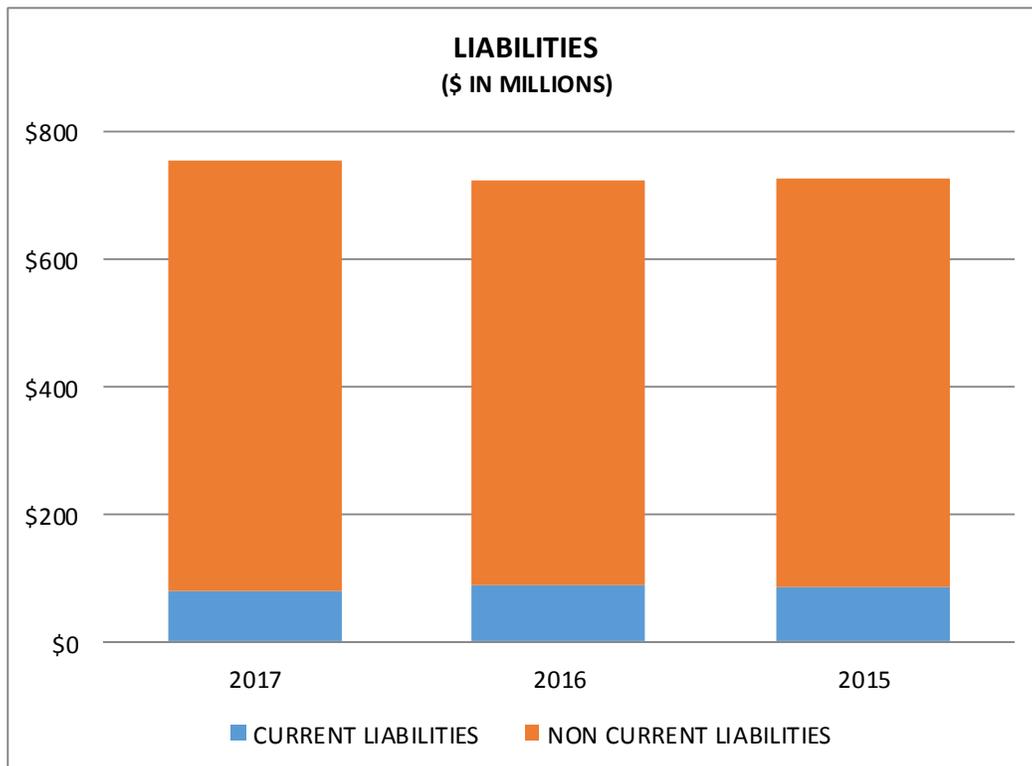
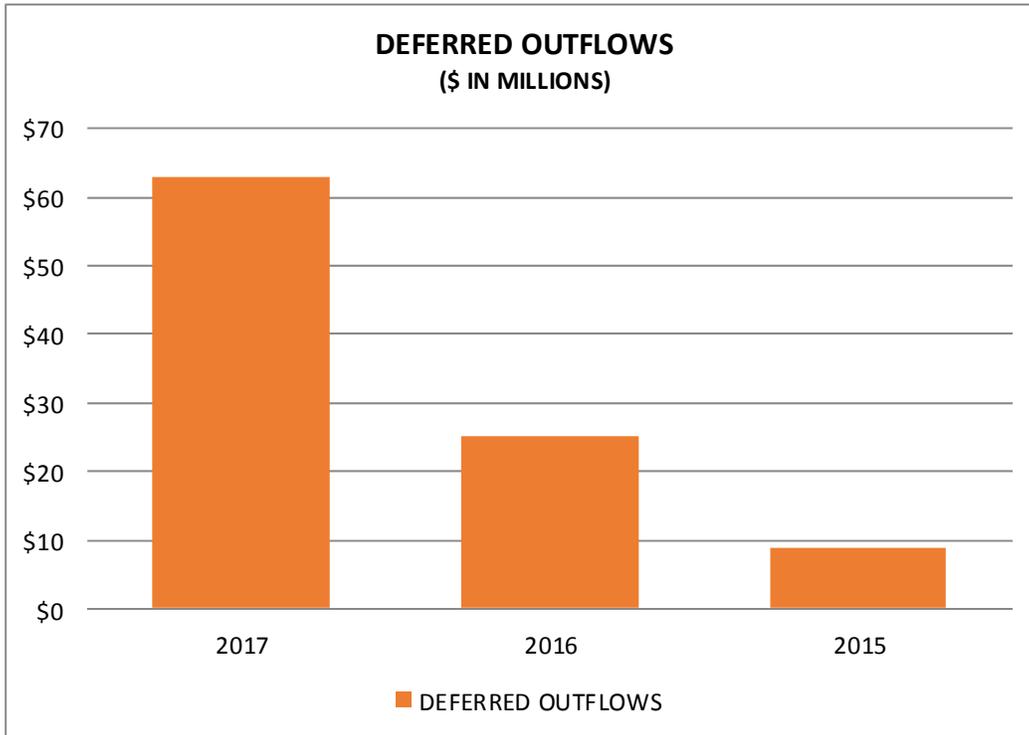
**Montclair State University**

Montclair State University is a leading institution of higher education in New Jersey dating back to 1908. Designated a Public Research Institution by the New Jersey Legislature and a Research Doctoral University by the Carnegie Classification of Institutions of Higher Education, the University’s nine colleges and schools serve more than 20,000 undergraduate and graduate students with more than 300 doctoral, master’s and baccalaureate level programs. Situated on a 252-acre suburban campus just 12 miles from New York City, Montclair State delivers the instructional and research resources of a large public university in a supportive, sophisticated and diverse academic environment.

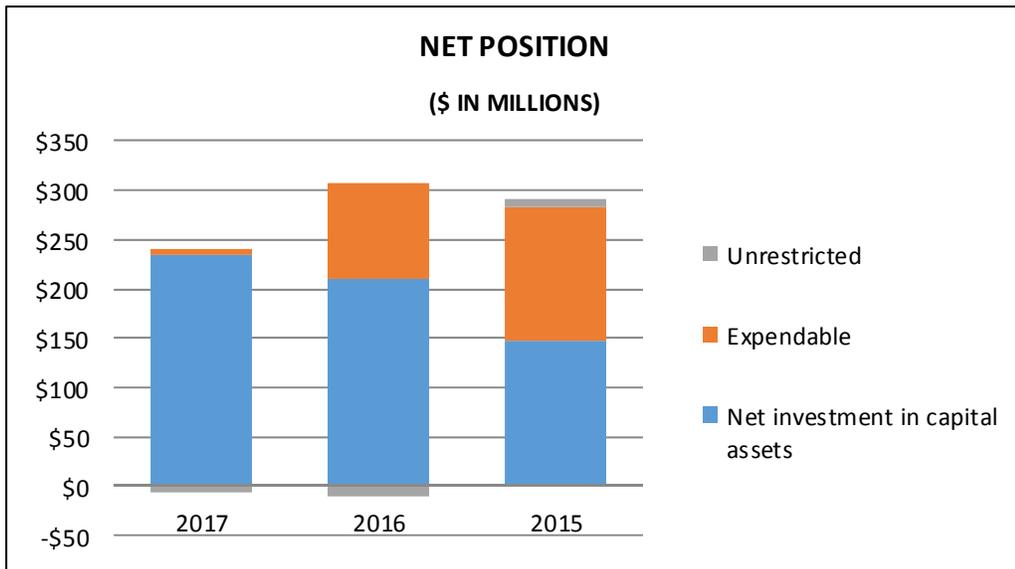
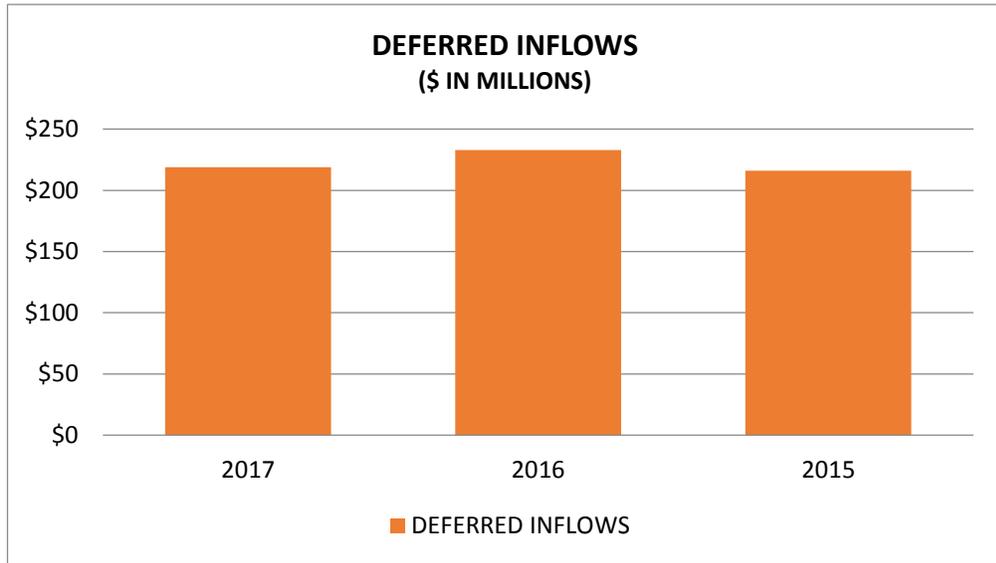
**THE UNIVERSITY’S FINANCIAL POSITION:**



**Montclair State University**  
(A Component Unit of The State of New Jersey)



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The statement of net position presents the financial position of the University at the end of each year. It displays all of the University's assets, deferred outflows, liabilities and deferred inflows. The sum of assets and deferred outflows, less the sum of liabilities and deferred inflows, is the organization's net position.

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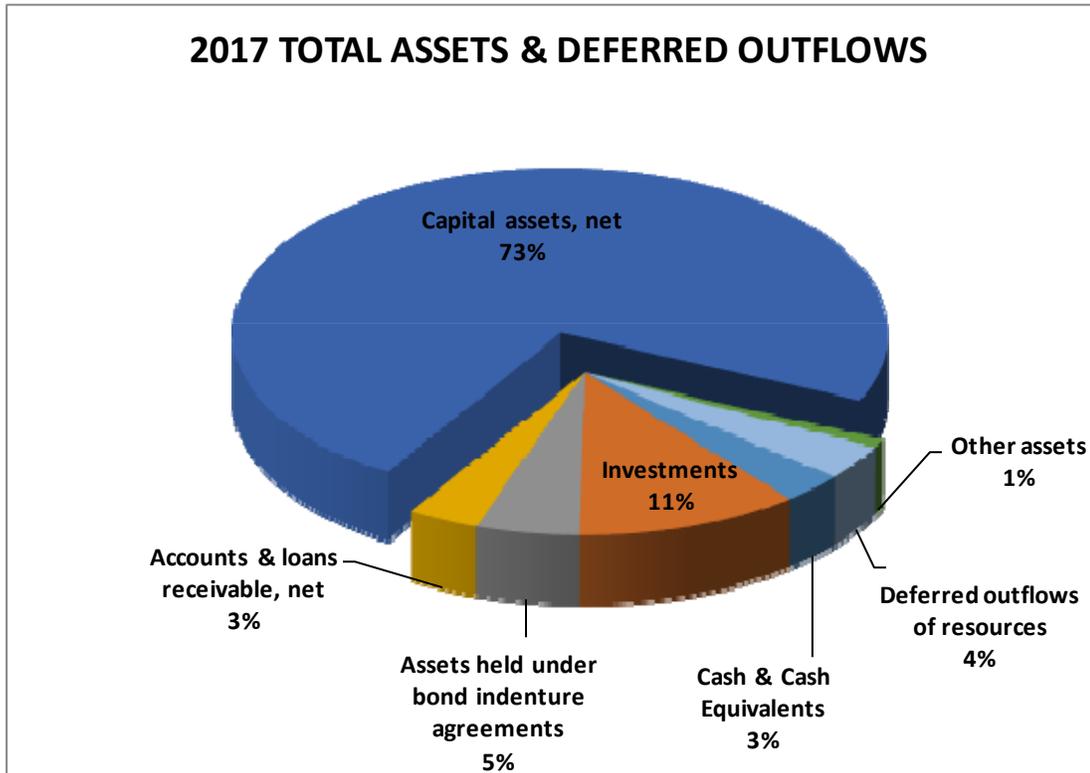
The major components of the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2017, 2016 and 2015 are as follows:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
Cash & cash equivalents	\$ 38,677	\$ 75,831	\$ 50,819
Investments	138,841	110,323	135,451
Assets held under bond indenture agreements	63,570	96,059	139,667
Accounts & loans receivable, net	40,167	35,686	36,919
Capital assets, net	916,700	909,884	857,502
Other assets	<u>1,895</u>	<u>2,362</u>	<u>2,983</u>
Total assets	<u>1,199,850</u>	<u>1,230,145</u>	<u>1,223,341</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	<u>63,168</u>	<u>24,553</u>	<u>8,913</u>
<b>LIABILITIES</b>			
Bonds payable & other debt	439,319	447,871	487,343
Accounts payable & accrued expenses	44,825	55,305	42,138
Net pension liability	236,776	190,115	160,488
Unearned tuition and grant revenues	23,722	21,755	28,271
Other liabilities	<u>9,658</u>	<u>8,809</u>	<u>7,456</u>
Total liabilities	<u>754,300</u>	<u>723,855</u>	<u>725,696</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
	<u>218,840</u>	<u>232,719</u>	<u>215,675</u>
<b>NET POSITION</b>			
Net investment in capital assets	233,586	210,521	146,682
Expendable	65,349	97,196	136,520
Unrestricted	<u>(9,057)</u>	<u>(9,593)</u>	<u>7,681</u>
Total net position	<u>\$ 289,878</u>	<u>\$ 298,124</u>	<u>\$ 290,883</u>

**Montclair State University**  
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**The University's Assets and Deferred Outflows**



The University's total assets and deferred outflows of resources rose to \$1.263 billion in 2017, from \$1.255 billion in 2016 and \$1.232 million in 2015. Total assets decreased due mainly to drawdowns of assets held under bond indenture agreements for capital projects and repayment of debt. Deferred outflows increased due mainly to changes in the University's net pension liability and the University's commitment to purchase Floyd Hall Arena and Yogi Berra Stadium.

**Cash and cash equivalents**

The University maintains an average cash balance of \$60 million in its operating bank account and the State of New Jersey Cash Management Fund. Cash exceeding this balance is invested in assets managed by Pacific Investment Management Company, LLC (PIMCO). PNC Institutional Asset Management (PNC) custodies the instruments. To minimize the risk of deposit forfeitures in case of a bank failure, the University has a tri-party collateral management agreement with the Bank of America and the Bank of New York Mellon. Current cash and cash equivalents decreased \$37 million due to the conversion of cash to investments in accordance with the university investment policy, and decreased holdings of cash for operations at year-end.

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**Investments**

As mentioned above, additions to University investments are from excess cash balances and are held in various assets by PIMCO in accordance within the policy established by the Board of Trustees. The overall investment objective of the Short Term Investment Portfolio is to provide as high a level of current income consistent with the preservation of capital and the maintenance of liquidity. The policy permits investments in fixed income instruments including US obligations, money market instruments, repurchase agreements, commercial paper, certificates of deposit, corporate bonds, and floating rate securities without interest rate caps that meet the approved criteria for quality, diversification, liquidity, and maturity. Investments increased \$29 million over last year due to earlier transfers of excess operating cash.

**Assets held under bond indenture agreements**

The University funds its major capital improvements with publicly issued bonds, issued mainly through the New Jersey Educational Facilities Authority (NJEFA) whose mission is to help college and university clients obtain low-cost financing for the development of their facilities. The change in assets is attributable to reimbursement draws, refundings, and market value. Assets held under bond indenture agreements decreased \$33 million, largely due to the drawdown of funds from Series 2014A for the development of the new School of Communications and Media building, and the renovation of the Graduate School and School of Nursing (formerly, Partridge Hall).

**Accounts and loans receivable, net**

Accounts receivable include amounts due from students, state and federal government contracts and grants, and private grants and contracts. Receivables fluctuate based on the timing of collections. Student accounts which are past due twenty-four months are written off, and those past due twelve months are reserved for at 50%. There was not a significant change in accounts and loans receivable in FY17.

**Capital assets, net**

Capital spending during 2017 continued at a brisk pace in order to provide the facilities necessary to support the University's teaching, research and public service mission. Capital spending includes construction and renovation of academic buildings, research laboratories, libraries, student services, housing facilities, clinical facilities, parking structures and other improvements to the campus infrastructure. Capital assets increased by more than \$7 million compared to 2016, due to \$60 million of new assets, offset by accumulated depreciation totaling, \$53 million.

**Other assets**

Other assets include prepaid Insurance and deposits related to software licenses.

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**The University's Liabilities and Deferred Inflows**

The University's liabilities and deferred inflows of resources increased to \$973.1 million in 2017, compared to \$956.6 million in 2016 and \$941.4 million in 2015. The increase in both 2017 and 2016 is attributable primarily to the increases in the liability for pension, and retiree health benefits, offset by reductions in debt to finance capital projects and deferred inflows of resources.

