

**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, 2018 and 2017

(with Independent Auditors' Reports Thereon)

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

Financial Statements

June 30, 2018 and 2017

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## **Independent Auditors' Report**

### **The Board of Trustees Montclair State University**

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, 2018 and 2017, 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.

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### ***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, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity 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, the schedules of employer pension contributions schedules of proportionate share of the net pension liability, and the schedule of the States proportionate share of the OPEB liability associated with the University 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 Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Expenditures of Federal and State of New Jersey Awards on pages 81 through 85 as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and New Jersey OMB Circular Letter 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, are presented for purposes of additional analysis and are not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

March 27, 2019

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***Management's Discussion and Analysis***

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, 2018, with selected comparative information for the years ended June 30, 2017 and 2016. 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 (2018, 2017, and 2016) 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 Research Doctoral University by the Carnegie Classification of Institutions of Higher Education, and classified by the New Jersey Secretary of Higher Education as a doctoral degree-granting institution, the University's eleven colleges and schools serve more than 21,000 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.

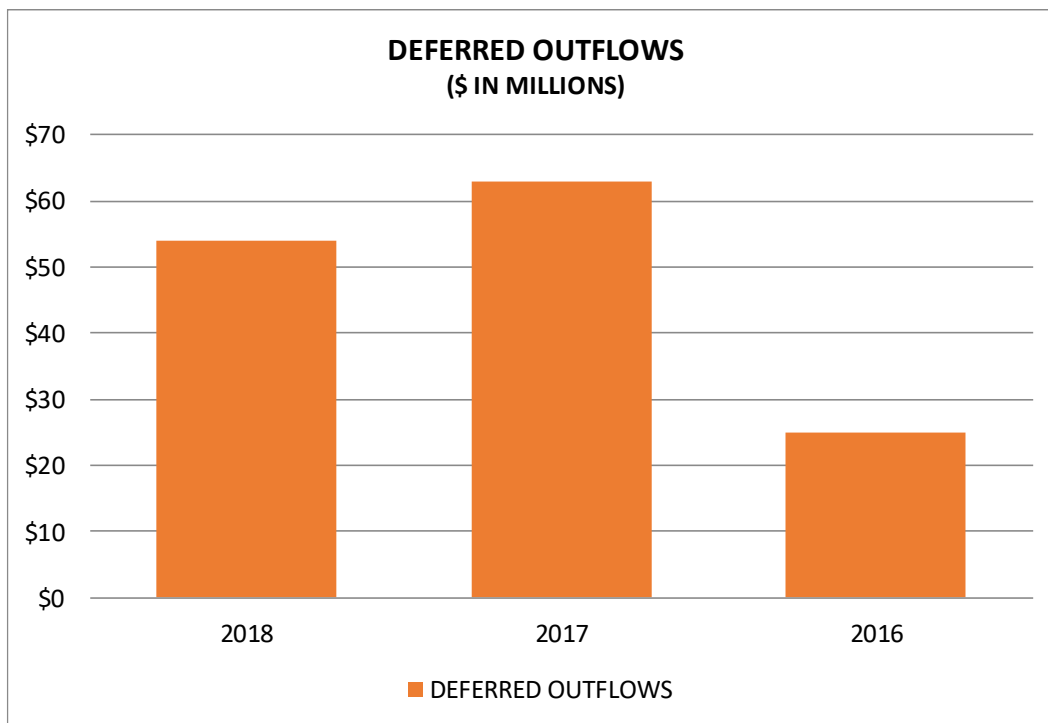
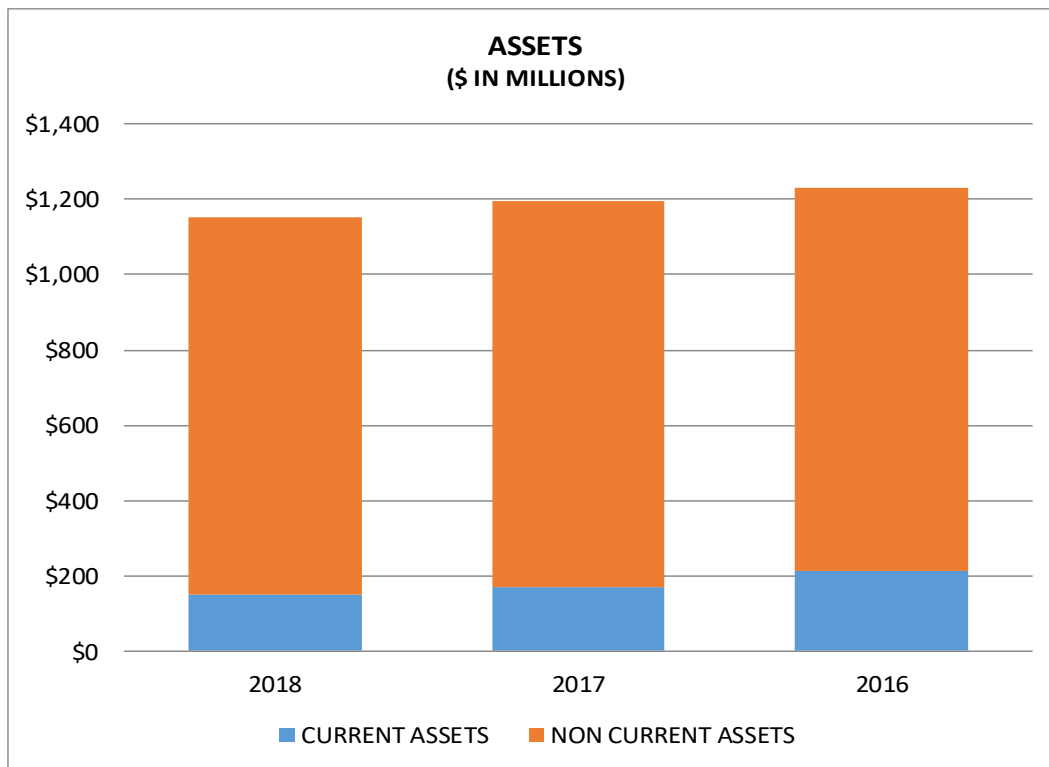
*U.S. News & World Report* has once again recognized the University's College of Education and Human Services as having one of the top education programs, ranking it No. 89 out of 385 in its 2019 "Best Education Schools" publication. The University was also listed as one of *Forbes* magazine's 25 Best Value Colleges in the Northeast for affordable tuition, and cited by *Hispanic Outlook in Higher Education Magazine* as one of its "Top 100 College for Hispanics."