**Debt**

Capital assets are financed from a variety of sources, including University equity contributions, federal and state support, revenue bonds, and leases.

The University's debt, which is used to primarily finance capital assets stood at \$439.3 million at the end of 2017, compared to \$447.9 million and \$487.3 million at the end of 2016 and 2015, respectively. The table below shows the components of the \$7.9 million decrease in outstanding debt in 2017, and the \$38.9 million reduction that occurred in 2016.

(\$ in thousands)	<b>2017</b>	<b>2016</b>
<b>ADDITIONS TO OUTSTANDING DEBT</b>		
NJEFA	\$ -	\$ 191,960
Higher Education Capital Improvement Fund (CIF)	6,777	-
Capital leases	1,373	1,302
Bond premium, net	-	(1,645)
Additions to outstanding debt	8,150	191,617
 <b>REDUCTIONS TO OUTSTANDING DEBT</b>		
Refinancing and prepayments	(4,320)	(191,960)
Scheduled principal payments	(11,722)	(11,697)
Savings	-	(26,955)
Reductions to outstanding debt	(16,042)	(230,612)
Net decrease in outstanding debt	\$ (7,892)	\$ (38,995)
 Amortization of bond premium/discount - net	\$ (681)	\$ (601)

The University had outstanding indebtedness in the form of annual rentals it assumed under certain leases and agreements with the New Jersey Educational Facilities Authority (NJEFA) of \$410.7 million, and a note payable to the State of New Jersey of \$788,000. The University is obligated to fund one-third of the Authority's outstanding Higher Education Capital Improvement Fund (CIF) Bonds in the principal amount of \$6.8 million; loans from the New Jersey Environmental Infrastructure Trust and New Jersey EPA of \$1.0 million; debt service for a portion of the Authority's outstanding Higher Education Equipment Leasing Fund Bonds in the principal amount \$221,000; and Capital Leases of \$2.4 million.

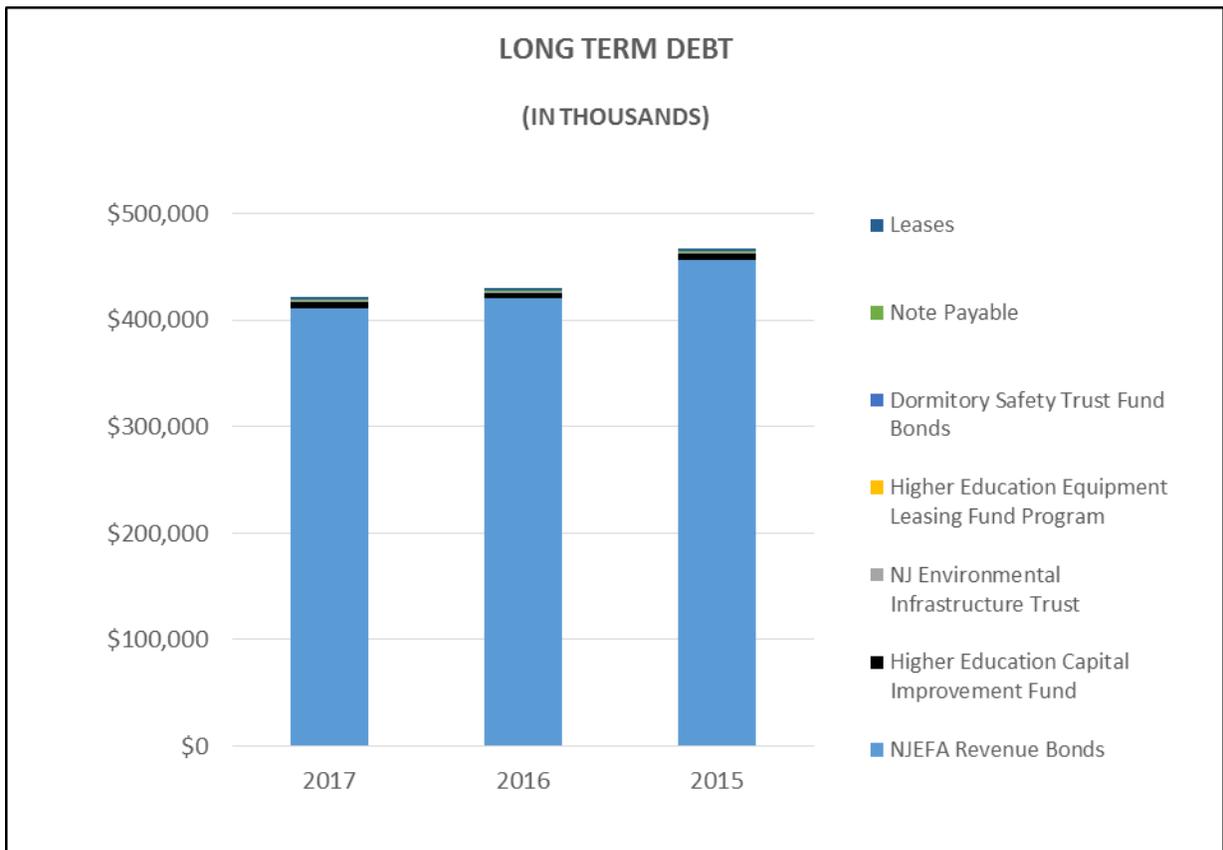
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During 2016, NJEFA issued two new revenue bonds totaling \$192.0 million, Montclair State University Issue Series 2015D and 2016B, to refund bonds originally issued in previous years to finance various campus construction and renovation projects. These transactions enabled the University to reduce its outstanding debt as noted in the table above. Interest expense declined by \$1 million, from \$19.9 million in FY15 to \$18.9 million in FY16. Interest expense declined from \$18.9 million from FY16 to \$15.4 million in FY17.

The University's ability to meet its long-term debt obligations excluding the GASB 68 net pension liability (solvency ratio) was 2.32%, 2.30%, and 2.16% as of June 30, 2017, 2016, and 2015, respectively.

In April 2016, Moody's Investor Service affirmed the University's "A1" rating (negative outlook).

The University's composition of long-term debt as of June 20, 2017, 2016, and 2015 were as follows:



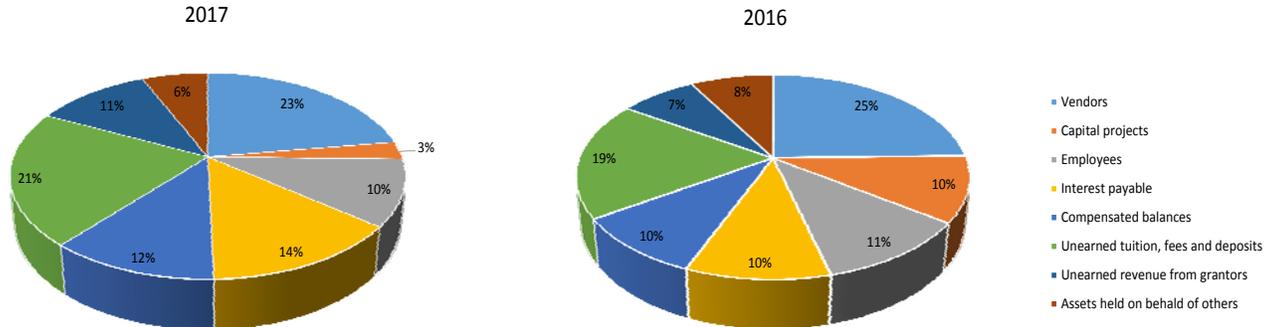
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**Net pension liability and retiree health benefits**

The University recorded on its financial statements its proportionate share of the net pension liability and related pension amounts as determined by the State of New Jersey, Division of Pensions and Benefits. The State of New Jersey contributes to the Public Employees' Retirement System (PERS), and the Police and Firemen's Retirement System (PFRS). Historically, the State of New Jersey has directly covered pension contributions on behalf of the University and there are no current changes to legislation. The University's share of the net pension liability was \$236.8 million, \$190.1 million and \$160.5 million in 2017, 2016 and 2015, respectively. The change in net pension liability for 2017 was primarily driven changes in actuarial assumptions and lower than expected investment returns on the investment portfolio held by the State of New Jersey for this purpose. The actuarial valuation for 2017 is based on a measurement date as of June 30, 2016. The portfolio's total investment rate of return was 7.65%, 7.90%, and 7.90% during 2017, 2016 and 2015, respectively. The discount rate used to estimate the net pension liability was 3.98%, 4.90%, 5.39% and for PERS; and 5.55%, 5.79%, 6.32% for PFRS as of the measurement date of 2016, 2015, and 2014, respectively.

**Other liabilities**

Other liabilities (excluding net pension liability and debt) consist of accounts payable and accrued expenses due to vendors, capital projects, employees, and interest), compensated balances, unearned income, and assets held for other parties.



**Deferred inflows of resources**

Deferred inflows of resources are related to the University's service concession arrangements, gains on debt refundings and certain changes in net pension liability.

Deferred inflows of resources decreased in 2017 by \$13.9 million due to changes in the proportion of the state-wide payroll attributable to Montclair State University, and lower than expected investment returns on the State-held pension portfolio, recognition of revenue related to the concession agreement, and amortization of savings from debt refundings. Deferred inflows of resources increased in 2016 by \$17.0 million, mainly due to savings related to debt refundings.

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**Net position**

Net position represents the residual interest in the University's assets and deferred outflows after all liabilities and deferred inflows are deducted. The University's net position was \$289.9 million in 2017, compared to \$298.1 million in 2016 and \$290.9 million 2015.

Net position is reported in the following categories: net investment in capital assets; restricted - expendable; and unrestricted.

**Net investment in capital assets**

The portion of net position invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance acquisitions, construction or improvement of these capital assets, was \$233.6 million in 2017, an increase from \$210.5 million and \$146.7 million for the years ended June 30, 2016 and 2015, respectively. The University continues to invest in its physical facilities to support the growth in the University, and to address maintenance issues within its campus infrastructure.

**Restricted - expendable**

Restricted - expendable net position is subject to externally imposed restrictions governing their use. Net position may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations or capital projects; trustee-held investments; or other third-party receipts. The increases or decreases in restricted, expendable funds are principally due to unrealized appreciation or depreciation in the fair value of investments related to restricted gifts and funds functioning as endowments.

**Unrestricted**

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Unrestricted net position is negative due primarily to obligations for pension and retiree health benefits exceeding University reserves.

Although unrestricted net position is not subject to externally imposed restrictions, substantially all of the University's reserves are allocated for academic and research initiatives or programs, and for capital and other purposes. As of June 30, 2017 and 2016, unrestricted net position is in a deficit position. Excluding the impact of the significant increases in the pension liability in these two years, the unrestricted net position would have been \$11.5 million in 2017 and \$2.9 million in 2016.

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**THE UNIVERSITY'S RESULTS OF OPERATIONS**

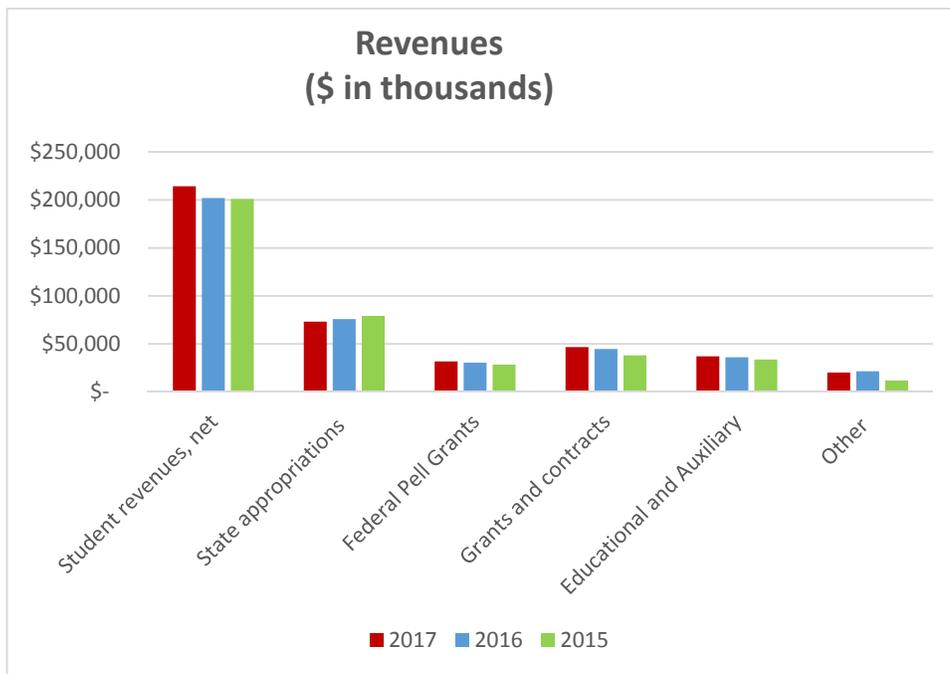
The statement of revenues, expenses and changes in net position is a presentation of the University's operating results, and indicates whether the financial condition has improved or deteriorated. In accordance with the Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are required to be recorded as non-operating revenues, including state educational appropriations, private gifts and investment income. A summarized comparison of the operating results for 2017, 2016 and 2015, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows (\$ in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues				
Net student revenues	\$ 198.3	\$ 196.9	\$ 191.0	\$ 179.8
Other	101.8	86.8	83.5	100.5
Total operating revenues	<u>300.1</u>	<u>283.7</u>	<u>274.5</u>	<u>280.3</u>
Less operating expenses	<u>395.0</u>	<u>371.4</u>	<u>345.3</u>	<u>326.7</u>
Operating loss	<u>(94.9)</u>	<u>(87.7)</u>	<u>(70.8)</u>	<u>(46.4)</u>
Non-operating and other revenues				
State appropriations				
General	35.9	38.6	38.6	38.6
Fringe benefit	40.0	40.5	37.8	37.7
Pell Grant	30.5	28.3	26.1	
Other	<u>15.9</u>	<u>60.2</u>	<u>23.3</u>	<u>0.6</u>
Non-operating revenue	122.3	167.6	125.8	76.9
Less non-operating expenses	<u>20.2</u>	<u>20.7</u>	<u>18.7</u>	<u>23.9</u>
Net non-operating and other revenues	<u>102.1</u>	<u>146.9</u>	<u>107.1</u>	<u>53.0</u>
Increase in net assets	7.2	59.2	36.3	6.6
Net assets, beginning of year	290.9	391.1	354.8	348.2
Cumulative effect of change in accounting principle	-	(159.4)	-	-
Net assets, end of year	<u>\$ 298.1</u>	<u>\$ 290.9</u>	<u>\$ 391.1</u>	<u>\$ 354.8</u>

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**Revenues supporting core activities**

Revenues to support the University’s core activities, including those classified as non-operating revenues, were \$423 million, \$410 million and \$392 million in 2017, 2016 and 2015, respectively. These diversified sources of revenue increased by \$13 million in 2017, following an \$15.2 million increase during 2016.



The state of New Jersey’s educational appropriations, in conjunction with student tuition and fees, are core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country.

Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from educational activities and auxiliary enterprises such as student housing, food service operations and parking.

A major financial strength of the University includes a diverse base of revenues, composed of student tuition and fees, federal sponsored grants and contracts, private support and self-supporting enterprises. The diversification of revenue sources has become increasingly important over the past several years.

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**Categories of both operating and nonoperating revenue that supported the University's core activities in 2017 are as follows:**

**Student revenues, net**

Student revenues are the largest component of operating revenues and are comprised of three main sources: tuition, fees, and housing rentals and board. Student revenues are reflected net of scholarship allowances. Student tuition and fees, before housing rentals and board and scholarship allowances, were \$224.7 million, \$210.8 million and \$202.0 million in 2017, 2016 and 2015, respectively.

The University places a high priority on financial aid as part of its commitment to student access and affordability. Scholarship allowances, or financial aid, are the difference between the stated charge for tuition and fees and the amount that is paid by the student and third parties on behalf of the student and are reported as an offset to revenue. Scholarship allowances increased 7.8% and 10.5% in 2017 and 2016, respectively. Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an offset to student tuition and fees and housing rentals and board, were \$59.5 million, \$55.2 million and \$49.9 million in 2017, 2016 and 2015, respectively.

Student revenues, net of scholarship allowances, increased by \$12.0 million and \$5.3 million in 2017 and 2016, respectively.

In 2017, enrollment grew by 2.6 percent (from 20,465 to 20,987 full-time and part-time students) following a 3.3 percent increase in 2016. Tuition rates increased in 2017 by 3.0%. Mandatory fees for graduate and undergraduates increased in fiscal 2017 by 2.7%. Room and board revenue increased by \$2.5 million and \$1.7 million in 2017 and 2016, respectively, reflecting in part a 2.5% increase in room rates. There were minor changes to meal plans which increased by \$1.0 million with an average rate increase of 2.0% in 2017.

**State educational appropriations**

Appropriations from the State of New Jersey totaled \$73 million, \$76 million and \$79 million in 2017, 2016 and 2015, respectively, reflecting a continuing reduction in support for higher education by the State.