**Financial Highlights**

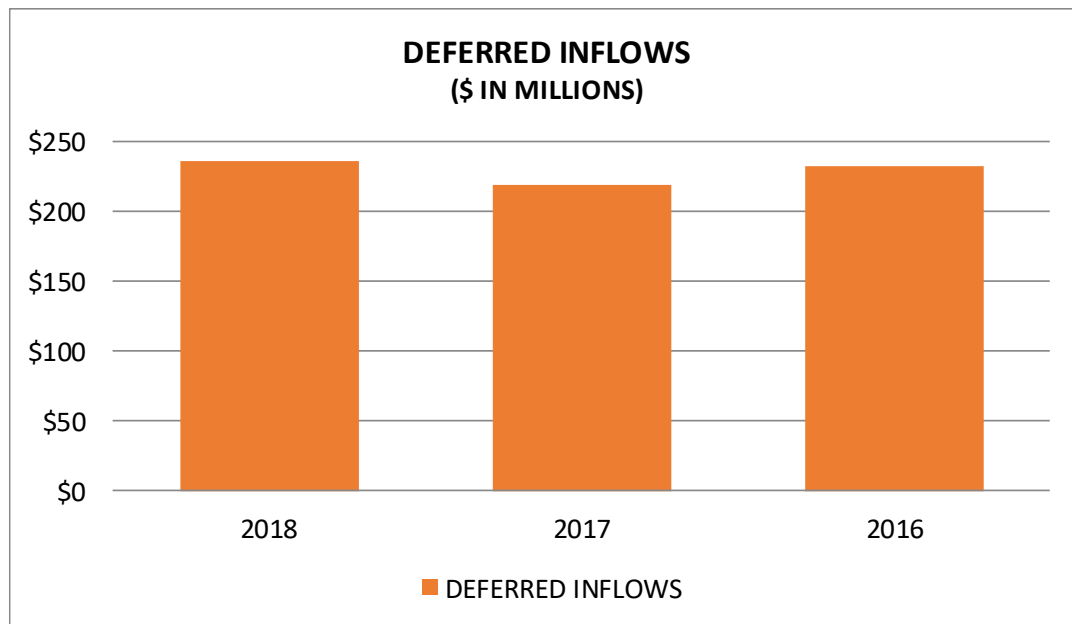
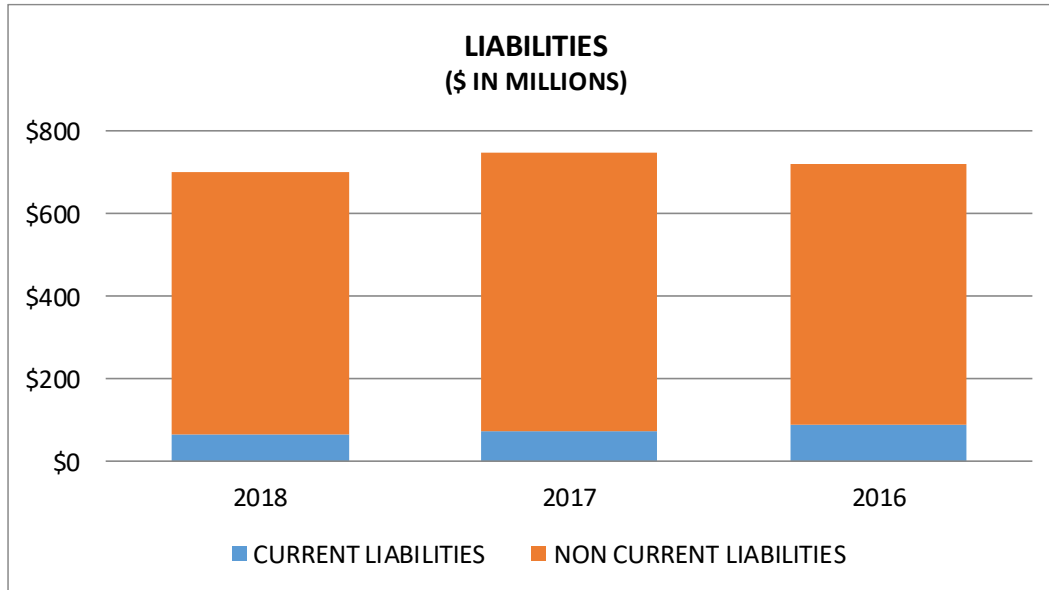
For the year ending June 30, 2018, the University implemented GASB Statement No 75, *Accounting and Financial Reporting for Other Post-Employment Benefits (OPEB)* which establishes standards of accounting and financial reporting for benefits (other than pensions) that state and local governments provide to their retired employees. This statement seeks to improve the accounting and financial reporting for post-employment benefits by establishing standards for measuring and recognizing liabilities, deferred outflows/inflows, revenues and expenses. Pursuant to this standard the University did not record its proportionate share of the collective total OPEB liability and related deferrals due to its *Special Funding* status. The University did recognize \$24.6 million of OPEB expense that was functionally allocated in the same proportion as the pension expense and recognized an equal amount as State paid other post-employment benefits in its Statement of Revenues, Expenses, and Changes in Net Position.

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**THE UNIVERSITY'S FINANCIAL POSITION:**



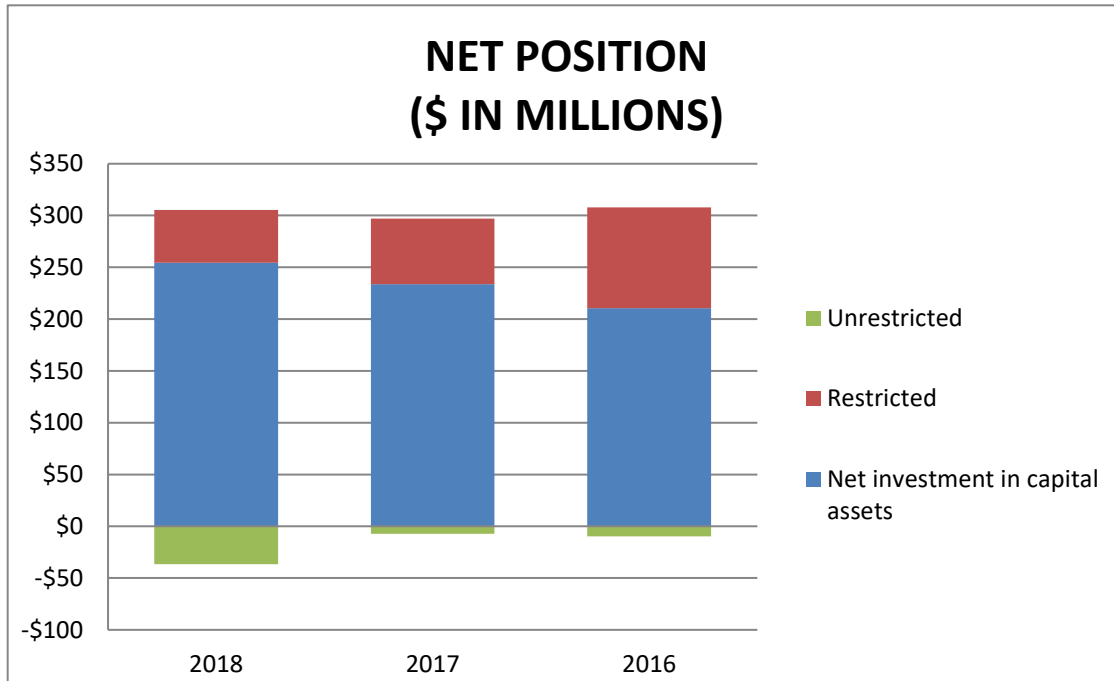
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The statement of net position presents the financial position of the University at the end of each year. The sum of assets and deferred outflows, less the sum of liabilities and deferred inflows, is the organization's net position.



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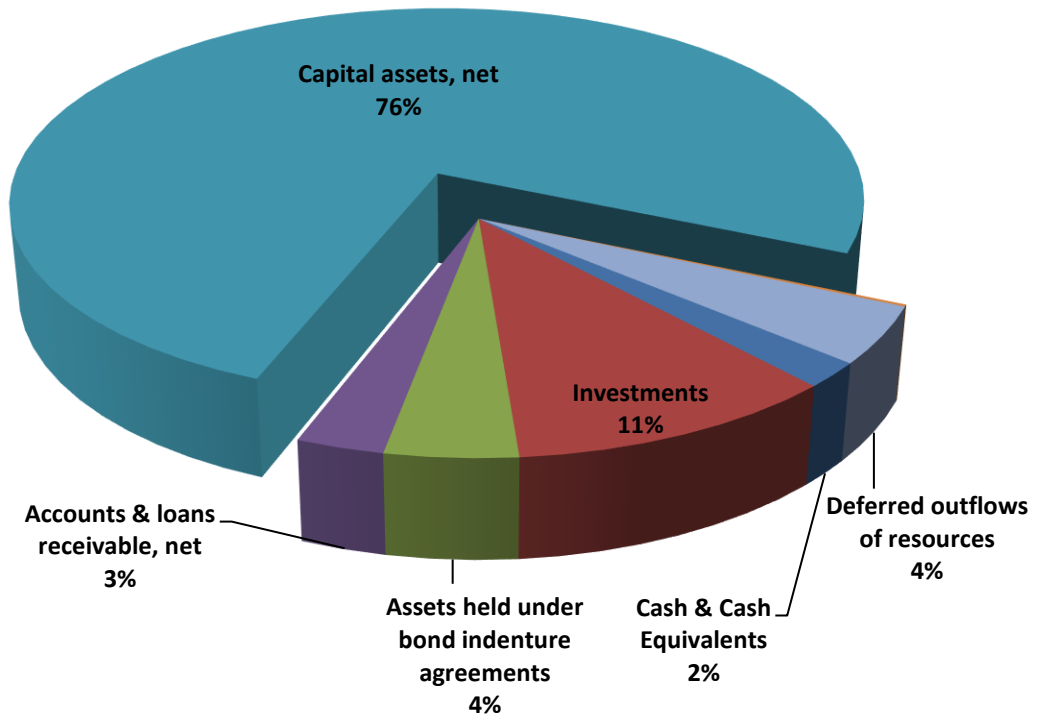
The major components of the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2018, 2017 and 2016 are as follows:

(in thousands of dollars)

	2018	2017	2016
<b>ASSETS</b>			
Cash & cash equivalents	\$ 23,768	\$ 38,677	\$ 75,831
Investments	128,579	138,841	110,323
Assets held under bond indenture agreements	51,082	63,570	96,059
Accounts & loans receivable, net	33,898	35,977	35,686
Capital assets, net	913,569	916,700	909,884
Other assets	1,895	1,895	2,362
Total assets	<u>1,152,791</u>	<u>1,195,660</u>	<u>1,230,145</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	 <u>53,745</u>	 <u>63,168</u>	 <u>24,553</u>
 <b>LIABILITIES</b>			
Bonds payable & other debt	426,953	439,319	447,871
Accounts payable & accrued expenses	41,455	44,825	55,305
Net pension liability	207,673	236,776	190,115
Unearned tuition and grant revenues	15,478	19,532	21,755
Other liabilities	9,818	9,658	8,809
Total liabilities	<u>701,377</u>	<u>750,110</u>	<u>723,855</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	 <u>236,264</u>	 <u>218,840</u>	 <u>232,719</u>
 <b>NET POSITION</b>			
Net investment in capital assets	254,446	233,586	210,521
Restricted	51,082	63,595	97,196
Unrestricted	(36,633)	(7,303)	(9,593)
Total net position	<u>\$ 268,895</u>	<u>\$ 289,878</u>	<u>\$ 298,124</u>

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

**2018 TOTAL ASSETS & DEFERRED OUTFLOWS  
as of June 30, 2018**



The University's total assets and deferred outflows of resources decreased to \$1.207 billion in 2018, from \$1.259 billion in 2017 and \$1.255 billion in 2016. Total assets decreased mainly due to the reduction in holdings of cash and cash equivalents used for operations, capital purchases, and the repayment of debt. Deferred outflows decreased due mainly to changes in the University's net pension liability and the University's commitment of \$1 million to acquire Yogi Berra Stadium.

***Cash & cash equivalents***

The University maintains cash balances sufficient to meet operating liquidity needs, to maximize earnings on those funds, and to comply with board approved investment guidelines. University cash and cash equivalents are held primarily in its operating bank account and in the State of New Jersey Cash Management Fund. The average monthly balance in these accounts was \$47 million and \$62 million in 2018 and 2017, respectively. In addition to draw-downs to fund certain university-funded capital projects, the decline in cash and equivalents is attributable to two significant events that occurred in 2018. First, payments totaling approximately \$9 million were made to members of the American Federation Teachers (AFT), pursuant to the recent completion of collective bargaining for the 2015-2019 contract period. The compensation levels of AFT members had been unchanged, pending the completion of collective bargaining, during 2015, 2016, and 2017. Second, a one-time \$8 million payment was made to terminate the long-term leases for Floyd Hall Arena and the Yogi Berra stadium, an amount that will be replenished over time as the University begins to retain the annual net income associated with the Arena. Net of other, more routine inflows and outflows of cash, the average monthly balance during 2018 was \$15 million lower than the average during 2017.

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To minimize the risk of loss in the event of a bank failure and as required by NJ State law, the University has a tri-party collateral management agreement with Bank of America, its primary operating bank, and Bank of New York Mellon, as custodian. Under this arrangement, deposits in excess of federally insured amounts are collateralized. Cash and cash equivalents also includes a portion of the University's investment funds which are held in custody by PNC Institutional Asset Management (PNC) and managed by Pacific Investment Management Company, LLC (PIMCO).

***Investments***

Additions to University investments are the product of excess operating cash, which is invested 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 a high level of current income consistent with the preservation of capital and the maintenance of liquidity. The fixed income investment policy permits purchases of 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 as of June 30, 2018, were \$10.2 million lower than the previous year, due to an increase in outlays for university-funded capital projects, and the implementation of the 2015-2019 AFT contract settlement in 2018.

***Assets held under bond indenture agreements***

The University funds much of its major capital improvements with public bonds issued through the New Jersey Educational Facilities Authority (the "Authority"), whose mission is to help college and university clients obtain low-cost financing for the development of their facilities. Generally, the change in assets held is attributable to reimbursement draw-downs, new refundings (if any), and the effect of changes in the market value of unspent invested proceeds. Assets held under bond indenture agreements decreased \$12.5 million, largely due to the drawdown of Series 2014A funds for the renovation costs of the new School of Communications and Media, the College of Environmental and Life Sciences, College Hall, and the Graduate School and School of Nursing (formerly, Partridge Hall).

***Accounts & 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 twelve months are reserved for at 50% and those past due twenty-four months are written off. Accounts & loans receivable, net at June 30, 2018 were \$2 million lower than at June 30, 2017 due to timing of collections.

***Capital assets, net***

Capital spending during 2018 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, net decreased by \$3 million compared to 2017 as \$54 million of new assets were offset by an increase of \$57 million in accumulated depreciation.

Major renovations completed during fiscal year 2018 included:

- The Center for Computing and Information Science - This project was a major renovation and expansion of the building previously known as Mallory Hall. This 52-year old, 34,400 gross square foot building was renovated and expanded in order to create a state-of-the-art instructional and research facility for the Computer Sciences department. The project added a fourth floor (9,400 additional square feet of space) and repurposed the existing space to house classrooms, faculty offices, meeting rooms, student study and project spaces, and specialized research and

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instructional spaces. The facility also houses several specialized biology research laboratories. Major improvements included a new heating and cooling system and new flooring, ceilings, and walls, façade, and roof system; plumbing and electrical upgrades; replacement of life safety systems; and modernization of the environmental control systems.

- University Facilities - The central and western portions of the building at 147 Clove Road (formerly Ward Trucking) underwent a fifth phase of renovation to create a new home for two University departments - Maintenance & Engineering and Facilities Services.

Major construction in progress during 2018 included:

- College Hall - This project is a phased renovation and expansion of the University's original and historic building, which is 110 years old. When the renovation is completed in 2020, it will serve as, among other functions, the home to an integrated student service center known as "Red Hawk Central" including the admissions, financial aid, registrar, and student account offices; career development, disability resources, academic advising, and co-op education; and the offices of the President, the Provost, the General Counsel, and the Vice President of Student Development and Campus Life.
- Richardson Hall - This project is a renovation of a 40-year old, three (3) - story 78,000 square foot facility. When the renovation is completed this will accommodate instructional and research programs in Mathematics, Science Informatics, Chemical Biology, Physics, Chemistry and Biochemistry.
- Bohn Hall – This project is a renovation of a 16 floor resident community of approximately 500 students. This project includes a new heating/cooling system, elevator upgrade, new windows, painting, and modest exterior building and site improvements.

Major construction completed during 2017 included:

- School of Communication and Media - The new building is a 105,000 square-foot facility that joins what was Morehead Hall and Life Hall into a single, multi-functional communications and multimedia facility. The new building is equipped with a leading edge, multi-platform "newsroom of the future," along with a 150-seat presentation hall, broadcast studios, integrated media lab, film screening room, and acting and dance studios.
- The School of Nursing and the Graduate School – This 47 year old structure, previously known as Partridge Hall to house the Business School, was fully renovated and now includes mediated classrooms and specialized spaces, such as a nursing skills lab, an anatomy lab, high-fidelity simulation labs outfitted with state-of-the-art computer interfaced mannequins, a home care lab, a mock quarantine room and computer labs, as well as faculty offices and student and faculty/staff gathering and meeting spaces. A large portion of the ground floor is devoted to a gathering and study space for graduate students and nursing students.
- Stone Hall - This renovation restored this 60-year-old building's use as a Residence Hall and included a new heating/cooling system, electrical upgrades, environmental material removal, new windows, new roof, painting, and modest exterior building and site improvements.

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**Other assets**

Other assets include prepaid deposits related to software licenses of \$1.5 million and other prepaid expenses of \$.348 million.

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

The University's liabilities and deferred inflows of resources decreased to \$937.6 million in 2018, from \$968.9 million in 2017 and \$956.5 million in 2016. The decline in 2018 is attributable to the decrease in accumulated pension liabilities, offset by an increase in deferred inflow of pension resources and a decrease in non-pension deferred inflows. The increase in 2017 was attributable primarily to the liability for pensions, offset by reductions in debt to finance capital projects and deferred inflows of resources.

**Debt**

Capital assets are funded from a variety of sources, including University unrestricted net position, federal and state support, revenue bonds, and leases.