**Grants and contracts**

Revenues from federal, state, private and local government grants and contracts — including recoveries of facilities and administration costs of \$1.5 million, \$1.7 million and \$1.9 million in 2017, 2016 and 2015, respectively — were \$47 million, \$45 million and \$38 million in 2017, 2016 and 2015, respectively. The increases reflect the growing volume of externally-sponsored research grants and related expenditures.

**Montclair State University**  
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**Educational activities and auxiliary enterprises**

Revenue from educational activities, primarily the childcare center, the Gifted and Talented program, and early intervention programs, remained essentially unchanged at \$7.0 million annually.

Auxiliary enterprises include housing, food service, parking, the bookstore, student center activities, and certain athletic programs. Revenue from auxiliary enterprises, net of allowances, grew by \$1 million in 2017 and \$2.5 million in 2016.

**Expenses associated with core activities**

Expenses associated with the University's core activities, including those classified as nonoperating expenses, were \$435 million, \$416 million and \$392 million in 2017, 2016 and 2015, respectively. Expenses increased in 2017 by \$20 million and by \$23 million in 2016, primarily due to growth in the University's operations, depreciation expense and higher pension expenses associated with the adoption of GASB 68 in 2016.

**Categories of both operating and nonoperating expenses related to the University's core activities in 2017 are as follows:**

**Salaries and benefits**

Approximately 62.0% of the University's 2017 expenses were related to payroll costs and employee benefits (including pension expense). There were 2,418 full-time equivalent (FTE) employees in the University in June 2017, as compared to 2,295 FTEs in June 2016.

Payroll and benefits increased by .78% (\$1.9 million) and .86% (\$2.0 million) in 2017 and 2016, respectively, due to growth in the University's operations and salary adjustments. Pension expense attributable to the adoption of GASB 68 increased by \$8.0 million or by 63.6%, due principally due to changes in actuarial assumptions and to lower than expected investment returns on the assets held by the State to meet its future pension obligations.

The University's pension expense including the amounts attributable to the adoption of GASB 68 is summarized as follows (in thousands):

	<u>2017</u>	<u>2016</u>
PERS	\$ 18,302	\$ 11,103
PFRS	2,287	1,481
Alternate Benefit Program (ABP)	9,632	9,355
Defined Contribution Retirement Program (DCRP)	36	46
<b>Total</b>	<u>\$ 30,257</u>	<u>\$ 21,985</u>

**Other expenses**

Other expenses consist of a variety of expense categories, including travel, rent, insurance, legal costs and repairs and maintenance' as well as gains or losses on disposed capital assets.

**Montclair State University**  
(A Component Unit of The State of New Jersey)

## **Operating results**

In accordance with the GASB's reporting standards, operating losses were \$105.7 million, \$94.9 million and \$87.7 million in 2017, 2016 and 2015, respectively. The operating losses in 2017, 2016 and 2015 were largely offset by non-operating revenue that clearly supports core operating activities of the University (non-operating revenues include State appropriations, Pell grants, and investment income) which totaled \$107.5 million, \$108.1 million and \$107.4 million, respectively. Expenses associated with core activities in 2017 and 2016 exceeded revenue available to support core activities by \$12 million and \$5.7 million respectively. However, this \$6.3 million deterioration from 2016 to 2017 is explained by increases in two non-cash expenses: depreciation (which rose by \$11.2 million in 2017) and the GASB 68 portion of total pension expense (which rose by \$8.0 million in 2017).

## **LOOKING FORWARD**

On July 21, 2017, New Jersey Governor Chris Christie signed legislation designating Montclair State University as a public research university. Already classified by the Carnegie Classification of Institutions of Higher Education as a research doctoral institution, and classified by the New Jersey Secretary of Higher Education as a doctoral degree-granting institution, this latest acknowledgement formally recognizes the very substantial transformation that has occurred in recent years at New Jersey's second largest university.

Montclair State University's online Master of Arts in Educational Leadership program has been ranked the best in New Jersey – and among the top 50 in the nation – by U.S News & World Report in its 2017 Best Online Graduate Education Programs survey. The ranking, released on January 10, 2017, is the latest recognition of Montclair State's growing national reputation. U.S. News & World Report included the University's graduate education programs among the nation's top 100 in its listing of the 2017 Best Education Schools, and also placed the University's graduate programs in elementary and secondary teacher education among the top 15 in the country.

The Bachelor of Fine Arts Program in Dance was recently cited as one of the top five programs in the country by OnStage magazine. Money magazine listed Montclair State University among the nation's "50 Colleges that Add the Most Value" for 2016.

In fiscal year 2018, the University will be offering two new programs, the Discovery Program for Undeclared Students and the STEM Pioneer Program. The Discovery Program is designed to guide incoming freshmen toward the selection of a major that meets their educational goals and capacities. Students in the Discovery Program will choose one of five tracks that is aligned with their interests: Education, Service, and Society; Management and Industry; Arts, Culture and Design; Technology and Innovation; and Sciences and the Environment. The STEM program will be supported by a three-year, \$300,000 National Science Foundation grant and is focused on incoming first-generation college freshmen who are undeclared students and who think they may wish to pursue a science field. The goal of this program is to increase science literacy among our students regardless of their ultimate major, to increase enrollment of first-generation students into the sciences, and to increase their retention and success at the University.

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In 2018, the University will be completing the renovation and expansion of Mallory Hall, and a major renovation of College Hall will begin. The University will be continuing with the implementation of a broad range of OneMontclair technology systems. The goal of OneMontclair is to work efficiently to improve services to customers, and advance the overall operations of the University through updates to business systems to integrate and streamline processes across the campus.

The University remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. More than two-thirds of the University's federal research revenue is derived from two agencies, the Department of Health and Human Services (primarily through the National Institutes of Health) and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration, and the Department of Energy.

The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. Support for the University's capital program is expected to continue to be provided from a combination of sources, including the state of New Jersey, external financing, gifts and other sources.

Additional information concerning state budget matters and the state's financial condition may be found on the website of the New Jersey Department of Treasury.

**Montclair State University**  
(A Component Unit of the State of New Jersey)

Statement of Net Position  
(dollars in thousands)  
June 30, 2017

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 38,677	\$ 2,470	\$ 41,147
Investments	31,904	-	31,904
Assets held under bond indenture agreements	63,570	-	63,570
Receivables			
Students, less allowance for doubtful accounts of \$1,351	6,354	-	6,354
Loans, less allowance for doubtful loans of \$159	576	-	576
Grants and contracts	17,557	-	17,557
State of New Jersey	5,951	-	5,951
Other receivables	6,487	1,065	7,552
Total Receivables	36,925	1,065	37,990
Other current assets	1,690	155	1,845
Total Current Assets	172,766	3,690	176,456
Noncurrent Assets			
Investments	106,937	70,582	177,519
Loans receivable, less allowance for doubtful loans of \$497	3,242	-	3,242
Capital assets, net	916,700	-	916,700
Other noncurrent assets	205	7,522	7,727
Total Noncurrent Assets	1,027,084	78,104	1,105,188
Total Assets	1,199,850	81,794	1,281,644
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount from debt refundings	2,921	-	2,921
Deferred outflow of pension resources	50,247	-	50,247
Deferred outflow from capital purchase	10,000	-	10,000
Total Deferred Outflows of Resources	63,168	-	63,168
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable and accrued expenses	42,392	2,067	44,459
Bonds payable and other long-term debt - current portion	12,084	-	12,084
Unearned tuition, fees, and deposits	15,514	-	15,514
Unearned revenue from grantors	8,208	-	8,208
Assets held on behalf of others	860	-	860
Total Current Liabilities	79,058	2,067	81,125
Noncurrent Liabilities			
Bonds payable and other long-term debt - noncurrent portion	427,235	-	427,235
Compensated absences - noncurrent portion	2,433	-	2,433
Assets held on behalf of Federal government for loan programs	3,830	-	3,830
Net pension liability	236,776	-	236,776
Other long term liability	4,968	-	4,968
Total Noncurrent Liabilities	675,242	-	675,242
Total Liabilities	754,300	2,067	756,367
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred service concession arrangement	190,929	-	190,929
Deferred inflow of pension resources	3,911	-	3,911
Deferred amount from debt refundings	24,000	-	24,000
Total Deferred Inflows of Resources	218,840	-	218,840
<b>NET POSITION</b>			
Net investment in capital assets	233,586	-	233,586
Restricted nonexpendable	-	42,890	42,890
Restricted expendable for			
Scholarships	-	-	-
Loans	1,779	1,947	3,726
Renewal and replacement	43,106	-	43,106
Debt service and debt service reserve	20,464	-	20,464
Other	-	34,134	34,134
Unrestricted	(9,057)	756	(8,301)
Total Net Position	\$ 289,878	\$ 79,727	\$ 369,605

See notes to financial statements

**Montclair State University**  
(A Component Unit of the State of New Jersey)

Statement of Net Position  
(dollars in thousands)  
June 30, 2016

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 75,831	\$ 7,513	\$ 83,344
Investments	7,873	-	7,873
Assets held under bond indenture agreements	96,059	-	96,059
Receivables			
Students, less allowance for doubtful accounts of \$1,451	6,718	-	6,718
Loans, less allowance for doubtful loans of \$147	533	-	533
Grants and contracts	16,495	-	16,495
State of New Jersey	2,512	-	2,512
Other receivables	6,315	1,361	7,676
Total Receivables	<u>32,573</u>	<u>1,361</u>	<u>33,934</u>
Other current assets	<u>2,105</u>	<u>257</u>	<u>2,362</u>
Total Current Assets	<u>214,441</u>	<u>9,131</u>	<u>223,572</u>
Noncurrent Assets			
Investments	102,450	59,480	161,930
Loans receivable, less allowance for doubtful loans of \$521	3,113	-	3,113
Capital assets, net	909,884	-	909,884
Other noncurrent assets	257	7,070	7,327
Total Noncurrent Assets	<u>1,015,704</u>	<u>66,550</u>	<u>1,082,254</u>
Total Assets	<u>1,230,145</u>	<u>75,681</u>	<u>1,305,826</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount from debt refundings	3,024	-	3,024
Deferred outflow of pension resources	21,529	-	21,529
Total Deferred Outflows of Resources	<u>24,553</u>	<u>-</u>	<u>24,553</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable and accrued expenses	52,855	2,591	55,446
Bonds payable and other long-term debt - current portion	11,358	-	11,358
Unearned tuition, fees, and deposits	15,438	-	15,438
Unearned revenue from grantors	6,317	-	6,317
Assets held on behalf of others	3,016	-	3,016
Total Current Liabilities	<u>88,984</u>	<u>2,591</u>	<u>91,575</u>
Noncurrent Liabilities			
Bonds payable and other long-term debt - noncurrent portion	436,513	-	436,513
Compensated absences - noncurrent portion	2,450	-	2,450
Assets held on behalf of Federal government for loan programs	3,843	-	3,843
Net pension liability	190,115	-	190,115
Other long term liability	1,950	-	1,950
Total Noncurrent Liabilities	<u>634,871</u>	<u>-</u>	<u>634,871</u>
Total Liabilities	<u>723,855</u>	<u>2,591</u>	<u>726,446</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred service concession arrangement	198,273	-	198,273
Deferred inflow of pension resources	5,793	-	5,793
Deferred amount from debt refundings	28,653	-	28,653
Total Deferred Inflows of Resources	<u>232,719</u>	<u>-</u>	<u>232,719</u>
<b>NET POSITION</b>			
Net investment in capital assets	210,521	-	210,521
Restricted nonexpendable	-	39,381	39,381
Restricted expendable for			
Scholarships	-	1,820	1,820
Loans	1,138	-	1,138
Renewal and replacement	77,810	-	77,810
Debt service and debt service reserve	18,248	-	18,248
Other	-	32,660	32,660
Unrestricted	<u>(9,593)</u>	<u>(770)</u>	<u>(10,363)</u>
Total Net Position	<u>\$ 298,124</u>	<u>\$ 73,091</u>	<u>\$ 371,215</u>

See notes to financial statements

**Montclair State University**  
(A Component Unit of the State of New Jersey)

Statement of Revenues, Expenses, and Changes in Net Position  
(dollars in thousands)  
Year Ended June 30, 2017

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
<b>OPERATING REVENUES</b>			
Student Revenues			
Student tuition and fees	\$ 224,661	\$ -	\$ 224,661
Residence life - room and board	49,053	-	49,053
Less scholarship allowance	<u>59,542</u>	<u>-</u>	<u>59,542</u>
Net Student Revenues	214,172	-	214,172
Federal grant and contracts	8,238	-	8,238
State of New Jersey grants and contracts	31,927	-	31,927
Nongovernmental grants and contracts	6,493	-	6,493
Sales and services of educational departments	6,565	-	6,565
Auxiliary enterprises	30,414	-	30,414
Other operating revenues	<u>15,926</u>	<u>9,833</u>	<u>25,759</u>
Total Operating Revenues	<u>313,735</u>	<u>9,833</u>	<u>323,568</u>
<b>OPERATING EXPENSES</b>			
Instruction	134,439	-	134,439
Research	10,637	-	10,637
Public service	13,701	-	13,701
Academic support	29,295	-	29,295
Student services	17,654	-	17,654
Institutional support	47,741	9,638	57,379
Operations and maintenance of plant	36,855	-	36,855
Depreciation	52,901	-	52,901
Student aid	16,109	-	16,109
Residence life and auxiliary enterprises	<u>60,070</u>	<u>-</u>	<u>60,070</u>
Total Operating Expenses	<u>419,402</u>	<u>9,638</u>	<u>429,040</u>
Operating (Loss) Income	<u>(105,667)</u>	<u>195</u>	<u>(105,472)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State of New Jersey appropriations	35,859	-	35,859
State of New Jersey paid fringe benefits	37,341	-	37,341
Pell grants	31,912	-	31,912
Gifts and non-exchange grants	1,524	-	1,524
Unrealized and realized gains on investment securities	(688)	-	(688)
Investment income, net of investment expenses of \$286	2,405	6,441	8,846
Interest on indebtedness	(15,379)	-	(15,379)
Administrative costs	(332)	-	(332)
Other nonoperating revenues	<u>269</u>	<u>-</u>	<u>269</u>
Net Nonoperating Revenues	<u>92,911</u>	<u>6,441</u>	<u>99,352</u>
Income Before Other Revenues	<u>(12,756)</u>	<u>6,636</u>	<u>(6,120)</u>
Capital gifts and grants	<u>4,510</u>	<u>-</u>	<u>4,510</u>
(Decrease) Increase in Net Position	<u>(8,246)</u>	<u>6,636</u>	<u>(1,610)</u>
<b>NET POSITION</b>			
Beginning of year	<u>298,124</u>	<u>73,091</u>	<u>371,215</u>
End of year	<u>\$ 289,878</u>	<u>\$ 79,727</u>	<u>\$ 369,605</u>

**Montclair State University**  
(A Component Unit of the State of New Jersey)

Statement of Revenues, Expenses, and Changes in Net Position  
(dollars in thousands)  
Year Ended June 30, 2016

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
<b>OPERATING REVENUES</b>			
Student Revenues			
Student tuition and fees	\$ 210,787	\$ -	\$ 210,787
Residence life - room and board	46,553	-	46,553
Less scholarship allowance	<u>55,190</u>	<u>-</u>	<u>55,190</u>
Net Student Revenues	202,150	-	202,150
Federal grant and contracts	8,232	-	8,232
State of New Jersey grants and contracts	29,998	-	29,998
Nongovernmental grants and contracts	6,403	-	6,403
Sales and services of educational departments	6,745	-	6,745
Auxiliary enterprises	29,282	-	29,282
Other operating revenues	<u>17,501</u>	<u>8,619</u>	<u>26,120</u>
Total Operating Revenues	<u>300,311</u>	<u>8,619</u>	<u>308,930</u>
<b>OPERATING EXPENSES</b>			
Instruction	129,938	-	129,938
Research	8,329	-	8,329
Public service	14,050	-	14,050
Academic support	27,571	-	27,571
Student services	16,970	-	16,970
Institutional support	50,630	8,833	59,463
Operations and maintenance of plant	36,089	-	36,089
Depreciation	41,749	-	41,749
Student aid	16,214	-	16,214
Residence life and auxiliary enterprises	<u>53,709</u>	<u>-</u>	<u>53,709</u>
Total Operating Expenses	<u>395,249</u>	<u>8,833</u>	<u>404,082</u>
Operating Loss	<u>(94,938)</u>	<u>(214)</u>	<u>(95,152)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State of New Jersey appropriations	35,859	-	35,859
State of New Jersey paid fringe benefits	39,991	-	39,991
Pell grants	30,539	-	30,539
Gifts and non-exchange grants	798	-	798
Unrealized and realized gains on investment securities	278	-	278
Investment income, net of investment expenses of \$288	1,675	(1,326)	349
Interest on indebtedness	(18,875)	-	(18,875)
Administrative costs	(1,347)	-	(1,347)
Loss on disposal of capital assets	(29)	-	(29)
Other nonoperating revenues	<u>620</u>	<u>-</u>	<u>620</u>
Net Nonoperating Revenues	<u>89,509</u>	<u>(1,326)</u>	<u>88,183</u>
Income Before Other Revenues	(5,429)	(1,540)	(6,969)
Capital gifts and grants	<u>12,670</u>	<u>-</u>	<u>12,670</u>
Increase (Decrease) in Net Position	7,241	(1,540)	5,701
<b>NET POSITION</b>			
Beginning of year	<u>290,883</u>	<u>74,631</u>	<u>365,514</u>
End of year	<u>\$ 298,124</u>	<u>\$ 73,091</u>	<u>\$ 371,215</u>