University debt is used primarily to finance the addition of new capital assets. Amounts outstanding at the end of 2018, 2017 and 2016 were \$426.9 million, \$439.3 million, and \$447.9 million respectively. The table below shows the components of the \$12.4 million decrease in outstanding debt in 2018, and the \$8.6 million decrease that occurred in 2017.

(\$ in thousands)	<b>2018</b>	<b>2017</b>
Beginning Balance	\$ 439,319	\$ 447,871
<b>ADDITIONS TO OUTSTANDING DEBT</b>		
Higher Education Capital Improvement Fund (CIF)	-	6,777
Capital leases	647	1,374
Additions to outstanding debt	<u>647</u>	<u>8,151</u>
<b>REDUCTIONS TO OUTSTANDING DEBT</b>		
Refinancing and prepayments	-	(4,320)
Scheduled principal payments	(12,352)	(11,722)
Reductions to outstanding debt	<u>(12,352)</u>	<u>(16,042)</u>
Amortization of bond premium/discount - net	<u>(661)</u>	<u>(661)</u>
Net decrease in outstanding debt	<u>(12,366)</u>	<u>(8,552)</u>
Ending Balance	<u>\$ 426,953</u>	<u>\$ 439,319</u>

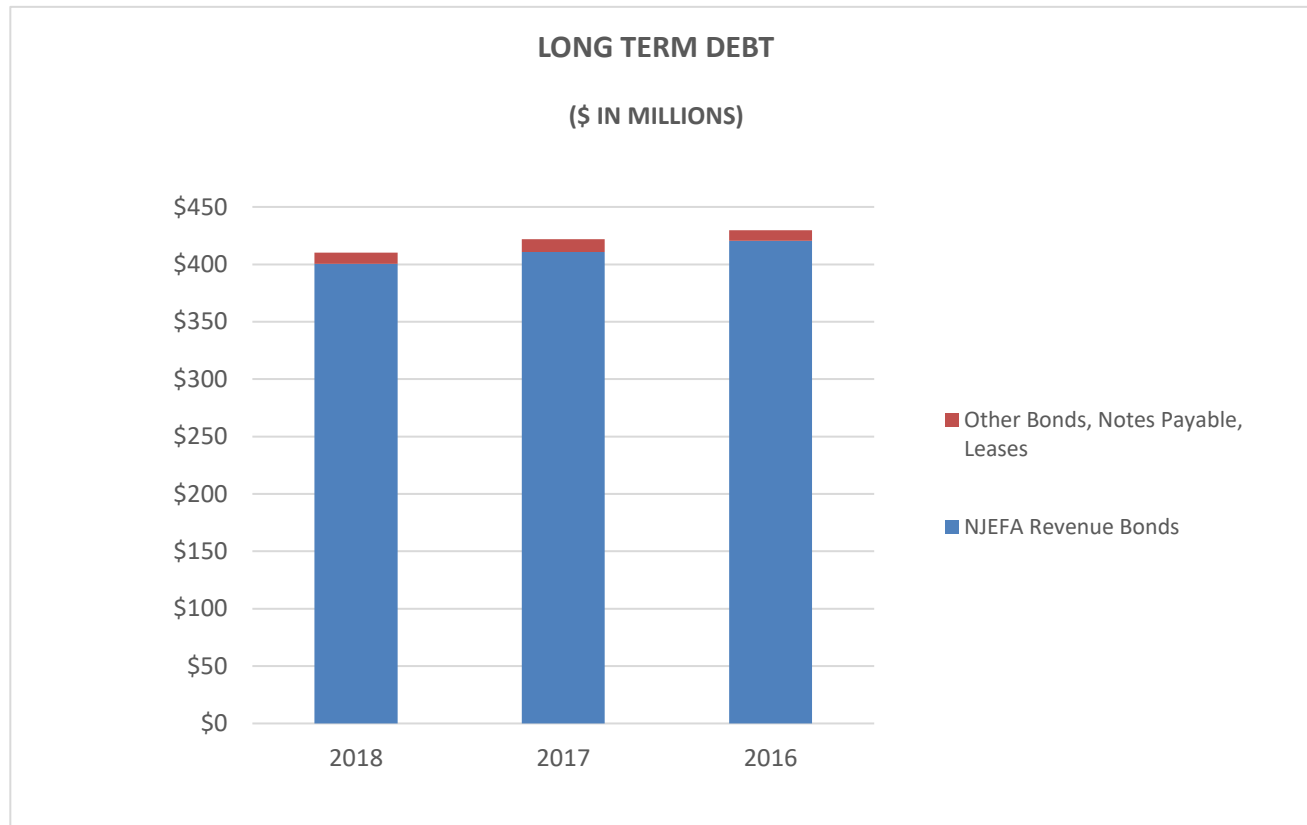
As of June 30, 2018, the University had outstanding indebtedness in the form of annual rentals it assumed under certain leases and agreements with the Authority of \$400.3 million, and a note payable to the State of New Jersey of \$.647 million.

In addition, the University is obligated to service debt with principal totaling \$9 million, under several State programs that support capital improvements, environmental infrastructure, and education leasing programs.

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During 2016, the Authority 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, as well as reduce its annual interest expense. Over the two-year period, interest expense declined from \$19 million (in 2016) to \$15.2 million (in 2018).

The composition of the University's long-term debt as of June 30, 2018, 2017, and 2016 follows:



On April 11, 2018, Fitch Ratings affirmed its AA- rating on the University's \$400.3 million of outstanding NJEFA revenue bonds with a rating outlook of "stable." On August 13, 2018, Moody's Investors Service downgraded the ratings on the University's outstanding revenue bonds from A1 "negative" outlook to A2 "stable" outlook. As the University's debt obligations are fixed rate and do not include any rating triggers, the actions by the rating agencies do not have any impact on the interest expense associated with the University's current debt portfolio.

***Net pension liability and retiree health benefits***

In accordance with GASB 68, beginning in 2015 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 this legislation. The University's share of the net pension liability was \$207.7 million, \$236.8 million and \$190.1 million in 2018, 2017 and 2016, respectively. The decline in the accumulated net pension liability for 2018 was driven primarily by changes in actuarial assumptions. The actuarial valuation for 2018 is based on a measurement date as of June 30, 2017.

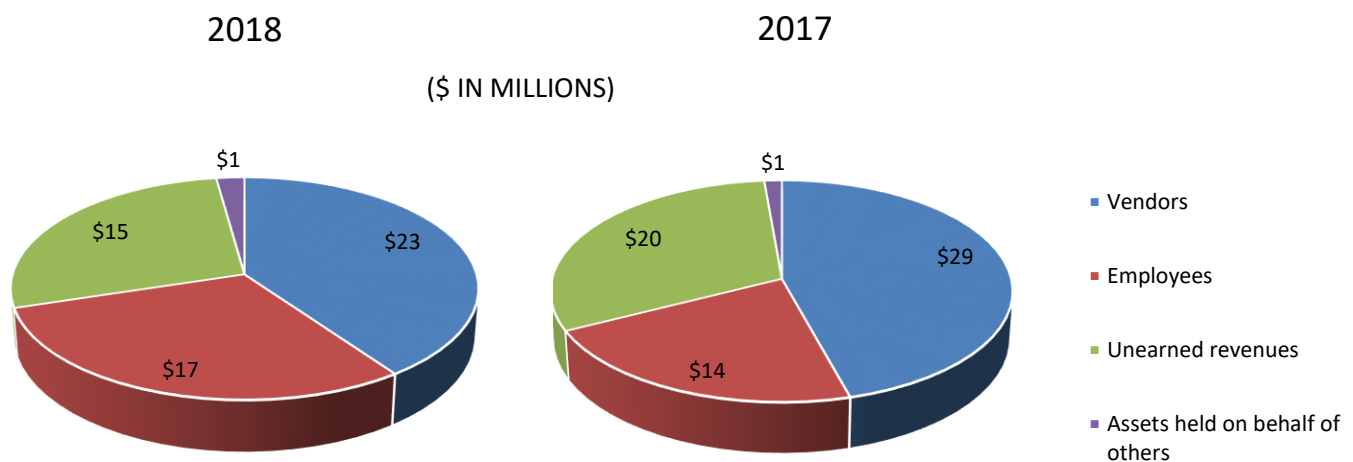
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For the years 2017, 2016 and 2015 the portfolio's total investment rate of return was 7.00%, 7.65%, and 7.90%, respectively. The liability as of June 30, 2018, which reflects the present value of projected future payments to those already retired and those who will retire with benefits due, decreased by \$29.1 million (12.3%).