**Montclair State University**  
(A Component Unit of the State of New Jersey)

Statements of Cash Flows  
Business - Type Activities - University Only

	Year Ended June 30, (dollars in thousands)	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 163,209	\$ 149,288
Grants and contracts	47,474	43,322
Payments for salaries	(193,386)	(191,662)
Payments for fringe benefits	(37,341)	(39,391)
Payments to suppliers	(60,126)	(38,955)
Payments for utilities	(19,646)	(20,866)
Payments for student aid	(15,418)	(17,426)
Loans issued to students	(282)	(220)
Collection of loans from students	619	585
Auxiliary enterprises charges		
Residence life	48,944	46,436
Other	30,414	33,109
Sales and services of educational departments	6,565	7,198
Other receipts	15,921	16,787
Net Cash from Operating Activities	(13,053)	(11,795)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State of New Jersey appropriations/Pell grants	72,320	76,894
Gifts and non-exchange grants	1,524	798
Student organization agency transactions	(2,156)	1,835
Other receipts	269	618
Net Cash from Noncapital Financing Activities	71,957	80,145
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital gifts and grants	4,510	12,670
Proceeds from capital debt	3,830	(344)
Principal paid on capital debt	(11,722)	(11,697)
Interest paid on capital debt	(18,931)	(20,050)
Purchases of capital assets	(78,807)	(94,669)
Administrative costs	(229)	61
Change in deposits held by bond trustees	32,489	43,607
Net Cash from Capital Financing Activities	(68,860)	(70,422)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	2,591,127	3,884,864
Purchases of investments	(2,621,022)	(3,859,174)
Interest on investments	2,697	1,394
Net Cash from Investing Activities	(27,198)	27,084
Net Increase in Cash and Cash Equivalents	(37,154)	25,012
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	75,831	50,819
End of year	\$ 38,677	\$ 75,831

See notes to financial statements

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)

Statements of Cash Flows  
Business - Type Activities - University Only

	Year Ended June 30, (dollars in thousands)	
	2017	2016
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (105,667)	\$ (94,938)
Adjustments to reconcile operating loss to net cash used by operating activities		
State of New Jersey paid fringe benefits	29,353	29,483
Depreciation expense	52,901	41,749
Provision for bad debts	(609)	(638)
Changes in assets and liabilities :		
Student receivables	464	(12)
Loans receivable	337	365
Grants receivable	(1,062)	1,311
Other receivables	226	219
Other current assets	415	(536)
Accounts payable and accrued expenses	(5,459)	6,310
Unearned tuition, fees and deposits	(1,874)	(1,949)
Unearned revenue from granters	1,891	(2,617)
Compensated absences - noncurrent portion	(17)	21
Assets held on behalf of Federal government for loan programs	(13)	(5)
Net pension liability	16,061	9,442
Net Cash from Operating Activities	\$ (13,053)	\$ (11,795)

**Montclair State University**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements  
June 30, 2017 and 2016

**1. Organization**

Montclair State University (the University) is recognized as a public institution of higher education by the State of New Jersey (the State). With its emphasis on the liberal arts and sciences, the University, in 1937, became one of the first teachers' colleges accredited by the Middle States Association of Colleges and Schools. Responding to enrollment growth in the late forties and fifties with an expanded curriculum and faculty, the campus became Montclair State College in 1958, and a comprehensive, multipurpose institution in 1966. Recognizing the strengths of its academic programs and faculty and the commitment to excellence in instruction and research, the State Board of Higher Education designated Montclair State a teaching university on April 27, 1994.

The University is an instrumentality of the State with a high degree of autonomy. However, under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the University, which is financially dependent on the State, is considered to be a component unit of the State for financial reporting purposes. Accordingly, the financial statements of the University are included in the State's Comprehensive Annual Financial Report.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accounting policies of the University conform to U.S. generally accepted accounting principles as applicable to public colleges and universities. The University's reports are based on all applicable GASB authoritative literature in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GASB Statements No. 35 and 63 establish standards for external financial reporting for public colleges and universities and require 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.

**Montclair State University**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements  
June 30, 2017 and 2016

**2. Summary of Significant Accounting Policies (continued)**

***Basis of Presentation (continued)***

- *Unrestricted:* Net position not subject to externally-imposed stipulations that may be designated for specific purposes by action of management or the Board of Trustees, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position is designated for academic programs and initiatives and capital programs.

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

***Measurement Focus and Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. The University reports as a business type activity, as defined by GASB Statement No. 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

***Use of Estimates***

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

***Cash and Cash Equivalents***

Cash and cash equivalents consist of highly liquid short-term investments purchased with an original maturity of three months or less.

***Investments***

Investments are recorded in the financial statements at fair value, which is based on quoted market prices. Purchase and sales of investments are accounted for on the trade-date basis. Investment income is recorded on an accrual basis.

**Montclair State University**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements  
June 30, 2017 and 2016

**2. Summary of Significant Accounting Policies (continued)**

***Capital Assets***

Capital assets with acquisition costs of at least \$5,000 and useful lives of at least three years are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Assets acquired under lease agreements are classified as capital leases and are recorded as capital assets.

Capital assets of the University are depreciated using the straight-line method over the following useful lives:

	<u>Useful lives</u>
Buildings	50 years
Building improvements	20 years
Infrastructure	25 years
Land improvements	25 years
Equipment, furniture and vehicles	3 - 10 years

The University owns works of art and other collectibles valued at approximately \$3.7 million as of June 30, 2017 and June 30, 2016, respectively. Management has elected not to capitalize these items in accordance with GASB Statement No. 34.

***Prepaid Financing Costs***

The University capitalizes prepaid insurance costs incurred in connection with its bond issues and amortizes these costs over the life of the respective obligations. These prepaid costs are included in other noncurrent assets in the accompanying statements of net position. Accumulated amortization amounted to \$0.2 million and \$0.3 million in 2017 and 2016, respectively.

***Assets Held on Behalf of Others***

The University holds cash and cash equivalents as custodian primarily for various student organizations.

***Deferred Outflows and Deferred Inflows of Resources***

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources. The changes in assumptions, net differences between projected and actual earnings on pension plan investments and changes in proportionate share may be either deferred outflows of resources or deferred inflows of resources. See note 8 for the University's breakdown of these items.

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**2. Summary of Significant Accounting Policies (continued)**

***Deferred Outflows and Deferred Inflows of Resources (continued)***

Deferred outflows and inflows of resources include gain and losses resulting from refinancing of debt, which represents the difference between the reacquisition price and the net carrying amount of the old debt and is amortized over the life of the related debt.

Deferred outflows also include commitments made for capital purchases.

***Revenue Recognition***

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, and are recognized in the period earned. Student tuition and fees collected in advance of the academic year are recorded as unearned tuition and fees in the accompanying financial statements.

Grants and contracts revenue is comprised mainly of revenues received from grants from the State and Federal governments and are recognized as the related expenses are incurred. Amounts received from grants which have not yet been earned under the terms of the agreement are recorded as unearned revenue from grantors in the accompanying financial statements.

The University recognizes a deferred inflow of resources related to the acquisition of the Heights residence hall as part of its service concession agreement. The deferred inflow will be amortized into income over the term of the agreement and is included in other operating income in the statement of revenues, expenses and changes in net position.

Revenue from State appropriations is recognized in the fiscal year during which the State appropriates the funds to the University. The University is fiscally dependent upon these appropriations.

***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: student tuition and fees, and residence life, net of scholarship allowances; sales and services of auxiliary enterprises; and most Federal, State, local and other grants and contracts. Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as operating and capital appropriations from the State, Pell grants, and net investment income and gifts and non-exchange grants.

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**2. Summary of Significant Accounting Policies (continued)**

***Tax Status***

The University is exempt from Federal income taxes under Section 115 of the Internal Revenue Code. The Foundation is exempt from Federal income taxes under the Internal Revenue Code Section 501c(3) and, therefore, has made no provision for Federal income taxes. The Foundation is subject to the accounting standard for uncertain tax positions and has determined that no liabilities are required to be recorded for uncertain tax positions. The Foundation is no longer subject to Federal tax examinations for its Federal Form 990 and for the State of New Jersey Form CRI-300R for years prior to June 30, 2014.

***Recently Issued Accounting Pronouncements***

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local government employers about financial support for OPEB that is provided by other entities. The Statement will become effective for the District in the 2018 fiscal year. Management has not yet determined the impact of this Statement on the financial statements.

***Subsequent Events***

Management has reviewed and evaluated all events and transactions from June 30, 2017 through September 29, 2017, the date that the financial statements are available to be issued. The effects of those events and transactions that provide information about conditions that existed at the statements of net position dates, have been recognized and disclosed in the accompanying financial statements.

**3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement**

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the University has assessed the custodial credit risk, interest rate risk, credit risk, and concentration of credit risk of its cash, assets held under bond indenture agreements and investments.

Statutes of the State and regulations of the State Investment Council authorize the University to invest in obligations of the U.S. Treasury; agencies, and other municipal or political subdivisions of the State; commercial paper; bankers acceptances; revenue obligations of public authorities; debt instruments of banks; collateralized notes and mortgages; certificates of deposit; repurchase agreement; equity and convertible equity securities; and other common types of investment securities.

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**3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement (continued)**

Investee institutions and organizations are prescribed by the statutes and regulations based on such things as minimum capital, dividend paying history, credit history, and other evaluation factors.

Cash, investments and assets held under bond indenture agreements as of June 30, 2017 are classified in the statements of net position as follows (dollars in thousands):

	2017	2016
Cash and cash equivalents	\$ 38,677	\$ 75,831
Assets held under bond indenture agreements	63,570	96,059
Investments	138,841	110,323
	\$ 241,088	\$ 282,213

***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University entered into a tri-party collateral management agreement with the Bank of America and Bank of New York Mellon acting as the custodian. This agreement secures the payment of uninsured deposits to the University. As of June 30, 2017 and 2016, cash and cash equivalents were held by depositories and amounted to \$17.6 million and \$23.0 million, respectively.

As of June 30, 2017, \$0.3 million was FDIC insured and \$17.3 million was collateralized with securities according to the tri-party agreement. As of June 30, 2016, \$0.8 million was FDIC insured and \$22.2 million was uninsured and uncollateralized or collateralized with securities held by the pledging financial institution, or by trust department or agent but not in the University's name.

The University participates in the State of New Jersey Cash Management Fund wherein amounts contributed by the University are combined with funds from other state institutions into a large scale investment program. The carrying amount and fair value of cash and cash equivalents at June 30, 2017 and 2016 was \$23.6 million and \$31.6 million, respectively. These amounts are collateralized in accordance with Chapter 64 of Title 18A of New Jersey statutes. The Cash Management Fund is unrated.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's investment policy requires that any repurchase agreements held in the portfolio be collateralized at least 102% with U.S. Government securities or mortgage-backed securities. The maximum term of these agreements will be 90 days, and the collateral must be marked-to-market daily.

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**3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement (continued)**

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the University's investment policy stipulates that the portfolio shall be managed to have a targeted duration within a band +/- 20% of the Merrill Lynch US 1-3 Year Treasury Index. The final maturity of each security within the portfolio shall not exceed five years, with the exception that for mortgage-backed securities and asset-backed securities, the average life of the security may not exceed five years. As of June 30, 2017, the University had the following investments and maturities (dollars in thousands):

Investment Type	Fair Value	Maturities (in years)		
		less than 1	1 - 5	greater than 5
U.S. treasuries (Level 1)	\$ 40,591	\$ -	\$ 40,591	\$ -
Municipals (Level 2)	5,584	-	3,278	2,306
U.S. agencies (Level 1)	7,186	-	7,186	-
Debt securities (Level 2)	<u>85,480</u>	<u>31,904</u>	<u>49,715</u>	<u>3,861</u>
Total	<u>\$ 138,841</u>	<u>\$ 31,904</u>	<u>\$ 100,770</u>	<u>\$ 6,167</u>

As of June 30, 2016, the University had the following investments and maturities (dollars in thousands):

Investment Type	Fair Value	Maturities (in years)		
		less than 1	1 - 5	greater than 5
U.S. treasuries (Level 1)	\$ 22,701	\$ -	\$ 22,701	\$ -
Municipals (Level 2)	2,732	-	2,732	-
U.S. agencies (Level 1)	4,800	-	4,800	-
Debt securities (Level 2)	<u>80,090</u>	<u>7,872</u>	<u>66,248</u>	<u>5,970</u>
Total	<u>\$ 110,323</u>	<u>\$ 7,872</u>	<u>\$ 96,481</u>	<u>\$ 5,970</u>

**Montclair State University**  
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**3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement (continued)**

***Interest Rate Risk***

Assets held under bond indenture agreements are not governed by the University's investment policies, but rather by the investment policies of New Jersey Educational Facilities Authority (the Authority). As of June 30, 2017, investments were in U.S. treasuries of \$35.1 million, and money market funds of \$28.4 million. As of June 30, 2016, investments were in U.S. treasuries of \$70.0 million, money market funds of \$26.0 million, all maturing within one year.

***Credit Risk***

Securities must be rated investment grade or better by a nationally recognized credit rating agency at the time of purchase. Split rated credits will be considered to have the lower credit rating. Money market instruments must be rated A-1 or P-1 or better at the time of purchase.

In the event that a security is downgraded below these credit quality guidelines, the investment manager(s) shall notify the University and provide an evaluation and plan of action. If bonds in the portfolio are downgraded below investment grade, the investment manager(s) may continue to hold up to 2% in aggregate market value of these securities.

Temporary cash balances may be invested in a money market instrument (A-1/P-1 or better, less than 390 days).

As of June 30, 2017, \$5.9 million in debt securities were rated AAA, \$23.9 million in debt securities were rated AA, and \$55.7 million were rated A-BAA by Moody's. As of June 30, 2016, \$5.7 million in debt securities were rated AAA, \$30.0 million were rated AA, and \$44.4 million were rated A-BAA by Moody's.

***Concentration of Credit Risk***

This is the risk associated with the amount of investments the University has with any one issuer. Except for treasuries, agency debentures, agency pass-throughs, agency REMIC's, and asset-backed securities, no more than 2% of the portfolio shall be invested in securities of a single issuer. Asset-backed securities are limited to 5% per issuer.

Assets held under bond indenture agreements represent assets held by bond trustees under the terms of various bond and other long-term debt agreements. Assets held under bond indenture agreements are carried in the financial statements at fair value, and consist of cash and cash equivalents and U.S. government obligations. Assets held under bond indenture agreements are maintained for the following (dollars in thousands):

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**3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement (continued)**

	2017	2016
Project and construction fund	\$ 43,106	\$ 77,809
Debt service fund for principal and interest	20,464	18,248
Rental pledge	-	2
 Assets Held Under Bond Indenture Agreements	 \$ 63,570	 \$ 96,059

**4. Capital Assets**

Capital asset activity for the year ended June 30, 2017 is comprised of the following (dollars in thousands):

	Beginning Balance	Acquisitions and Other Increases	Dispositions and Other Decreases	Ending Balance
Depreciable assets:				
Infrastructure	\$ 44,245	\$ 799	\$ -	\$ 45,044
Buildings and improvements	899,330	75,516	-	974,846
Equipment	211,107	30,714	546	241,275
Other	22,860	7,531	-	30,391
Total Depreciable Assets	1,177,542	114,560	546	1,291,556
Less accumulated depreciation on:				
Infrastructure	19,052	1,630	-	20,682
Buildings and improvements	230,558	23,291	-	253,849
Equipment	122,876	26,790	546	149,120
Other	15,719	1,190	-	16,909
Total Accumulated Depreciation	388,205	52,901	546	440,560
Depreciable Assets, Net	789,337	61,659	-	850,996
Nondepreciable assets:				
Land	37,101	35	-	37,136
Construction in progress	83,446	56,632	111,510	28,568
Total Nondepreciable Assets	120,547	56,667	111,510	65,704
Total Capital Assets, Net	\$ 909,884	\$ 118,326	\$ 111,510	\$ 916,700

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**4. Capital Assets (continued)**

Capital asset activity for the year ended June 30, 2016 is comprised of the following (dollars in thousands):

	Beginning Balance	Acquisitions and Other Increases	Dispositions and Other Decreases	Ending Balance
Depreciable assets:				
Infrastructure	\$ 42,545	\$ 1,700	\$ -	\$ 44,245
Buildings and improvements	772,727	126,603	-	899,330
Equipment	156,365	56,471	1,729	211,107
Other	22,177	683	-	22,860
Total Depreciable Assets	993,814	185,457	1,729	1,177,542
Less accumulated depreciation on:				
Infrastructure	17,472	1,580	-	19,052
Buildings and improvements	209,902	20,656	-	230,558
Equipment	106,167	18,438	1,729	122,876
Other	14,644	1,075	-	15,719
Total Accumulated Depreciation	348,185	41,749	1,729	388,205
Depreciable Assets, Net	645,629	143,708	-	789,337
Nondepreciable assets:				
Land	37,101	-	-	37,101
Construction in progress	174,772	93,340	184,666	83,446
Total Nondepreciable Assets	211,873	93,340	184,666	120,547
Total Capital Assets, Net	<u>\$ 857,502</u>	<u>\$ 237,048</u>	<u>\$ 184,666</u>	<u>\$ 909,884</u>

Estimated costs to complete the projects classified as construction in progress as of June 30, 2017 and 2016 approximated \$74.6 million and \$59.9 million and are expected to be funded from unrestricted resources, State grants and contracts and NJEFA bonds. The University had no capitalized interest expense during 2017 and 2016.

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**5. Accounts Payable and Accrued Expenses**

As of June 30, 2017 and 2016, accounts payable and accrued expenses consist of the following (dollars in thousands):

	<u>2017</u>	<u>2016</u>
Vendors	\$ 16,527	\$ 20,767
Capital projects	2,040	8,754
Employees	7,592	9,283
Interest payable	10,149	8,439
Compensated absences	<u>6,084</u>	<u>5,612</u>
	<u>\$ 42,392</u>	<u>\$ 52,855</u>

**6. Bonds Payable and Other Long-Term Debt**

***Bonds Payable***

The University is obligated under various revenue bonds issued by the Authority to finance various construction, renovations, and capital acquisitions. These bonds are general obligations of the University. The following bonds payable of the Authority related to the University were outstanding as of June 30, 2017 and 2016 (dollars in thousands):

	Interest rates	<u>2017</u>	<u>2016</u>
New Jersey Educational Facilities Authority Revenue Bonds:			
Series 2006 J Revenue Bonds, due serially to 2021	3.75 - 4.25	\$ 30,315	\$ 33,575
Series 2007 A Revenue Bonds, due serially to 2021	5.25	3,095	3,620
Series 2008 J Revenue Bonds, due serially to 2018	3.00 - 5.00	1,335	1,965
Series 2014 A Revenue Bonds, due serially to 2044	3.00 - 5.00	186,015	189,365
Series 2015 D Revenue Bonds, due serially to 2036	3.75 - 5.00	71,700	73,770
Series 2016 B Revenue Bonds, due serially to 2038	3.00 - 5.00	<u>118,190</u>	<u>118,190</u>
Bonds payable		410,650	420,485
Plus: Bond premium		17,567	18,326
Less: Bond discount		<u>(99)</u>	<u>(198)</u>
Total bonds payable		<u>\$ 428,118</u>	<u>\$ 438,613</u>

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**6. Bonds Payable and Other Long-Term Debt (continued)**

***Other Long-Term Debt***

The following other long-term debt was outstanding as of June 30, 2017 and 2016 (dollars in thousands):

	<u>Interest rates</u>	<u>2017</u>	<u>2016</u>
Series 2002 A Higher Education Capital Improvement Fund, due serially to 2022	3.00 - 5.25	\$ 45	\$ 45
Series 2005 A Higher Education Capital Improvement Fund, due serially to 2020	5.00	-	1,649
Series 2006 A Higher Education Capital Improvement Fund, due serially to 2022	4.00 - 4.50	-	3,204
Series 2016 A Higher Education Capital Improvement Fund, due serially to 2022	2.25 - 2.51	4,496	-
Series 2016 B Higher Education Capital Improvement Fund, due serially to 2022	3.00 - 5.50	2,281	-
Note payable for land purchase, due serially to 2019	4.75 - 5.00	788	923
New Jersey Environmental Infrastructure Trust, due serially to 2022	3.00 - 5.25	570	650
New Jersey Environmental Infrastructure due serially to 2022	3.00 - 5.25	436	509
2014 Higher Education Equipment Leasing Fund Program 032-10	5.00	111	126
2014 Higher Education Equipment Leasing Fund Program 032-11	5.00	111	126
Obligations under capital leases, due in equal monthly installments through 2020	1.14 - 4.53	<u>2,363</u>	<u>2,026</u>
Total other long-term debt		<u>\$ 11,201</u>	<u>\$ 9,258</u>

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**6. Bonds Payable and Other Long-Term Debt (continued)**

***Future Principal and Interest Payments***

The following is a schedule of future minimum principal and interest and fee payments on the University's bonds payable and other long-term debt as of June 30, 2017 (dollars in thousands):

	Principal	Interest and fees
Year ending June 30:		
2018	\$ 13,585	\$ 20,367
2019	17,559	19,732
2020	16,918	19,133
2021	23,495	18,420
2022	21,403	17,677
2018 - 2022 Subtotal	92,960	95,329
2023 - 2027	94,112	77,818
2028 - 2032	101,315	56,273
2033 - 2037	50,481	32,742
2038 - 2042	58,728	16,240
2043 - 2045	41,723	2,132
	\$ 439,319	\$ 280,534

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**7. Summary of Changes in Noncurrent Liabilities**

The following table summarizes the changes in noncurrent liabilities during the year ended June 30, 2017 and 2016 (dollars in thousands):

	<b>2017</b>				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable and other					
long-term debt	\$ 447,871	\$ 4,347	\$ (12,899)	\$ 439,319	\$ 12,084
Compensated absences (see note 11)	8,063	3,169	(2,715)	8,517	6,084
Assets held on behalf of Federal					
government for loan programs	3,843	-	(13)	3,830	-
Net pension liability	190,115	46,661	-	236,776	-
Other long term liability	<u>1,950</u>	<u>3,882</u>	<u>(338)</u>	<u>5,494</u>	<u>526</u>
Total Noncurrent Liabilities	<u>\$ 651,842</u>	<u>\$ 58,059</u>	<u>\$ (15,965)</u>	<u>\$ 693,936</u>	<u>\$ 18,694</u>

	<b>2016</b>				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable and other					
long-term debt	\$ 487,343	\$ 1,302	\$ (40,774)	\$ 447,871	\$ 12,084
Compensated absences (see note 11)	7,760	951	(648)	8,063	5,613
Assets held on behalf of Federal					
government for loan programs	3,848	-	(5)	3,843	-
Net pension liability	160,488	29,627	-	190,115	-
Other long term liability	<u>2,100</u>	<u>-</u>	<u>(150)</u>	<u>1,950</u>	<u>150</u>
Total Noncurrent Liabilities	<u>\$ 661,539</u>	<u>\$ 31,880</u>	<u>\$ (41,577)</u>	<u>\$ 651,842</u>	<u>\$ 17,847</u>

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**8. Retirement Plans**

University employees participate in three major retirement plans: Public Employees' Retirement System (PERS), Police and Firemen's Retirement System (PFRS), and the Alternate Benefit Program (ABP). PERS and PFRS are cost-sharing, multiple-employer plans administered by the State, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml). The ABP is administered by separate boards of trustees. Generally all employees, except certain part-time employees, participate in one of these plans.

PERS was established under the provisions of N.J.S.A 43:15A to provide coverage, including postretirement healthcare, to substantially all full-time employees of the State of New Jersey public agencies, provided the employee is not a member of another State-administered retirement system.

PFRS was established under the provisions of N.J.S.A. 43:16A to provide coverage to substantially all full-time county and municipal police or firemen and state firemen appointed after June 30, 1994.

In addition to the three plans referred to above, certain faculty members of the University participate in Teachers' Pension and Annuity Fund (TPAF), which is a State cost-sharing, multiple employer defined benefit plan with a special-funding situation by which the State is responsible to fund 100% of the employer contributions, excluding any local employer early retirement incentive (ERI) contributions. TPAF is administered by the State Division. TPAF was established under the provisions of N.J.S.A. 18A:66 to provide coverage, including postretirement healthcare, to substantially all full-time public school employees in the State. The plan's eligibility requirements are similar to PERS' requirement. PERS replaced this plan for all new employees and members of TPAF were able to transfer to PERS. For additional information about TPAF, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

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**8. Retirement Plans (continued)**

***Public Employees' Retirement System and Police and Firemen's Retirement System***

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

The following represents the membership tiers for PERS:

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

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

The following represents the membership tiers for PFRS:

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

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**8. Retirement Plans (continued)**

***Public Employees' Retirement System and Police and Firemen's Retirement System (continued)***

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

***Contributions***

The contribution policy for PERS and PFRS is set by N.J.S.A. 15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined rate which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid.

PERS members are required to contribute 7.20% and 7.06%, respectively, and PFRS members are required to contribute 10% of their annual covered salary and the University is required to contribute at an actuarially determined rate. The State contributes to PERS and PFRS on behalf of the University. Employers were not required to contribute in 2017 or 2016 due to legislation enacted in 1997 by the State of New Jersey, which fully funded previously existing unfunded accrued liabilities of PERS through State of New Jersey bonds. The contribution requirements of the plan members and the University are established and may be amended by the State.

Allocated employer contributions provided by the State and recognized by the PERS and PFRS plans from the University for the year ending June 30, 2017 totaled \$2,826 and \$.379 million, respectively and for the year ending June 30, 2016 totaled \$1,643 and \$.285 million, respectively.

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**8. Retirement Plans (continued)**

***Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of resources related to pensions.***

Net pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources amounts recorded to reflect the provisions of GASB 68 are reflective of the respective plan's published financial statements and actuarial valuations as of June 30, 2016 ("Measurement Date").

The University's respective net pension liability, deferred outflows of resources, deferred inflows of resources, and net pension expense related to PERS and PFRS, at and for the fiscal year ended June 30, 2017 and 2016, are as follows:

	<b>2017</b>		
	<b>PERS</b>	<b>PFRS</b>	<b>Total</b>
Proportionate share of the net pension liability (\$)			
2016	\$ 215,708	\$ 21,068	\$ 236,776
2015	172,860	17,255	190,115
Proportionate share of the net pension liability (%)			
2016	0.734%	0.447%	
2015	0.729%	0.402%	
Deferred outflows of resources	45,259	4,988	50,247
Deferred inflows of resources	3,334	577	3,911
Pension expense	18,302	2,287	20,589
	<b>2016</b>		
	<b>PERS</b>	<b>PFRS</b>	<b>Total</b>
Proportionate share of the net pension liability (\$)			
2015	\$ 172,860	\$ 17,255	\$ 190,115
2014	145,594	14,894	160,488
Proportionate share of the net pension liability (%)			
2015	0.729%	0.402%	
2014	0.723%	0.419%	
Deferred outflows of resources	18,765	2,764	21,529
Deferred inflows of resources	5,156	637	5,793
Pension expense	11,103	1,481	12,584

The University's proportionate share of each respective plan's net pension liability was based on the State contribution to the respective plans from July 1, 2015 to June 30, 2016 relative to the total contributions from all participating employers.

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**8. Retirement Plans (continued)**

***Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of resources related to pensions (continued)***

The components of pension related deferred outflows of resources and deferred inflows of resources as of the Measurement Date for the fiscal year ended June 30, 2017 and 2016, are as follows:

	2017		
	PERS	PFRS	Total
<b>Deferred Outflows of Resources:</b>			
Differences between expected and actual experience	\$ 4,591	\$ -	\$ 4,591
Changes of assumptions	32,242	1,641	33,883
Net differences between projected and actual investment earnings on pension plan investments	3,564	657	4,221
Changes in proportion	1,636	1,694	3,330
Contributions subsequent to the measurement date	3,226	996	4,222
	<u>\$ 45,259</u>	<u>\$ 4,988</u>	<u>\$ 50,247</u>

The contributions paid to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in fiscal year 2018.

	PERS	PFRS	Total
<b>Deferred Inflows of Resources:</b>			
Differences between expected and actual experience	\$ -	\$ 182	\$ 182
Net differences between projected and actual investment earnings on pension plan investments	3,334	-	3,334
Changes in proportion	-	395	395
	<u>\$ 3,334</u>	<u>\$ 577</u>	<u>\$ 3,911</u>

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**8. Retirement Plans (continued)**

***Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of resources related to pensions (continued)***

	2016		
	PERS	PFRS	Total
<b>Deferred Outflows of Resources:</b>			
Differences between expected and actual experience	\$ 2,416	\$ -	\$ 2,416
Changes of assumptions	13,177	1,770	14,947
Net differences between projected and actual investment earnings on pension plan investments	-	46	46
Changes in proportion	890	330	1,220
Contributions subsequent to the measurement date	2,282	618	2,900
	<u>\$ 18,765</u>	<u>\$ 2,764</u>	<u>\$ 21,529</u>

The contributions paid to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in fiscal year 2017.

	PERS	PFRS	Total
<b>Deferred Inflows of Resources:</b>			
Differences between expected and actual experience	\$ -	\$ 130	\$ 130
Net differences between projected and actual investment earnings on pension plan investments	853	-	853
Changes in proportion	4,303	507	4,810
	<u>\$ 5,156</u>	<u>\$ 637</u>	<u>\$ 5,793</u>

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$3,226 for PERS and \$996 for PFRS will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense in the statement of revenues, expenses and changes in net position as follows:

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**8. Retirement Plans (continued)**

***Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of resources related to pensions (continued)***

	2017		
	PERS	PFRS	Total
Years ending:			
2018	\$ 8,777	\$ 809	\$ 9,586
2019	8,777	809	9,586
2020	8,777	809	9,586
2021	8,444	761	9,205
2022	3,924	227	4,151
	38,699	3,415	42,114
Contributions paid subsequent to Measurement Date	3,226	996	4,222
	\$ 41,925	\$ 4,411	\$ 46,336

***Actuarial Assumptions***

The University's net pension liability as of June 30, 2016 (based on July 1, 2015 actuarial valuation) and June 30, 2015 (based on July 1, 2014 actuarial valuation) were determined using the following assumptions:

	June 30, 2016	
	PERS	PFRS
Inflation Rate	3.08%	3.08%
Salary increases:		
2012-2021	1.65 - 4.15% based on age	2.10 - 8.98% based on age
Thereafter	2.65 - 5.15% based on age	3.10 - 9.98% based on age
Investment rate of return	7.65%	7.65%
	June 30, 2015	
	PERS	PFRS
Inflation Rate	3.04%	3.04%
Salary increases:		
2012-2021	2.15 - 4.40% based on age	2.60 - 9.48% based on age
Thereafter	3.15 - 5.40% based on age	3.60 - 10.48% based on age
Investment rate of return	7.90%	7.90%

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**8. Retirement Plans (*continued*)**

**PERS**

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

**PFRS**

Pre-retirement mortality rates were based on the RP-2000 Pre-Retirement mortality tables projected thirteen years using Projection Scale BB and then projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for male service retirements and beneficiaries are based the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's 2014 projection scales. Post-retirement mortality rates for female service retirements and beneficiaries were based the RP-2000 Combined Healthy Mortality Tables projected thirteen years using Projection Scale BB and then two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Disability mortality tables were based on special mortality tables used for the period after disability retirement.

The actuarial assumptions used in the July 1, 2015 actuarial valuations were based on the results of actuarial experience studies for the periods July 1, 2011 to June 30, 2014 for PERS and July 1, 2010 to June 30, 2013 for PFRS.

The actuarial assumptions used in the July 1, 2014 actuarial valuations were based on the results of the actuarial experience studies for the periods July 1, 2008 to June 30, 2011 for PERS and July 1, 2010 to June 30, 2013 for PFRS.

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**8. Retirement Plans (continued)**

***Long-Term Expected Rate of Return***

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and New Jersey Division of Pension and Benefits, the board of trustees of each plan and the plans' actuaries. Best estimates of the arithmetic real rates of return for each major asset class included in PERS's and PFRS's target asset allocations as of June 30, 2016 and 2015 are summarized in the following table:

Asset Class	2016		2015	
	PERS and PFRS		PERS and PFRS	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.87%	5.00%	1.04%
U.S. Treasuries	1.50%	1.74%	1.75%	1.64%
Investment Grade Credit	8.00%	1.79%	10.00%	1.79%
Mortgages	2.00%	1.67%	2.10%	1.62%
High Yield Bonds	2.00%	4.56%	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.44%	1.50%	3.25%
Broad US Equities	26.00%	8.53%	27.25%	8.52%
Developed Foreign Equities	13.25%	6.83%	12.00%	6.88%
Emerging Market Equities	6.50%	9.95%	6.40%	10.00%
Private Equity	9.00%	12.40%	9.25%	12.41%
Hedge Funds/Absolute Return	12.50%	4.68%	12.00%	4.72%
Real Estate (Property)	2.00%	6.91%	2.00%	6.83%
Commodities	0.50%	5.45%	1.00%	5.32%
Global Debt ex US	5.00%	-0.25%	3.50%	-0.40%
REIT	5.25%	5.63%	4.25%	5.12%

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Notes to Financial Statements  
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**8. Retirement Plans (continued)**

***Discount Rates***

The discount rates used to measure the total pension liabilities were 3.98% and 5.55% for PERS and PFRS as of the Measurement Date and 4.90% and 5.79% at June 30, 2015, respectively. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of the Measurement Date based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher for PERS and PFRS. As of June 30, 2016, the projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. Based on those assumptions, the plans' fiduciary net position as of June 30, 2016 was projected to be available to make projected future benefit payments of current plan members through 2034 for PERS and 2050 for PFRS. Therefore, the long-term expected rate of return on plan investments was applied to the projected benefit payments through 2034 for PERS and 2050 for PFRS, and the municipal bond rate was applied to projected benefit payments after those dates in determining the total pension liabilities.