The decrease is largely attributable to three changes in the assumptions that affect the liability calculation: (i) the long-term inflation rate (3.08% in 2017 to 2.25% in 2018) (ii) the discount rate (3.98% in 2017 to 5.0% in 2018 for PERS and 5.55% 2017 to 6.14% in 2018 for PFRS)); and (iii) the assumed future rate of salary growth over the next decade (1.65% to 4.15% based on age remained the same 2017 and 2018).

### Other liabilities

Liabilities, other than those related to pensions and debt, consist of accounts payable and accrued expenses (due to vendors, capital projects, employees, and interest), compensated balances, unearned income, and assets held on behalf of others.



### Deferred inflows of resources

Deferred inflows of resources are acquisitions of net assets that are applicable to a future reporting period. The deferred component is the recognition of inflows as revenues in relevant future periods. 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 increased by \$17.4 million in 2018 due to changes in actuarial pension assumptions; recognition of revenue related to the concession agreement; and amortization of savings from debt refundings. 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; 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. The \$17.4 million increase between 2018 and 2017 is due primarily to the \$29 million increase in deferred inflow from pension resources associated with the actuarial changes in assumptions and changes in the proportion of the state-wide payroll. Proportionate share increased from .729% to .734% (PERS) and .402% to .447% (PFRS) offset by the \$7.3 million decrease due to recognition of revenue related to the concession agreement and the \$4.7 million decrease due to the amortization of savings from 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 \$268.9 million, \$289.9 million, and \$298.1 million in 2018, 2017, and 2016, respectively.

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, i.e. net of accumulated depreciation and the related outstanding debt used to finance acquisitions, construction or improvement of these capital assets, was \$254.4 million in 2018, an increase from \$233.6 million and \$210.5 million for the years ended June 30, 2017 and 2016, respectively. The University continues to invest in its physical facilities to address maintenance issues within its campus infrastructure, and to meet its evolving programmatic needs.

***Restricted - expendable***

Restricted - expendable net position is subject to externally imposed restrictions governing the use of certain assets. A portion of the net assets that comprise the 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 of 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 was negative in 2018 and 2017, due primarily to the recording of the non-cash obligations for pension benefits that are in excess of University reserves.

Although unrestricted net position is not subject to externally imposed restrictions, substantially all of the University's reserves are designated for academic and research initiatives or programs, or for capital and other internally designated purposes. As of June 30, 2018 and 2017, unrestricted net position is in a deficit position. Increased operational costs including union contract settlements, the rising cost of fringe benefits, and the aforementioned payment to terminate the Yogi Berra Stadium and Floyd Hall Arena leases, resulted in a further decrease in unrestricted net deficit position, from -\$7.3 million in 2017 to -\$36.6 million in 2018.

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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 2018, 2017 and 2016, 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>2018</u>	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>			
Student revenues, net	\$ 210,493	\$ 214,172	\$ 202,150
State appropriations (general & fringe)*	75,733	73,200	75,850
Federal Pell Grants*	35,046	31,912	30,539
State paid other postemployment health benefits	24,629	-	-
Grants and contracts	54,648	46,050	44,633
Educational activities	6,782	6,565	6,745
Auxiliary enterprises	31,075	30,414	29,282
Private gifts*	1,315	1,524	798
Investment income*	2,735	2,405	1,675
Other revenues**	15,810	16,195	18,121
<b>Revenues supporting core activities</b>	<u><b>458,266</b></u>	<u><b>422,437</b></u>	<u><b>409,793</b></u>
<b>EXPENSES</b>			
Salaries and benefits	256,645	238,253	236,403
Pension benefits	14,709	20,589	12,584
Postemployment health benefits	24,629	-	-
Utilities	20,229	21,521	22,658
Supplies and materials	10,704	10,848	7,503
Depreciation and amortization	56,801	52,901	41,749
Interest expense*	15,201	15,513	18,875
Other expenses*	81,696	74,880	75,728
<b>Expenses associated with core activities</b>	<u><b>480,614</b></u>	<u><b>434,505</b></u>	<u><b>415,500</b></u>
<b>Income (loss) from core activities</b>	<u><b>(22,348)</b></u>	<u><b>(12,068)</b></u>	<u><b>(5,707)</b></u>
<b>OTHER NONOPERATING ACTIVITIES</b>			
Net appreciation (depreciation) in fair value	(1,741)	(688)	278
Income (loss) before other changes in net position	(24,089)	(12,756)	(5,429)
<b>OTHER CHANGES IN NET POSITION</b>			
Capital gifts and grants, net	3,106	4,510	12,670
<b>Increase (decrease) in net position</b>	<u><b>(20,983)</b></u>	<u><b>(8,246)</b></u>	<u><b>7,241</b></u>
<b>NET POSITION</b>			
Beginning of year, as previously reported	289,878	298,124	290,883
<b>End of year</b>	<u><u><b>\$ 268,895</b></u></u>	<u><u><b>\$ 289,878</b></u></u>	<u><u><b>\$ 298,124</b></u></u>

\* Represents nonoperating revenues or expenses

\*\* Other revenues consist of less than 5% of nonoperating revenues.

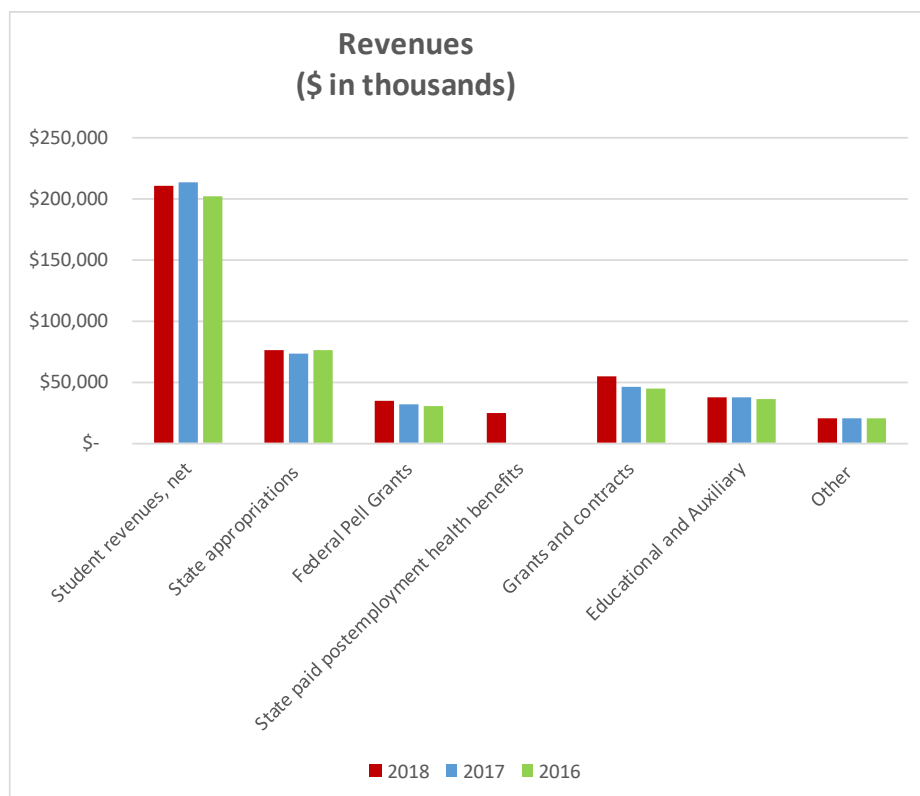
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The following represents an illustration of net position and unrestricted net position adjusted for the effects of the GASB 68 pension pronouncement.

	2018	2017	2016
<u>Net Position from the Financial Statements</u>			
Net Investment in Capital Assets	\$ 254,446	\$ 233,586	\$ 210,521
Restricted	51,082	63,595	97,196
Unrestricted Deficit	(36,633)	(7,303)	(9,593)
Total Net Position - Financial Statements	<u>\$ 268,895</u>	<u>\$ 289,878</u>	<u>\$ 298,124</u>
<u>Restatement of Unrestricted Deficit Above</u>			
Unrestricted Deficit	\$ (36,633)	\$ (7,303)	\$ (9,593)
GASB 68 Pension Adjustments:			
Net Pension Liability	207,673	236,776	190,115
Deferred Outflow of Resources	(42,132)	(50,247)	(21,529)
Deferred Inflow of Resources	33,332	3,911	5,793
Total Unrestricted Net Position (As Adjusted)	<u>\$ 162,240</u>	<u>\$ 183,137</u>	<u>\$ 164,786</u>
Total Net Position (As Adjusted)	<u>\$ 467,768</u>	<u>\$ 480,318</u>	<u>\$ 472,503</u>

**Revenues supporting core activities**

Revenues supporting the University's core activities, including those classified on the financial statements as, non-operating revenues, were \$458 million, \$422 million and \$410 million in 2018, 2017 and 2016, respectively. These diversified sources of revenue increased by \$35.8 million in 2018, following a \$12.6 million increase during 2017.



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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 derive from educational activities and auxiliary enterprises such as student housing, food service operations and parking.

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

**Categories of both operating and non-operating revenue that supported the University's core activities in 2018 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 room and board. Student revenues are shown net of scholarship allowances. Student tuition and fees, before housing rentals and board and scholarship allowances, were \$228.6 million, \$224.7 million and \$210.8 million in 2018, 2017 and 2016, respectively.

The University places a high priority on scholarship assistance 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 amounts paid by students and third parties on behalf of student, are reported as an offset to revenue. The allowances are based on the availability of federal and state grants. Scholarship allowances increased 13% and 8% in 2018 and 2017, respectively. Scholarships and fellowships, representing scholarship grants made directly to students and reported as an offset to student tuition and fees and housing rentals and board, were \$67.2 million, \$59.5 million and \$55.2 million in 2018, 2017 and 2016, respectively.

Student revenues, net of scholarship allowances, decreased by \$3.7 million in 2018, after increasing by \$12.0 million in 2017.

In 2018, student enrollment grew by 0.1% (from 21,013 to 21,115 full-time and part-time students) following a 2.6% increase in 2017. Tuition rates increased in 2018 by 2.8%. Mandatory fees for graduate and undergraduates increased in fiscal 2018 by 2.5%. Room and board revenue increased by \$.129 million and \$2.5 million in 2018 and 2017, respectively, reflecting in part a 2.5% increase in room rates offset by reduced occupancy due to the removal of quad rooms in Sinatra Hall. Although meal plan rates increased on average by 2.5% in 2018, revenues decreased by \$118,000 as meal plan counts remained flat amidst shifts in meal plan distribution choices selected by students.

***State educational appropriations***

Appropriations from the State of New Jersey totaled \$76 million, \$73 million and \$76 million in 2018, 2017 and 2016, respectively, reflecting an essentially unchanged level of support for general appropriations and reimbursements for fringe benefit expenditures during the period.

***State paid other post employment health benefits***

In conjunction with, GASB 75, as the State is legally obligated for benefit payments on behalf of the University, the University recognized revenue related to the support provided by the State of \$24.6 million.

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## **Grants and contracts**

Revenues from federal, state, private and local government grants and contracts — including recoveries of facilities and administration costs of \$1.3 million, \$1.5 million and \$1.7 million in 2018, 2017 and 2016, respectively — were \$55 million, \$46 million and \$45 million in 2018, 2017 and 2016, respectively. The state's Tuition Aid Grant (TAG) increased by \$4.4 million in 2018 compared to the previous year, due to the University's designation as a public research university, which increased the award levels for eligible students. Additionally, the increase in revenues reflect the growing volume of externally - sponsored research grants and related expenditures.

The University received the following significant grants in 2018:

- The Research on Youth Thriving and Evaluation Institute at Montclair State University received \$1.8 million for the first year of a two-year, \$5.7 million Boy Scouts of America National Character Initiative sub-award funded by the Stephen D. Bechtel Jr. Foundation.
- The National Institutes of Health awarded to the Department of Biology a four-year \$1.3 million grant for the project "Post-translational Regulation of Inducible cAMP Early Repressor and its Implications in Cancer." This project will study how unusual protein with tumor suppression activities in normal cells are eliminated or misplaced in cancer cells.
- The National Science Foundation (NSF) awarded a team of University researchers a three-year, \$1.1 million grant for the project "Assimilating Computational and Mathematical Thinking into Earth and Environmental Science," a multidisciplinary project submitted to NSF by Montclair State's PSEG Institute of Sustainability Studies and departments of Computer Science, Earth and Environmental Studies and Mathematical Sciences.

## ***Educational activities and auxiliary enterprises***

Revenue from educational activities and programs are generated primarily by the childcare center, early intervention programs, gifted and talented program and the research and evaluation center. These revenues remained essentially unchanged at \$7.0 million annually. The gifted and talented program permanently closed in May 2018 due to decreased enrollment.

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 \$.650 million in 2018, following a \$1 million increase in 2017.

## ***Expenses associated with core activities***

Expenses associated with the University's core activities, including those classified as non-operating expenses, were \$481 million, \$435 million and \$416 million in 2018, 2017 and 2016, respectively. Overall, expenses increased in 2018 by \$46 million or 11%. Instructional expenses rose by \$22 million (17%), Institutional support rose by \$6 million (14%), Student Aid increased \$2 million (13%), Research expenses rose by \$2 million (21%), Operations and Maintenance of Plant rose \$5 million (12%), and Depreciation expense rose by \$4 million (7%).

Expenses excluding depreciation and interest expenses totaled \$409 million in 2018 representing an increase of \$42 million. The increase was driven primarily by \$24 million GASB 75 other postretirement health benefit and an \$18 million increase in salaries and benefits as discussed below, \$2 million increase in student aid, \$2 million increase in services (\$1.4 million in Auxiliary Enterprises and \$.8 million in Instruction) and \$1 million in other expenses primarily repairs and maintenance. Pension expense associated with GASB 68 decreased by \$5.8 million.

Overall, expenses increased in 2017 by \$19 million or 5%. Instructional expenses rose by \$4 million (3%), Research expenses increased by \$2 million (28%), Operations and Maintenance of Plant rose \$2 million (7%), Residence Life and Auxiliary Enterprises rose \$5 million (9%), Academic Support rose \$1 million (6%) and Depreciation expense rose by \$11 million (27%), offset by decreases in Institutional Support by \$3 million (6%) and Interest Expense by \$3 million (18%).

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Expenses excluding depreciation and interest expense totaled \$366 million in 2017 representing an increase of \$11 million. The increase was due primarily to higher pension expense associated with GASB 68 (\$8 million) and a \$3 million increase in supplies and materials.

**Categories of both operating and non-operating expenses related to the University's core activities in 2018 are as follows:**

***Salaries and benefits***

Approximately 59% of the University's 2018 expenses are related to payroll costs and employee benefits (including pension expense). There was an average of 5,816 employees in the University in FY 2018, as compared to 5,745 in FY 2017, an increase of 1%.

Payroll and benefits increased by \$18 million or 8% in 2018; the total payroll rose from \$191.3 million in 2017 to \$205.9 million in 2018 (7.6%), while fringe benefits costs increased from \$46.1 million to \$50.7 million (10%) during the same period. Approximately \$9 million of the payroll increase (64% of the total) was attributable to a newly negotiated contract with the AFT. In 2017, payroll and benefits increased by 0.86% (\$2.0 million) compared to 2016, a year in which there were no cost of living or longevity increments for AFT members.

Pension expense attributable to GASB 68 decreased by \$5.8 million (28%) in 2018, mainly due to changes in actuarial assumptions as described above.

The University's pension expenses are summarized below (\$s in thousands):

	<b>2018</b>	<b>2017</b>
PERS	\$ 12,103	\$ 18,302
PFRS	2,606	2,287
	<u>\$ 14,709</u>	<u>\$ 20,589</u>
TPAF	250	320
Alternate Benefit Program (ABP)	11,580	9,632
Defined Contribution Retirement Program (DCRP)	<u>32</u>	<u>36</u>
<b>Total</b>	<u><u>\$ 26,571</u></u>	<u><u>\$ 30,577</u></u>

An equal amount of State paid other postemployment benefits expense attributable to GASB 75 totaled \$24.6 million in 2018 which was offset by an equivalent amount of revenue from the State.

***Other expenses***

Other expenses include travel, rent, insurance, legal costs, repairs and maintenance and gains or losses on disposed capital assets, all of which remained essentially the same in 2018 as compared to 2017.