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

The following presents the University's proportionate share of the collective net pension liability of the plans as of June 30, 2016 and 2015 calculated using the discount rate as disclosed above, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (dollars in thousands):

	<b>2017</b>			
	<b>PERS</b>		<b>PFRS</b>	
	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>	<b>Amount</b>
1% decrease	2.98%	252,641	4.55%	25,100
Current discount rate	3.98%	215,708	5.55%	21,068
1% increase	4.98%	185,293	6.55%	17,790
	<b>2016</b>			
	<b>PERS</b>		<b>PFRS</b>	
	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>	<b>Amount</b>
1% decrease	3.90%	202,590	4.79%	20,775
Current discount rate	4.90%	172,860	5.79%	17,255
1% increase	5.90%	148,031	6.79%	14,394

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**8. Retirement Plans (continued)**

***Teachers' Pension and Annuity Fund***

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

The following represents the membership tiers for TPAF:

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

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

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**8. Retirement Plans (continued)**

***Teachers' Pension and Annuity Fund (continued)***

***Contributions***

The contribution policy for TPAF is set by N.J.S.A 18A:66 and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization on the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid.

Allocated employer contributions provided by the State and recognized by the plan from the University totaled \$43,076 and \$146,149 for the year ending June 30, 2017 and 2016, respectively.

***Net Pension Liability***

As of June 30, 2017 and 2016, the University's proportionate share of the net present liability was \$4.2 million and \$17.2 million, respectively.

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The June 30, 2016 actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation Rate	2.50%
Salary increases: 2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment rate of return	7.65%

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**8. Retirement Plans (continued)**

***Teachers' Pension and Annuity Fund (continued)***

For the July 1, 2015 actuarial valuation, pre-retirement, post-retirement and disabled mortality rates were based on experience of TPAF members reflecting mortality improvement on a generational basis based on a 60-year average of Social Security data from 1953 to 2013.

For the July 1, 2014 actuarial valuation mortality rates were based on the RP-2000 Health Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA from the base year of 2000 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to account for future mortality improvement.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2012.

***Discount Rate***

The discount rate used to measure the total pension liability was 3.22% and 4.13% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and 7.90% as of June 30, 2016 and 2015, respectively, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate as of June 30, 2016 assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State contributed 30% of the actuarially determined contributions. The projection of cash flows used to determine the discount rate as of June 30, 2015 assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of employers' contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2029 and 2027, respectively. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2029 and 2027, respectively, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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Notes to Financial Statements  
June 30, 2017 and 2016

**8. Retirement Plans (continued)**

**Teachers' Pension and Annuity Fund (continued)**

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

The following presents the net state's proportionate share pension liability associated with the University as of June 30, 2016 and 2015 calculating using the discount rate as disclosed above as well as what the University's net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate (dollars in thousands):

	<b>2016</b>		
	At 1% Decrease (2.22%)	At Current Discount Rate (3.22%)	At 1% Increase (4.22%)
Net Pension Liability	\$ 94,378,176	\$ 79,028,907	\$ 66,494,248
Allocation Percentage	<u>0.0054088505%</u>	<u>0.0054088505%</u>	<u>0.0054088505%</u>
University's proportionate share of the net pension liability	<u>\$ 5,105</u>	<u>\$ 4,275</u>	<u>\$ 3,597</u>
	<b>2015</b>		
	At 1% Decrease (3.13%)	At Current Discount Rate (4.13%)	At 1% Increase (5.13%)
Net Pension Liability	\$ 75,559,915	\$ 63,577,864	\$ 53,254,610
Allocation Percentage	<u>0.0271942373%</u>	<u>0.0271942373%</u>	<u>0.0271942373%</u>
University's proportionate share of the net pension liability	<u>\$ 20,548</u>	<u>\$ 17,290</u>	<u>\$ 14,482</u>

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**8. Retirement Plans (continued)**

***Long-Term Expected Rate of Return***

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2016 and 2015 are summarized in the following table:

Asset Class	<u>2016</u>		<u>2015</u>	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.39%	5.00%	0.53%
Government Bonds	1.50%	1.28%	1.75%	1.39%
Credit Bonds	13.00%	2.76%	13.50%	2.72%
Mortgages	2.00%	2.38%	2.10%	2.54%
Inflation-Indexed Bonds	1.50%	1.41%	1.50%	1.47%
High Yield Bonds	2.00%	4.70%	2.00%	4.57%
Equity Market	26.00%	5.14%	27.25%	5.63%
Foreign Developed Equity	13.25%	5.91%	12.00%	6.22%
Emerging Markets Equities	6.50%	8.16%	6.40%	8.46%
Private Real Estate Property	5.25%	3.64%	4.25%	3.97%
Timber	1.00%	3.86%	1.00%	4.09%
Farmland	1.00%	4.39%	1.00%	4.61%
Private Equity	9.00%	8.97%	9.25%	9.15%
Commodities	0.50%	2.87%	1.00%	3.58%
Hedge Funds - Multi Strategy	5.00%	3.70%	4.00%	4.59%
Hedge Funds - Equity Hedge	3.75%	4.72%	4.00%	5.68%
Hedge Funds - Distressed	3.75%	3.49%	4.00%	4.30%

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**8. Retirement Plans (continued)**

**Components of Net Pension Liability**

The components of the net pension liability of the participating employers for TPAF as of June 30, 2016 and 2015 are as follows:

	<b>2016</b> State	<b>2015</b> State
Total pension liability	\$ 101,746,770	\$ 89,182,662
Plan fiduciary net position	22,717,863	25,604,798
<b>Net Pension Liability</b>	<b>\$ 79,028,907</b>	<b>\$ 63,577,864</b>
 Plan fiduciary net position as a percentage of the total pension liability	22.33%	28.71%
	University	University
Net pension liability	\$ 79,028,907	\$ 63,577,864
Allocation percentage	0.0054088505%	0.0271942373%
 University's Proportionate Share of the Net Pension Liability	 \$ 4,255	 \$ 17,188

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**8. Retirement Plans (continued)**

As employees of the State of New Jersey, University employees receive certain postretirement benefits other than pensions. In accordance with GASB Statement No. 45, the State of New Jersey will be recording the liability for these other postemployment benefits for all its employees on its financial statements. Accordingly the liability for these obligations is not included in financial statements of the University.

***Alternate Benefit Program (ABP) Information***

ABP provides the choice of seven investment carriers, which are privately operated, defined contribution retirement plans. These seven investment carriers are VOYA, Metropolitan Life Insurance (MetLife), Teachers Insurance and Annuity Association (TIAA), AIG Valic, Mass Mutual, AXA Equitable, and Prudential. 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. Employee contributions immediately vest and employer contributions vest after the completion of one year of service. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting. Participating University employees are required to contribute 5% of salary, up to the maximum Federal statutory limit, on a pretax basis.

The ABP permits additional tax-deferred contributions to be made to ABP investment carrier account(s) (except Prudential) at an amount over and above the 5% required employee contribution under the voluntary 403(b) component of the program and/or a 457 plan with Prudential. The 403(b) and/or 457 plan accounts are available to employees in ABP, PERS, PFRS, and DCRP pension plans. The 457 plan administered by Prudential provides for pre-tax and post-tax voluntary employee contributions. Employer contributions in ABP are 8% of salary. The maximum compensation to be considered for employer contributions is \$141,000 per New Jersey state law Chapter 31, P.L. 2010. This law was effective as of July 1, 2010. The University created the Supplemental Alternate Benefits Program to fund the 8% employer match above \$141,000 compensation limit. These contributions are funded by the University.

During the years ended June 30, 2017 and 2016, ABP received employee contributions of approximately \$6.0 million and \$5.8 million, respectively, and employer contributions of approximately \$9.6 million and \$9.4 million, respectively, which were based on participating employee salaries of \$120.4 million and \$116.9 million, respectively. Employer contributions to ABP are paid by the State of New Jersey and are shown in the accompanying financial statements as appropriations revenue and as expenses.

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**8. Retirement Plans (continued)**

***Defined Contribution Retirement Program (DCRP)***

The DCRP pension plan is a defined contribution program. Established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010, the DCRP allows enrollees to make contributions to Prudential Financial, which jointly administers the DCRP investments with the Division of Pensions and Benefits. The 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 established "maximum compensation" limits. Participating eligibility, as well as contributory and noncontributory requirements is established by the State Retirement and Social Security Law.

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. Participating University employees contribute 5.5% of their eligible wages. Employer contributions are 3%.

During the years ended June 30, 2017 and 2016 Prudential received employer and employee contributions as follows:

	2017	2016
Employer contributions	\$ 36,216	\$ 45,523
Employee contributions	65,886	80,911
Basis for contributions:		
Participant employee salaries	\$ 1,197,926	\$ 1,471,110

Employer contributions to DCRP are paid by the University and are reflected as expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

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**8. Retirement Plans *(continued)***

**Other Voluntary Retirement Plans**

***New Jersey State Employees Deferred Compensation Plan (NJSEDCP)***

The NJSEDCP, governed by the guidelines of the IRC Section 457 and the laws of the State, is administered by Prudential Financial for the State. The Deferred Compensation Board is the final authority on all matters concerning the operation of the Plan; by law, the State Investment Council has the right to supervise certain aspects of the Plan including the investment assets. The NJSEDCP is a voluntary tax-deferred savings plan that provides for pre-tax and/or post-tax voluntary employee contributions. NJSEDCP is available to all employees whether they participate in PERS, PFRS, ABP or under the voluntary 403(b) component of the ABP. The plan does not include any matching employer contributions. Participation in the plan is limited and the associated amounts are not significant.

***Supplemental Alternate Benefit Program***

The Plan is administered by the University. TIAA is the privately operated investment carrier for this defined contribution plan. All contributions are made by the University with Non-State funds. The plan is intended to qualify as a governmental plan that is tax-sheltered annuity plan under section 403(b) of the Internal Revenue Code of 1986, as amended. It is also intended that the Plan be exempt from the Employee Retiree Income Security Act of 1974, as amended, pursuant to Department of Labor regulations section 2510.3-2(f). Each employee whose compensation exceeds the State limit on contributions for the ABP in a given year shall be eligible to participate in the plan and have employer contributions made on their behalf. The University will contribute 8% of the employee's compensation in excess of the State limit on compensation.

***Additional Contributions Tax-Sheltered Programs (ACTS)***

As a PERS and PFRS member, employees may also participate in the Additional Contributions Tax-Sheltered Programs (ACTS). Through salary reduction agreements, employees are able to obtain supplemental tax-deferred annuities (IRC Section 403[b]) with a variety of investment carriers. The ACTS Program is separate from, and in addition to, the employees' basic pension benefit. The authorized carriers and investment options are the same as currently available to members of the ABP. Participation in the plan is limited and the associated amounts are not significant.

**9. Contingent Liabilities**

The University is party to various legal actions arising in the ordinary course of business. While it is not possible at this time to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the University's financial position.

**Montclair State University**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements  
June 30, 2017 and 2016

**10. State of New Jersey Paid Fringe Benefits**

The State of New Jersey, through separate appropriations, pays certain fringe benefits (principally health insurance, retirement and FICA taxes) on behalf of University employees. For the years ended June 30, 2017 and June 30, 2016, such benefits amounted to approximately \$37.3 million and \$40.0 million, respectively, and are included in nonoperating revenues (expenses) in the accompanying financial statements.

**11. Compensated Absences**

The University recorded a liability for compensated absences in the amount of \$8.5 million and \$8.1 million as of June 30, 2017 and 2016, respectively. The liability is calculated based upon employees' accrued vacation and furlough leave as of June 30, 2017 and 2016, as well as an estimated vested amount for accrued sick leave.

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from University service prior to retirement are not entitled to payments for accumulated sick leave balances. During the years ended June 30, 2017 and 2016, the University paid approximately \$276 thousand and \$280 thousand, respectively, in sick leave payments for employees who retired.

**12. Service Concession Arrangement for Student Residence Hall Facility**

During fiscal 2012, construction was completed on the Heights student residence hall facility pursuant to an agreement entered into with Provident Group-Montclair Properties, LLC (Provident) under which Provident agreed to design, finance, build and operate the residence hall facility for a term up to thirty two years. Provident will be entitled to all housing revenues during the term of the agreement. At the end of the term, the residence hall facility and its operations will be transferred to the University. As of June 30, 2012, the University has reported the dormitory as a capital asset and related deferred inflow of resources with a carrying amount of \$235 million. The capital asset is being depreciated in accordance with the University's capitalization policies and accumulated depreciation as of June 30, 2017 and 2016 was \$47.8 million and \$39.8 million, respectively. As of June 30, 2017 and 2016, the deferred inflow of resources on the concession arrangement was \$190.9 million and \$198.2 million, respectively in the Statement of Net Position. The University has reported a deferred inflow of resources in the amount of \$7.3 million in the Statement of Revenues, Expenses and Changes in Net Position.

**Montclair State University**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements  
June 30, 2017 and 2016

**13. Rental Revenue Under Operating Lease**

The University as lessor, has noncancelable operating leases which expire through 2041. The following is a schedule of minimum future lease amounts (dollars in thousands) to be received as of June 30:

2018	\$ 1,150
2019	1,169
2020	1,491
2021	1,202
2022	1,074
Thereafter	23,941

**14. Lease Commitments**

The University entered into operating leases in 2012 to rent dining and office space which expire through May 2041. Future minimum lease payments (dollars in thousands) required under these leases are as follows:

2018	3,331
2019	3,429
2020	3,429
2021	3,209
2022	3,237
Thereafter	26,811

Total expense for the year ending June 30, 2017 and 2016 was \$3,260 and \$2,470, respectively.

**15. Risk Management**

The University is exposed to various risks of loss. The University participates in a consortium with nine other New Jersey colleges and universities to purchase property insurance. Buildings and equipment are fully insured on an all risk replacement basis to the extent that losses exceed \$100,000 per occurrence, with a per occurrence limit of \$1,000,000,000. Coverage for theft of money and securities provides for the actual loss in excess of \$25,000 with a per loss limit of \$5,000,000.

**Montclair State University**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements  
June 30, 2016 and 2015

**16. Student Financial Assistance Program**

The University's students receive support from Federal and State of New Jersey student financial assistance programs. The University's compliance with the requirements of the Federal student financial assistance programs authorized by Title IV of the U.S. Higher Education Act of 1965, as amended (Title IV Programs), is subject to annual audit by an independent auditor. Such compliance audits are subject to review by the U.S. Department of Education. Management is of the opinion that a liability, if any, resulting from compliance audits would not have a material adverse effect on the University's financial position.

**17. Montclair State University Foundation, Inc.**

Montclair State University Foundation, Inc. (the Foundation) is a nonstock corporation organized as a not-for-profit entity under the provisions of Title 15 of the New Jersey statutes. The Foundation was established for the benefit of the University to aid in obtaining additional resources to meet the needs of the University. The Foundation strives to raise funds from subscriptions, gifts, bequests and other devices and uses such funds as appropriately determined by its board of trustees. The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation operates under an independent board of trustees. Because the Foundation's resources can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University. For the years ended June 30, 2017 and 2016, total gifts given to the University from the Foundation amounted to \$6.5 million and \$4.5 million, respectively. Complete financial statements for the Foundation can be obtained from the Foundation's office at 1 Normal Avenue, Montclair, New Jersey 07043.

**18. Commitments**

The University entered into a thirty year contract to permit third parties to install, operate and maintain a heating and cooling facility on certain University properties. In exchange, the University will purchase all electricity, chilled water and steam generated by the facility at a set price. Minimum lease payments on this lease are estimated to be \$15.6 million through 2044.

On June 2, 2017, the University terminated its sublease agreement for Yogi Berra Stadium (Stadium) and Floyd Hall Arena (Arena) whereby, the University will hold entire ownership, rights, and possessory interest in the Stadium and Floyd Hall Arena for a total cost of \$10.0 million. The University recorded the \$10.0 million as a deferred outflow for capital purchase in the Statement of Net Position as of June 30, 2017. In July 2017, the closing was completed for the Stadium. As part of the Stadium closing, \$1.0 million was paid by the University for the Stadium and an initial payment was paid for the Arena in the amount of \$7.0 million. The close for the Arena will occur in 2020 whereby, the remaining consideration of \$2.0 million will be paid and ownership, rights and possession will be transferred.