***Operating results***

Operating losses of \$146.9 million, \$105.7 million and \$94.9 million in 2018, 2017 and 2016, respectively, were offset by non-operating revenue that support core operating activities of the University. These include state appropriations, Pell grants, gifts and non-exchange grants, state paid other postemployment health benefits, investment income and other non-operating revenue, which totaled \$140.0 million, \$109.3 million and \$109.4 million, in 2018, 2017, and 2016 respectively. Total expenses associated with core activities in 2018 and 2017 exceeded total revenues supporting core activities by \$22 million and \$12 million respectively. The \$10 million deterioration from core activities from 2017 to 2018 is attributable to increases in salaries and benefits (which rose by \$18 million in 2018) to growth in certain non-personnel operating costs, offset by a \$5.8 million decrease in the GASB 68 portion of total pension expense.

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## **LOOKING FORWARD**

In a challenging state and national enrollment climate, the University is attracting an increasingly large, well-prepared, and highly diverse applicant pool. The University received approximately 18,000 completed applications for undergraduate admission for the 2019 academic year, an increase of 15% compared to 2018; the result in part due to a new Presidential Scholars program which was created to attract high-achieving graduates from New Jersey high schools.

The University has launched “University College,” an innovative academic home for students where they can pursue interests that will launch academic and career success. Beginning in Fall 2019, students who are not certain about their choice of major will be eligible for admission to University College, where they can tap into the support, guidance and programs they need to explore and discover the areas that interest them most. Innovative and new programs will be offered by the University including a bachelor’s degree in Medical Humanities to examine far-ranging questions about health and illness, and to connect the hard science of modern medicine with the healing powers of art. A new online Master of Science in Nursing degree to prepare registered nurses holding bachelor’s degrees for professional growth opportunities, and a new Master of Social Work program, will be offered to incoming students. The Feliciano School of Business will be adding an accelerated, full-time MBA option that students will be able to complete in 12 months. The School of Business is also working to create “4+1” programs that will enable students to finish their undergraduate degrees in the sciences, humanities or social sciences, while also completing an MBA, all in a total of five years. The University has created an innovative new program with New Jersey community colleges. This “2+2 program” allows students from the NJ community colleges that complete an associate degree at those colleges to have guaranteed admission to the University.

In August 2018, the 34,400 square foot Mallory Hall was transformed through a complete renovation and expansion into a 43,800 square foot, cutting edge Center for Computing and Information Science. Funded in part by \$7 million in phase-two state bond funds received by the University, the new \$22.2 million facility supports the University’s mission as a Carnegie-designated research doctoral university and state-designated public research institution. The new Center will allow the University to sustain and grow high-quality, high-demand science programs that are directly aligned with the state’s and students’ needs and focus on core and competitive areas of STEM education.

In 2019, the University will be undertaking the principal phase of its largest construction project on campus, the complete renovation of College Hall, which is expected to be completed by September 2020. The University will be continuing with the implementation of a broad range of technology systems to improve services to customers, and advance the overall operations of the University.

The University will be converting its Finance system from PeopleSoft Financial management System to WorkDay Finance, with a targeted go-live of 2020. WorkDay Human Capital Management was implemented at MSU in 2016, and the extension to Finance (including general ledger, grants, and procurement) will provide an integrated, cloud-based platform to improve financial operations and data reporting, accelerate intra-year and year-end closing processes, and avoid costs associated with supporting an on-premise enterprise system.

In the area of campus energy, the University is strengthening its utility infrastructure with the addition of two natural gas engine generators to supplement the University’s current plant, and upgrades to the University Substation. This expansion and upgrade will allow the University to act as a micro grid, reducing demand from the external grid, reducing overall energy costs, and permitting the University to divorce itself from public utilities when necessary.

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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 derives 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. For FY19, the National Science Foundation has recommended two grants for funding, totaling \$1.2 million, and there are 10 proposals pending that total \$12.8 million. The continued development this year of the University's research-support infrastructure will increase the opportunities for faculty to compete successfully for federal grants.

Recently, the University was recognized by Governor Murphy as a participant, along with five other New Jersey research institutions, in the new Research with NJ Initiative. The Research with NJ Initiative supports Governor Murphy's vision for a vibrant innovation economy by facilitating collaboration between the State's vast technology, life sciences sector and the university research continuously advocating new discoveries. The initiative is an economic development tool that will provide a window into the University's research, allowing the University to serve as a resource to industry and creating opportunities for both companies and academics.

During 2019, the University will publically launch a significant capital campaign known as *Soar, The Campaign for Montclair State University*. The campaign has been in a traditional quiet phase for several years, and, during that time, has raised \$60 million. Now, as the University reaches its 110<sup>th</sup> anniversary it will seek to close the last \$15 million of the goal. The campaign is designed to enhance the University's ability to provide a vibrant educational environment in which students, regardless of their financial means, are challenged and empowered to succeed; in which faculty members have the resources to conduct important research that addresses the needs of society; and in which the entire campus community has access to facilities that are conducive to 21<sup>st</sup>-century reaching and learning.

The University has undertaken a comprehensive review of its athletic program and its supporting infrastructure to enhance Montclair State University's competitive stature and to appropriately support student athletes, on the field and in the classroom. A new athletic director will be hired to carry out this vision, following the imminent retirement the current director after 30 years of dedicated service.

The University recently established the Office of Strategic Initiatives, Economic Development and Civic Partnerships to support Montclair State University's strategic objective of serving as a dynamic nexus and anchor institution for commercial innovation, economic development and as a collaborating institution with others both within and beyond New Jersey's borders. The Office of Strategic Initiatives, Economic Development and Civic Partnerships serves as a critical point of connectivity between the many great resources, programs and capabilities of Montclair State University and the abundant opportunities offered by expanded strategic partnerships between the University, corporations, entrepreneurs, industry, regional business organizations, economic development agencies, not-for-profit organizations, and local communities. The Office is developing, facilitating and leading efforts that deliver upon strategic university, regional and state priorities, while also serving as an essential gateway into Montclair State's impressive portfolio of partnership opportunities. The mission of the Office of Strategic Initiatives, Economic Development and Civic Partnerships is to foster creative relationships, linkages and partnerships – of both a public/private and a public/public nature – that enhance the social, cultural, infrastructure and educational assets of both the University and its surrounding communities, while contributing as well to the economic development, future growth, and overall well-being of the state and the region.



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The University's Online and Extended Learning was re-branded as Continuing and Professional Education (CAPE) to better reflect the market it is targeting, which is traditional and adult degree-seeking students - alumni, professional communities, the broader local public and people seeking to advance or change their careers. CAPE's portfolio of graduate online programs will be broadened to include new face-to-face and online credential-bearing offerings that are focused on 21st-century skills designed for working professionals, lifelong learners, and business and community organizations. The content and delivery of CAPE's online degree and professional development courses will reflect today's workplace realities. In 2019, the University is looking forward to working directly with industry and business leaders, local municipalities and government entities, trade organizations, and the school districts to design and build apprenticeship programs to support innovation in a variety of areas. This is in alignment with the Governor of New Jersey's recently announced Economic Development Plan. We will be reevaluating the program in the Fall of 2019.

The University remains committed to providing the facilities and resources required to meet its educational, research and public service goals, while continuing to assess long-term capital requirements and financial sustainability. 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 at [www.state.nj.us/treasury](http://www.state.nj.us/treasury).