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**Montclair State University**  
(A Component Unit of the State of New Jersey)

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**Montclair State University**  
(A Component Unit of the State of New Jersey)

**Schedule of University Contributions**

(dollars in thousands)

	<b>2017</b>	
	<u>PERS</u>	<u>PFRS</u>
Contractually Required Contribution	\$ 3,226,352	\$ 996,354
Contributions in relation to the Contractually Required Contribution	3,226,352	996,354
Contribution Deficiency (Excess)	-	-
University Employee Covered Payroll (reporting date June 30, 2016)	<u>32,212</u>	<u>2,609</u>
Contributions as a percentage of Employee Covered Payroll	<u>10.01%</u>	<u>38.18%</u>
	<b>2016</b>	
	<u>PERS</u>	<u>PFRS</u>
Contractually Required Contribution	\$ 2,281,986	\$ 617,857
Contributions in relation to the Contractually Required Contribution	2,281,986	617,857
Contribution Deficiency (Excess)	-	-
University Employee Covered Payroll (reporting date June 30, 2016)	<u>31,508</u>	<u>2,515</u>
Contributions as a percentage of Employee Covered Payroll	<u>7.24%</u>	<u>24.57%</u>
	<b>2015</b>	
	<u>PERS</u>	<u>PFRS</u>
Contractually Required Contribution	\$ 1,125,651	\$ 561,488
Contributions in relation to the Contractually Required Contribution	1,125,651	561,488
Contribution Deficiency (Excess)	-	-
University Employee Covered Payroll (reporting date June 30, 2016)	<u>32,362</u>	<u>2,315</u>
Contributions as a percentage of Employee Covered Payroll	<u>3.48%</u>	<u>24.26%</u>

**Montclair State University**  
(A Component Unit of The State of New Jersey)

**Schedule of the State's Proportionate Share of the Net Pension Liability Associated With the University  
Last Ten Fiscal Years\***  
(dollars in thousands)

**Public Employees' Retirement System (PERS)**

Reporting fiscal year (Measurement Date, June 30,)	University's proportion of the net pension liability - State Group		University's covered employee payroll	University's proportionate share of the net pension liability as a percentage of the employee covered payroll	Plan fiduciary net position as a percentage of the total pension liability
	%	\$			
2017 (2016)	0.73%	\$ 215,708	\$ 31,508	684.61%	19.02%
2016 (2015)	0.73%	\$ 172,860	\$ 32,362	534.14%	24.96%
2015 (2014)	0.72%	\$ 145,594	\$ 32,816	443.67%	30.06%

**Police and Firemen's Retirement System (PFRS)**

Reporting fiscal year (Measurement Date, June 30,)	University's proportion of the net pension liability - State Group		University's covered employee payroll	University's proportionate share of the net pension liability as a percentage of the employee covered payroll	Plan fiduciary net position as a percentage of the total pension liability
	%	\$			
2017 (2016)	0.447%	\$ 21,068	\$ 2,515	837.69%	24.70%
2016 (2015)	0.402%	\$ 17,255	\$ 2,315	745.36%	29.06%
2015 (2014)	0.419%	\$ 14,894	\$ 2,178	683.84%	34.70%

**Teachers' Pension and Annuity Fund (TPAF)**

Reporting fiscal year (Measurement Date, June 30,)	University's proportion of the net pension liability		University's covered employee payroll	University's proportionate share of the net pension liability as a percentage of the employee covered payroll	Plan fiduciary net position as a percentage of the total pension liability
	%	\$			
2017 (2016)	0.005%	\$ 4,275	\$ -	0.00%	22.33%
2016 (2015)	0.027%	\$ 17,290	\$ -	0.00%	28.71%
2015 (2014)	0.032%	\$ 17,013	\$ -	0.00%	33.64%

The amounts presented for each fiscal year were determined as of the previous fiscal year-end.

\*This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, governments should present information for those years for which information is available.

\*\*The University did not have TPAF pensionable wages subsequent to the 2014 fiscal year.

**Montclair State University**  
(A Component Unit of The State of New Jersey)

Notes to Required Supplementary Information (Unaudited)  
June 30, 2017 and 2016

Benefit Changes

There were none.

Changes of Assumptions

PERS

The discount rate changed from 4.90% as of June 30, 2015 to 3.98% as of June 30, 2016.

PFRS

The discount rate changed from 5.79% as of June 30, 2015 to 5.55% as of June 30, 2016.

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number<sup>(1)</sup></u>	<u>Project or Grant Number</u>	<u>Pass-Through Entity</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed-Through to Subrecipients</u>	<u>Current Year Expenditures</u>
<b>Student Financial Assistance Cluster:</b>						
Direct Programs:						
Department of Education						
Federal Supplemental Educational Opportunity Grants	84.007	P007A162586			\$ -	\$ 922,349
Federal Work-Study Program	84.033	P033A162586			-	729,937
Federal Perkins Loan Program_Federal Capital Contributions	84.038	N/A			-	5,163,298
Federal Pell Grant Program	84.063	P063P161815			-	31,912,026
Federal Direct Student Loans	84.268	P268K171815			-	117,141,635
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	P379T171815			-	33,083
Total Student Financial Assistance Cluster					-	155,902,328
<b>Research and Development Cluster:</b>						
Department of Agriculture						
Agriculture and Food Research Initiative (AFRI)	10.310	2012-67009-19742	Texas A&M Agrilife Research	2012-67009-19742 TAR	23,446	49,931
Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)	10.326	2017-70001-25994			-	16,018
Environmental Quality Incentives Program	10.912	69-2B29-17-99			-	65,016
Subtotal Department of Agriculture					23,446	130,965
Department of Commerce						
Direct Programs:						
Sea Grant Support	11.417	6610-0006			-	16,261
Indirect Programs:						
NJ Sea Grant Consortium						
Sea Grant Support	11.417	NJSGC # 6410-0015			-	(1,928)
Subtotal Department of Commerce					-	14,333
Department of Defense						
Military Medical Research and Development	12.420	W81XWH-14-C-0090			-	(13,039)
Basic Scientific Research	12.431	W911NF -16 -1- 0313			-	43,858
Air Force Defense Research Sciences Program	12.800	FA9550-16-0261			-	56,630
Mathematical Sciences Grants	12.901	H9820-1510016			-	22,676
Subtotal Department of Defense					-	110,125
Department of the Interior - U.S. Geological Survey						
Indirect programs:						
Rutgers, The State University of New Jersey						
Assistance to State Water Resources Research Institutes	15.805	5564/5565			-	4,227
Subtotal Department of the Interior					-	4,227
Department of Transportation						
Indirect programs:						
Manhattan College						
University Transportation Centers Program	20.701	17SMGP			-	24,999
Subtotal Department of Transportation					-	24,999
National Aeronautics and Space Administration						
Direct Programs:						
Science	43.001	NNX11AM29G/NNX11AF90G/NNX14A L10G/NNX15AU08A			-	51,376
Indirect Programs:						
Temple University						
Science	43.001	251940			-	9,710
Subtotal Department of Defense					-	61,086
National Science Foundation						
Direct Programs:						
Engineering Grants	47.041	CMMI-1233397/CMMI 1462884/CBET- 1229113			-	55,183
Mathematical and Physical Sciences	47.049	DMS-1009517/PHY-1308527/DMS- 1418956			-	150,363
Geosciences	47.050	OCE-1060080/PLR-1342000/EAR- 1004829			-	36,027
Computer and Information Science and Engineering	47.070	IIS-1319846/IIS-1523285			-	496,605
Biological Sciences	47.074	CMMI-1233397/CMMI 1462884/CBET- 1229113			-	14,065
Social, Behavioral, and Economic Sciences	47.075	BCS-1229033/BCS-1145762/BCS - 1424084			-	41,913

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number<sup>(1)</sup></u>	<u>Project or Grant Number</u>	<u>Pass-Through Entity</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed-Through to Subrecipients</u>	<u>Current Year Expenditures</u>
Education and Human Resources	47.076	DUE-1339956/DRL-1350814/DUE-1259758/DUE-1241704/DUE-1245630/1458499/1660719/1339990	Northeastern University	DUE-1245630-NEU	\$ 16,073	\$ 557,318
Polar Programs	47.078	ANT-1245283			-	13,877
Indirect Programs:						
Consortium for Ocean Leadership		OCE-0652315 PO T347A72/A101281			-	2,261
Geosciences	47.050				-	
Rutgers, The State University of New Jersey		A101281			-	30,566
Geosciences	47.050				-	
Rutgers, The State University of New Jersey		4-368-44/10193			-	84,518
Biological Sciences	47.074				-	
Subtotal National Science Foundation					<u>16,073</u>	<u>1,482,696</u>
Environmental Protection Agency						
P3 Award: National Student Design Competition for Sustainability	66.516	83677301			-	12,127
Subtotal Environmental Protection Agency					-	12,127
Department of Energy						
Indirect programs:						
University of Florida						
Renewable Energy Research and Development	81.087	DE-PI0000031			-	131,524
Subtotal Department of Energy					-	131,524
Department of Health and Human Services						
Direct Programs:						
Cancer Research Manpower	93.398	1H79SP021157-01			-	(25,470)
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1K01CA157690/RNS081251B			-	129,571
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1R15DK090739-01A1			-	(9,938)
Indirect Programs:						
Harvard University						
Mental Health Research Grants	93.242	114202-5099871			-	16,866
University of Nebraska Medical Center						
Child Health and Human Development Extramural Research	93.865	34-5321-2003-918			-	26,095
Subtotal Department of Health and Human Services					-	137,124
Total Research and Development Cluster					<u>228,187</u>	<u>2,109,206</u>
Trio Cluster						
Department of Education						
Direct Programs:						
TRIO_Upward Bound	84.047A	P047A120558			-	219,948
Indirect Programs:						
Ohio State University						
TRIO_Upward Bound	84.047	60033289			-	(589)
Total Trio Cluster					-	219,359
Hurricane Sandy Relief Cluster:						
Department of Health and Human Services						
Indirect Programs:						
Boston University						
HHS Programs for Disaster Relief Appropriations Act - Non Construction	93.095	HITEP150031-01-03			-	21,210
Social & Scientific Systems, Inc						
HHS Programs for Disaster Relief Appropriations Act - Non Construction	93.095	PHR-SSS-S-16-00477			-	24,832
Total Hurricane Sandy Relief Cluster					-	46,042
Other Federal Awards						
U.S. Department of Education						
Direct Programs:						
Fund for the Improvement of Education	84.215	U215J140037	Orange Public Schools	U215J140037-OPS	188,668	478,137
Teacher Quality Partnership Grants	84.336	U336S140078/U336S090031-13			-	1,155,042
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	H-325T110012			-	139,792
Department of Education						
Indirect Programs:						
Rutgers, The State University of New Jersey						
Race to the Top -- Early Learning Challenge	84.412	17SMGP			-	48,414
Subtotal U.S. Department of Education					<u>188,668</u>	<u>1,821,385</u>

**MONTCLAIR STATE UNIVERSITY**  
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Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number<sup>(1)</sup></u>	<u>Project or Grant Number</u>	<u>Pass-Through Entity</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed-Through to Subrecipients</u>	<u>Current Year Expenditures</u>
U.S. Department of Health and Human Services						
Direct Programs:						
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1U79SP020229-01	Rutgers, The State University of New Jersey	1H9SP021157-RU	\$ 18,067	\$ 240,610
Drug-Free Communities Support Program Grants	93.276	5H79SP020019-02			-	138,295
Indirect Programs:						
State of New Jersey						
Health Program for Toxic Substances and Disease Registry	93.161	17SMGP			-	50,889
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	17SMGP			-	27,587
Pregnancy Assistance Fund Program	93.500	17SMGP			-	27,339
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	17SMGP			-	71,308
Community-Based Child Abuse Prevention Grants	93.590	17SMGP			-	55,631
The Board of Trustees of the University of Alabama for the University of Alabama at Birmingham					-	14,665
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	5R25DK099080			-	14,665
Subtotal Department of Health and Human Services					<u>18,067</u>	<u>626,324</u>
National Science Foundation						
Direct Programs:						
Education and Human Resources	47.076	DUE-1245630/1458499			-	103,605
Indirect Programs:						
Rutgers, The State University of New Jersey						
Education and Human Resources	47.076	5414			-	71,010
American Association for the Advancement of Science					-	18,511
Education and Human Resources	47.076	1548986			-	193,126
Subtotal National Science Foundation					<u>206,735</u>	<u>2,640,835</u>
Total Other Federal Awards					<u>206,735</u>	<u>2,640,835</u>
Total Expenditures of Federal Awards					<u>\$ 246,254</u>	<u>\$ 160,917,770</u>

(1) Catalog of Federal Domestic Assistance

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of State of New Jersey Awards  
Year ended June 30, 2017

State of New Jersey Grantor/ Pass-Through Grantor / Program or Cluster Title	Grant/Account or other I.D. number	Grant Period	Grant Amount	Life to Date Expenditures	Current Year Expenditures
N.J. Department of Treasury – Office of Student Assistance					
Student Financial Assistance Cluster:					
N.J. Higher Education Student Assistance Authority					
Tuition Aid Grant Programs	17-100-074-2405-007	July 1, 2016 - June 30, 2017	\$ 27,270,933	\$ 27,270,933	\$ 27,270,933
Urban Scholars Program	17-100-074-2405-278	July 1, 2016 - June 30, 2017	44,500	44,500	44,500
New Jersey College Loans to Assist State Students	N/A	July 1, 2014 - June 30, 2017	5,700,000	5,007,288	5,007,288
New Jersey Student Tuition Assistance Reward Scholarship II (NJ STARS II) Program	17-100-074-2405-313	July 1, 2016 - June 30, 2017	<u>141,306</u>	<u>141,306</u>	<u>141,306</u>
Subtotal N.J. Higher Education Student Assistance Authority			<u>33,156,739</u>	<u>32,464,027</u>	<u>32,464,027</u>
N.J. Commission on Higher Education					
Educational Opportunity Fund - Article III - Academic Year FY15	15-100-074-2601-001	June 1, 2014 - July 31, 2016	707,800	492,780	246
Educational Opportunity Fund - Article III - Summer FYS 15 & 16	16-100-074-2401-001	June 1, 2015 - July 31, 2016	359,261	359,261	364
Educational Opportunity Fund - Article III - Academic Year FY17	17-100-074-2601-001	June 1, 2016 - July 31, 2017	737,875	737,875	767,094
Educational Opportunity Fund - Article III - Summer FYS 16 & 17	17-100-074-2401-001	June 1, 2016 - July 31, 2017	380,817	379,157	379,157
Educational Opportunity Fund - Article III - Summer FYS 17 & 18	18-100-074-2401-001	June 1, 2017 - July 31, 2018	422,707	1,586	1,586
Educational Opportunity Fund (HCP) - Article III - Summer FYS 16 & 17	17-100-074-2401-001	June 1, 2016 - July 31, 2017	89,529	89,529	91,120
Educational Opportunity Fund (HCP) - Article III - Summer FYS 17 & 18	18-100-074-2401-001	June 1, 2017 - July 31, 2018	<u>99,377</u>	<u>2,188</u>	<u>2,188</u>
Subtotal N.J. Higher Education Student Assistance Authority			<u>2,797,366</u>	<u>2,062,376</u>	<u>1,241,755</u>
Total Student Financial Assistance Cluster			<u>35,954,105</u>	<u>34,526,403</u>	<u>33,705,782</u>
N.J. Higher Education Administration					
Fringe Benefits Other Than FICA for Senior Public Colleges and Universities	17-100-094-9410-002	July 1, 2016 - June 30, 2017	30,503,000	26,002,746	26,002,746
FICA (Social Security Tax) for Senior Public Colleges and Universities	17-100-094-9410-137	July 1, 2016 - June 30, 2017	11,282,000	11,282,000	11,282,000
Grants-In-Aid Appropriations to Senior Public Colleges and Universities	17-100-074-2465-001	July 1, 2016 - June 30, 2017	<u>35,859,000</u>	<u>35,859,000</u>	<u>35,859,000</u>
Subtotal N.J. Higher Education Administration			<u>77,644,000</u>	<u>73,143,746</u>	<u>73,143,746</u>
N.J. Commission on Higher Education					
Education Opportunity Fund Conference	N/A	June 1, 2016 - July 31, 2017	5,000	5,000	495
Educational Opportunity Fund (HCP) - Article IV - Academic Year FY16	16-100-074-2601-002	June 1, 2015 - July 31, 2016	154,200	144,202	13,988
Educational Opportunity Fund (HCP) - Article IV - Academic Year FY17	17-100-074-2601-002	June 1, 2016 - July 31, 2017	158,642	152,957	152,957
Educational Opportunity Fund - Article IV - Academic Year FY16	16-100-074-2601-002	June 1, 2015 - July 31, 2016	507,047	497,049	462
Educational Opportunity Fund - Article IV - Academic Year FY17	17-100-074-2601-002	June 1, 2016 - July 31, 2017	<u>521,656</u>	<u>520,359</u>	<u>514,518</u>
Subtotal N.J. Department of Treasury			<u>1,346,545</u>	<u>1,319,567</u>	<u>682,420</u>
N.J. Department of Education					
Creative University-School Partnerships in Mathematics (CUSP)	16E00002	July 1, 2015 - June 30, 2016	365,000	365,000	955
Being United in Leadership Development (BUILD)	16E00082	Sept 1, 2015 - July 31, 2016	199,977	146,148	73,722
Being United in Leadership Development (BUILD)	17E00060	August 1, 2016 - July 31, 2017	<u>199,999</u>	<u>87,382</u>	<u>87,382</u>
Subtotal N.J. Department of Education			<u>764,976</u>	<u>598,530</u>	<u>162,059</u>
N.J. Department of Environmental Protection					
Environmental Correlates of Ranavirus Disease Distribution	FG15-072	March 13, 2015 - September 12, 2016	3,500	3,486	631
Assessment of Clinging Jellyfish Gonionemu	SR17-002	July 1, 2016 - April 30, 2018	36,042	36,042	37,852
Developing a Wetland Baseline	SR16-013	June 29, 2016 - September 28, 2017	63,481	58,989	58,989
Assessing the Biological Control of Sea Nettles	SR16-20	May 1, 2016 - December 30, 2017	56,791	25,632	25,632
Assessment of Economic Ecological and Social Capital in Congruence with Design Studies for Reducing Storm Surge	(NP)996043	August 1, 2013 - March 31, 2016	35,000	24,740	(462)
Impact of Hurricane Sandy	SR15-005	December 14, 2014 - November 30, 2016	83,342	83,342	9,058
Impacts of Invasive Sea Nettles (Chrysaora quinquecirrha) and Ctenophores on Planktonic Community Structure and Bloom Prediction of Sea Nettles Using Molecular Techniques	SR14-008	February 1, 2014 - August 31, 2016	100,000	100,000	(179)
Wildlife Habitat Per	FG13-092	November 15, 2013 - August 1, 2016	3,693	3,693	(257)

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of State of New Jersey Awards  
Year ended June 30, 2017

State of New Jersey Grantor/ Pass-Through Grantor / Program or Cluster Title	Grant/Account or other I.D. number	Grant Period	Grant Amount	Life to Date Expenditures	Current Year Expenditures
At Risk- Healthy Coastal Ecosystems and Resilient Communities	996521	February 1, 2016 - January 31, 2017	\$ 12,010	\$ 12,010	\$ 12,451
Subtotal N.J. Department of Environmental Protection			<u>393,859</u>	<u>347,934</u>	<u>143,715</u>
N.J. Department of Health and Senior Services					
The Coordinating Center at Montclair State	CAUT12ACC012	June 15, 2012 - June 30, 2018	2,596,922	2,549,010	668,366
Subtotal N.J. Department of Health and Senior Services			<u>2,596,922</u>	<u>2,549,010</u>	<u>668,366</u>
N.J. Department of Human Services					
NJ Hearing Aid Project	N/A	November 6, 2013 - June 30, 2017	93,916	93,916	13
NJ Hearing Aid Project	N/A	July 1, 2016 - June 30, 2018	112,448	40,964	40,964
The MSU-Socio-Emotional Formation Initiative	N/A	July 1, 2016 - June 30, 2017	850,000	736,499	736,499
Subtotal N.J. Department of Human Services			<u>1,056,364</u>	<u>871,379</u>	<u>777,476</u>
N.J. Department of State - AmeriCorps - NJ CNCS - Formula					
Montclair State University EECO Project	15ACP-023	September 1, 2014 - August 31, 2016	350,557	208,593	(48,066)
Montclair State University EECO Project	AC16F-0009	June 1, 2015 - August 31, 2016	301,970	286,702	152,161
Montclair State University EECO Project	16AC185495	September 1, 2016 - August 31, 2017	300,415	208,714	208,714
Subtotal N.J. Department of State - AmeriCorps - NJ CNCS - Formula			<u>952,942</u>	<u>704,009</u>	<u>312,809</u>
N.J. Department of Children and Families					
Direct Programs:					
Post BA Certificate in Adolescent Advocacy	15NJGM	September 1, 2014 - August 31, 2016	115,524	90,436	(2,232)
Post BA Certificate in Adolescent Advocacy	15SDGM	September 1, 2014 - August 31, 2016	246,238	247,790	(4,437)
Post BA Certificate in Adolescent Advocacy	16SDGM	September 1, 2015 - August 31, 2016	246,238	246,238	33,670
Post BA Certificate in Adolescent Advocacy	17SDGM	September 1, 2016 - August 31, 2017	246,238	195,092	195,092
IECMH Training Project Launch	16SMGP	July 1, 2015 - June 30, 2017	185,900	184,872	18,102
IECMH Training Project Launch	16SMGP	July 1, 2015 - June 30, 2017	54,660	54,622	6,186
IECMH Training Project Launch	17SMGP	July 1, 2016 - June 30, 2018	181,500	179,200	179,200
Social Services Block Grant (SSBG)	14NJGZ	June 30, 2014 - August 31, 2016	720,000	713,590	560
Indirect Programs:					
Rutgers, The State University					
Advance Fund - New Jersey Child Welfare Training Partnership	5817	July 1, 2015 - June 30, 2017	559,000	520,997	56,364
Advance Fund - Summer Housing Internship Program (SHIP)	13MMMR	July 1, 2012 - June 30, 2017	131,702	131,702	96
Advance Fund - Summer Housing Internship Program (SHIP)	14MMMR	July 1, 2013 - June 30, 2017	131,702	126,457	(35)
Advance Fund - Summer Housing Internship Program (SHIP)	14VZMR	July 1, 2014 - August 21, 2016	134,706	130,086	2,485
Advance Fund - Summer Housing Internship Program (SHIP)	15MMMR	July 1, 2015 - June 30, 2017	127,000	125,245	9,262
Advance Fund - Summer Housing Internship Program (SHIP)	17VMMMM	July 1, 2016 - June 30, 2017	127,496	63,359	63,359
The New Jersey Welfare Training Consortium					
Advance Fund - Summer Housing Internship Program (SHIP)	14VZMR	July 1, 2013 - June 30, 2017	948,512	948,512	221
Subtotal N.J. Department of Children and Families			<u>4,156,416</u>	<u>3,958,198</u>	<u>557,893</u>
N.J. Commission on National and Community Service					
Dr. Martin Luther King, Jr. Day of Service Grants	N/A	January 1, 2017 - April 16, 2017	2,500	994	994
Subtotal N.J. Commission on National and Community Service			<u>2,500</u>	<u>994</u>	<u>994</u>
N.J. Commission on Holocaust Education					
Human Rights Education Intern	N/A	September 1, 2016 - August 31, 2018	5,000	2,168	2,168
Subtotal N.J. Commission on Holocaust Education			<u>5,000</u>	<u>2,168</u>	<u>2,168</u>
N.J. Council on the Arts					
General Programming Support	1705020110	July 1, 2016 - June 30, 2017	11,545	11,545	11,545
General Programming Support	1717X020093	July 1, 2016 - June 30, 2017	54,464	54,464	54,464
Subtotal N.J. Council on the Arts			<u>66,009</u>	<u>66,009</u>	<u>66,009</u>

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of State of New Jersey Awards  
Year ended June 30, 2017

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**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of State of New Jersey Awards  
Year ended June 30, 2017

State of New Jersey Grantor/ Pass-Through Grantor / Program or Cluster Title	Grant/Account or other I.D. number	Grant Period	Grant Amount	Life to Date Expenditures	Current Year Expenditures
N.J. Council for the Humanities					
Rising Tide: What We Can Learn From the Dutch and Their Relationship With Water	2015-24	August 1, 2015 - December 31, 2016	\$ 20,001	\$ 18,010	\$ 3,511
Queering the Sciences	2015-31	November 1, 2015 - April 30, 2017	3,000	2,605	(395)
Commemorative Program for the 75th Anniversary of Kristallnacht	2013-14	September 1, 2013 - November 21, 2016	<u>2,715</u>	<u>2,715</u>	<u>30</u>
Subtotal N.J. Council for the Humanities			<u>25,716</u>	<u>23,330</u>	<u>3,146</u>
State of N.J.					
Building Our Future Bond Act - Environmental	032-02	April 29, 2014 - June 30, 2017	46,878,894	46,369,944	522,943
Building Our Future Bond Act - School of Business	032-01	April 29, 2014 - June 30, 2017	<u>39,284,018</u>	<u>39,284,018</u>	<u>120,585</u>
Subtotal State of New Jersey			<u>86,162,912</u>	<u>85,653,962</u>	<u>643,528</u>
Total Expenditures of State of New Jersey Financial Assistance			<u>\$ 211,128,266</u>	<u>\$ 203,765,239</u>	<u>\$ 110,870,111</u>

**Montclair State University**  
(A Component Unit of The State of New Jersey)

**1. Basis of Presentation**

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance (the "Schedules") have been prepared in the format required under Uniform Guidance and New Jersey Office of Management and Budget Circular Letter 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. The purpose of these Schedules is to present a summary of those activities of the University for the year ended June 30, 2017 which have been financed by the Federal government and State of New Jersey. For purposes of these Schedules, Federal awards and State of New Jersey Awards include any assistance provided by a Federal and State agency directly or indirectly in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, direct appropriations, and other non-cash assistance. Because these Schedules present only a selected portion of the activities of the University, they are not intended to, and do not, present the financial position, changes in fund balances or the current funds revenues, expenditures, and other changes of the University in conformity with generally accepted accounting principles.

The accounting practice followed by the University in preparing the accompanying Schedules is as follows:

Expenditures for direct costs are recognized as incurred using the accrual method of accounting contained in the Uniform Guidance. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

**2. Indirect Cost Rate**

The University has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**3. Federal Perkins Loan Programs**

	<u>CFDA #</u>	<u>Loans extended for the year ended June 30, 2017</u>	<u>Outstanding principal balance at June 30, 2017</u>
Perkins Loan Program	84.038	\$ 848,227	\$ 4,475,854

**4. Federal Direct Loan Program and New Jersey College Loans to Assist State Students ("NJ CLASS")**

The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loan program and NJ CLASS program and, accordingly, these loans are not included in the University's basic financial statements. It is not practical to determine the balance of loans outstanding to students of the University under this program as of June 30, 2017.

\* \* \* \* \*

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

**Independent Auditors' Report**

**Board of Trustees of  
Montclair State University**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the discretely presented component unit of Montclair State University, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Montclair State University's basic financial statements, and have issued our report thereon dated September 29, 2017. The financial statements of the discretely presented component unit was not audited in accordance with *Government Audit Standards*.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 through 2017-004 that we consider to be significant deficiencies.

***Compliance and Other Matters***

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

***Montclair State University's Response to Findings***

Montclair State University's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Montclair State University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

***Purpose of this Report***

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

*PKF O'Connor Davies, LLP*

September 29, 2017

**Report on Compliance for Each Major Program; Report on Internal Control Over Compliance and Report on the Schedules of Expenditures of Federal Awards and State Financial Assistance Required by the Uniform Guidance and New Jersey OMB Circular Letter 15-08**

**Independent Auditors' Report**

**Board of Trustees of  
Montclair State University**

***Report on Compliance for Each Major Federal and State Program***

We have audited Montclair State University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *New Jersey State Aid Grant Supplement* that could have a direct and material effect on each of Montclair State University's major federal and state programs for the year ended June 30, 2017. Montclair State University's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal awards and state financial assistance applicable to its federal and state programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Montclair State University's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and New Jersey OMB Circular Letter 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, the Uniform Guidance and New Jersey OMB Circular Letter 15-08 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Montclair State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for Montclair State University's major federal and state programs. However, our audit does not provide a legal determination of Montclair State University's compliance.

***Opinion on Compliance for Each Major Federal and State Program***

In our opinion, Montclair State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2017.

***Report on Internal Control over Compliance***

Management of Montclair State University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Montclair State University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and New Jersey OMB Circular Letter 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Montclair State University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004 that we consider to be significant deficiencies.

Montclair State University's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Montclair State University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Board of Trustees**

### **Montclair State University**

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and New Jersey OMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedules of Expenditures of Federal Awards and State Financial Assistance Required by the Uniform Guidance and New Jersey OMB Circular 15-08**

We have audited the financial statements of the business-type activities and discretely presented component unit of Montclair State University, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Montclair State University's basic financial statements. We have issued our report thereon dated September 29, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedules of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the Uniform Guidance and NJ OMB Circular Letter 15-08 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

*PKF O'Connor Davies, LLP*

January 23, 2018





**Montclair State University**  
(A Component Unit of the State of New Jersey)

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

**Section II - Financial Statement Findings (continued)**

**“Significant Deficiencies”**

**2017-002 Grants Receivable and Unearned Grant Revenue**

**Criteria:**

Grant activity and the related receivables and unearned revenue should be performed on an ongoing basis to prevent and detect errors on a timely basis.

**Condition:**

In reviewing the University's schedule of grants receivables and unearned grant revenues, we noted significant discrepancies in the area of receivables and unearned revenues from grants and contracts.

**Cause:**

The errors were the result of issues related to conversion and configuration issues from the legacy Financial Reporting System (FRS) to PeopleSoft Financial Management System.

**Effect:**

The discrepancies noted resulted in significant audit adjustments to grant receivables, unearned grant revenue, and grant revenues during the course of the audit.

**Statistically Valid Sample:**

No, not intended to be.

**Known questioned costs:**

None.

**Repeat finding:**

This is not a repeat finding.

**Recommendation:**

We recommend that management review its current process for reconciling grants receivable and unearned grant revenue.

**Views of responsible officials and planned correction actions:**

See corrective action plan attached.

**Montclair State University**  
(A Component Unit of the State of New Jersey)

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

**Section III - Federal Awards and State Financial Assistance Findings and Questioned Costs**

**“Significant Deficiencies”**

**2017-003 Eligibility:** Failure to Confirm Student Enrollment

**Agency:** U.S. Department of Education

**CFDA Number:** 84.268, 84.063

**Name of Program:** Student Financial Assistance Cluster  
Federal Direct Student Loan Program  
Federal Pell Grant Program

**Criteria:**

An institution may disburse Title IV, HEA program funds to a student or parent for a payment period only if the student is enrolled for classes for that payment period and is eligible to receive those funds. If a student does not begin attendance or enroll in a sufficient number of credits in a payment period or period of enrollment, the institution must return Title IV, HEA program funds that were credited to the student’s account at the institution or disbursed directly to the student for that payment period or period of enrollment for which the student did not qualify.

**Condition:**

The University underwent a program review of the Federal Student Financial Assistance programs for the 2013-2014 academic year by the U.S. Department of Education. As a result of this program review, it was found that enrollment of students receiving Title IV, HEA program funds was not being monitored. After a full file review of the 2012-2013 and 2013-2014 academic years as required by the U.S. Department of Education, it was discovered that some students had received Title IV, HEA (“Higher Education Act”) program funds for courses where attendance could not be verified.

**Cause:**

The University did not have a process in place for the two years covered under the program review to confirm student attendance in classes before disbursement of Title IV, HEA program funds.

**Effect:**

Funds disbursed to student accounts for students who did not attend some or all of their courses and received Title IV, HEA program funds are not returned to the Department of Education on a timely basis.

**Statistically Valid Sample:**

No, not intended to be.

**Known questioned costs:**

\$420,021

**Repeat finding:**

This is not a repeat finding.

**Montclair State University**  
(A Component Unit of the State of New Jersey)

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

**Section III - Federal Awards and State Financial Assistance Findings and Questioned Costs**  
**(continued)**

**“Significant Deficiencies”**

**Recommendation:**

We recommend that the University establish a procedure for determining and monitoring student enrollment status prior to disbursing Title IV, HEA funds to student accounts.

**Views of responsible officials and planned correction actions:**

See corrective action plan attached.

**2017-004 Special Tests:** Return of Title IV Calculation Not Performed Timely

**Agency:** U.S. Department of Education

**CFDA Number:** 84.268, 84.063, 84.007, 84.379

**Name of Program:** Student Financial Assistance Cluster  
Federal Direct Student Loan Program  
Federal Pell Grant Program  
Federal Supplemental Assistance for College and Higher Education Grants  
Teacher Education Assistance for College or Higher Education Grants (TEACH Grants)

**Criteria:**

Institutions are required to perform the Return of Title IV funds calculation within 45 days of determining that a student has withdrawn from classes or completed the payment period or period of enrollment with zero earned credits, and return the unearned portion of funds, if any, to the U.S. Department of Education.

**Condition:**

Per our discussion with individuals in the Financial Aid Department, the Return of Title IV funds calculation was not performed on a timely basis for students who earned zero credits at the end of the payment period for the 2016-2017 academic year.

**Cause:**

Due to a change in the software utilized by the University, a listing of students who received Title IV funds and who failed to successfully complete any of their courses was not able to be generated. As a result, the University was not able to perform the Return of Title IV funds calculation before the 45 day requirement for students who completed their period of enrollment with zero earned credits.

**Effect:**

Monies due to the U.S. Department of Education for amounts applied to the accounts of students who have completed their period of enrollment with zero credits earned were not returned on a timely basis.

**Montclair State University**  
(A Component Unit of the State of New Jersey)

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

**Section III - Federal Awards and State Financial Assistance Findings and Questioned Costs**  
**(continued)**

**“Significant Deficiencies”**

**Known questioned costs:**

None.

**Repeat finding:**

This is not a repeat finding.

**Recommendation:**

We recommend that the University work with the software company to locate or create an accurate report that will provide the Financial Aid Department with the information needed to perform the Return of Title IV funds calculation and return unearned aid on a timely basis.

**Views of responsible officials and planned correction actions:**

See corrective action plan attached.

\* \* \* \* \*