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Statement of Net Position  
(dollars in thousands)  
June 30, 2018

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 23,768	\$ 2,292	\$ 26,060
Investments	43,647		43,647
Assets held under bond indenture agreements	51,082		51,082
Receivables			
Students, less allowance for doubtful accounts of \$2,331	4,718		4,718
Loans, less allowance for doubtful loans of \$165	598		598
Grants and contracts	10,197		10,197
State of New Jersey	7,559		7,559
Other receivables	7,558	1,945	9,503
Total Receivables	30,630	1,945	32,575
Other current assets	1,741	149	1,890
Total Current Assets	150,868	4,386	155,254
Noncurrent Assets			
Investments	84,932	75,099	160,031
Loans receivable, less allowance for doubtful loans of \$517	3,268		3,268
Capital assets, net	913,569		913,569
Other noncurrent assets	154	6,893	7,047
Total Noncurrent Assets	1,001,923	81,992	1,083,915
Total Assets	1,152,791	86,378	1,239,169
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount from debt refundings	2,613		2,613
Deferred outflow of pension resources	42,132		42,132
Deferred outflow from capital purchase	9,000		9,000
Total Deferred Outflows of Resources	53,745	-	53,745
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable and accrued expenses	39,376	3,013	42,389
Bonds payable and other long-term debt - current portion	12,763		12,763
Unearned tuition, fees, and deposits	9,557		9,557
Unearned revenue from grantors	5,921		5,921
Assets held on behalf of others	1,230		1,230
Total Current Liabilities	68,847	3,013	71,860
Noncurrent Liabilities			
Bonds payable and other long-term debt - noncurrent portion	414,190		414,190
Compensated absences - noncurrent portion	2,079		2,079
Assets held on behalf of Federal government for loan programs	3,425		3,425
Net pension liability	207,673		207,673
Other long term liability	5,163		5,163
Total Noncurrent Liabilities	632,530	-	632,530
Total Liabilities	701,377	3,013	704,390
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred service concession arrangement	183,586		183,586
Deferred inflow of pension resources	33,332		33,332
Deferred amount from debt refundings	19,346		19,346
Total Deferred Inflows of Resources	236,264	-	236,264
<b>NET POSITION</b>			
Net investment in capital assets	254,446		254,446
Restricted nonexpendable		43,913	43,913
Restricted expendable for			
Scholarships		1,697	1,697
Renewal and replacement	30,250		30,250
Debt service and debt service reserve	20,832		20,832
Other		34,135	34,135
Unrestricted	(36,633)	3,620	(33,013)
Total Net Position	\$ 268,895	\$ 83,365	\$ 352,260

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, 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	2,164	-	2,164
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	32,735	1,065	33,800
Other current assets	1,690	155	1,845
Total Current Assets	168,576	3,690	172,266
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	1,195,660	81,794	1,277,454
<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	11,324	-	11,324
Unearned revenue from grantors	8,208	-	8,208
Assets held on behalf of others	860	-	860
Total Current Liabilities	74,868	2,067	76,935
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	750,110	2,067	752,177
<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	-	1,947	1,947
Loans	26	-	26
Renewal and replacement	43,105	-	43,105
Debt service and debt service reserve	20,464	-	20,464
Other	-	32,187	32,187
Unrestricted	(7,303)	2,703	(4,600)
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 Revenues, Expenses, and Changes in Net Position  
(dollars in thousands)  
Year Ended June 30, 2018

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
<b>OPERATING REVENUES</b>			
Student Revenues			
Student tuition and fees	\$ 228,551	\$ -	\$ 228,551
Residence life - room and board	49,181	-	49,181
Less scholarship allowance	67,239	-	67,239
Net Student Revenues	210,493	-	210,493
Federal grant and contracts	11,234	-	11,234
State of New Jersey grants and contracts	35,730	-	35,730
Nongovernmental grants and contracts	7,684	-	7,684
Sales and services of educational departments	6,782	-	6,782
Auxiliary enterprises	31,075	-	31,075
Other operating revenues	15,267	8,841	24,108
Total Operating Revenues	318,265	8,841	327,106
<b>OPERATING EXPENSES</b>			
Instruction	155,941	-	155,941
Research	12,823	-	12,823
Public service	14,736	-	14,736
Academic support	31,585	-	31,585
Student services	19,172	-	19,172
Institutional support	54,211	9,666	63,877
Operations and maintenance of plant	43,229	-	43,229
Depreciation	56,801	-	56,801
Student aid	18,261	-	18,261
Residence life and auxiliary enterprises	58,455	-	58,455
Total Operating Expenses	465,214	9,666	474,880
Operating (Loss) Income	(146,949)	(825)	(147,774)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State of New Jersey appropriations	35,859	-	35,859
State of New Jersey paid fringe benefits	39,874	-	39,874
Pell grants	35,046	-	35,046
State paid other postemployment health benefits	24,629	-	24,629
Gifts and non-exchange grants	1,315	-	1,315
Unrealized and realized gains on investment securities	(1,741)	-	(1,741)
Investment income, net of investment expenses of \$287	2,735	4,463	7,198
Interest on indebtedness	(15,201)	-	(15,201)
Administrative costs	(199)	-	(199)
Other nonoperating revenues	543	-	543
Net Nonoperating Revenues	122,860	4,463	127,323
(Loss) Income Before Other Revenues	(24,089)	3,638	(20,451)
Capital gifts and grants	3,106	-	3,106
(Decrease) Increase in Net Position	(20,983)	3,638	(17,345)
<b>NET POSITION</b>			
Beginning of year	289,878	79,727	369,605
End of year	\$ 268,895	\$ 83,365	\$ 352,260

**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	7,630	-	7,630
State of New Jersey grants and contracts	32,074	-	32,074
Nongovernmental grants and contracts	6,346	-	6,346
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>313,127</u>	<u>9,833</u>	<u>322,960</u>
<b>OPERATING EXPENSES</b>			
Instruction	133,688	-	133,688
Research	10,637	-	10,637
Public service	13,691	-	13,691
Academic support	29,139	-	29,139
Student services	17,655	-	17,655
Institutional support	47,726	9,638	57,364
Operations and maintenance of plant	38,630	-	38,630
Depreciation	52,901	-	52,901
Student aid	16,109	-	16,109
Residence life and auxiliary enterprises	<u>58,618</u>	<u>-</u>	<u>58,618</u>
Total Operating Expenses	<u>418,794</u>	<u>9,638</u>	<u>428,432</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	(15,513)	-	(15,513)
Administrative costs	(198)	-	(198)
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>
(Loss) 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>

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)	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 156,822	\$ 165,159
Grants and contracts	59,316	46,866
Payments for salaries	(203,094)	(193,386)
Payments for fringe benefits	(27,106)	(21,280)
Payments to suppliers	(76,332)	(75,578)
Payments for utilities	(20,229)	(19,646)
Payments for student aid	(18,261)	(15,418)
Loans issued to students	(613)	(282)
Collection of loans from students	559	619
Auxiliary enterprises charges		
Residence life	49,356	48,944
Other	31,075	30,414
Sales and services of educational departments	6,782	6,565
Other receipts	14,249	15,921
Net Cash from Operating Activities	<u>(27,476)</u>	<u>(11,102)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State of New Jersey appropriations/Pell grants	79,128	72,320
Gifts and non-exchange grants	1,315	1,524
Student organization agency transactions	370	(2,156)
Other receipts	543	269
Net Cash from Noncapital Financing Activities	<u>81,356</u>	<u>71,957</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital gifts and grants	3,106	4,510
Proceeds from capital debt	647	3,830
Principal paid on capital debt	(12,352)	(11,722)
Interest paid on capital debt	(20,717)	(19,064)
Purchases of capital assets	(63,416)	(80,757)
Administrative costs	109	(97)
Change in deposits held by bond trustees	12,488	32,489
Net Cash from Capital Financing Activities	<u>(80,135)</u>	<u>(70,811)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	7,188,098	2,591,127
Purchases of investments	(7,181,314)	(2,621,022)
Interest on investments	4,562	2,697
Net Cash from Investing Activities	<u>11,346</u>	<u>(27,198)</u>
Net (Decrease) in Cash and Cash Equivalents	<u>(14,909)</u>	<u>(37,154)</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>38,677</u>	<u>75,831</u>
End of year	<u>\$ 23,768</u>	<u>\$ 38,677</u>

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)	
	2018	2017
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (146,949)	\$ (105,667)
Adjustments to reconcile operating loss to net cash used by operating activities		
State of New Jersey paid fringe benefits	30,043	29,353
State paid other postemployment health benefits	24,629	-
Depreciation expense	56,801	52,901
Provision for bad debts	986	(609)
Changes in assets and liabilities :		
Student receivables	(3,534)	4,654
Loans receivables	(54)	337
Grants receivables	7,360	(1,062)
Other receivables	(1,161)	226
Other current assets	(51)	415
Accounts payable and accrued expenses	834	(5,459)
Unearned tuition, fees and deposits	(1,767)	(4,113)
Unearned revenue from granters	(2,287)	1,891
Compensated absences - noncurrent portion	(354)	(17)
Assets held on behalf of Federal government for loan programs	(405)	(13)
Net pension liability	<u>8,433</u>	<u>16,061</u>
Net Cash from Operating Activities	<u>\$ (27,476)</u>	<u>\$ (11,102)</u>

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

Notes to Financial Statements  
June 30, 2018 and 2017

**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 Statement No. 35 *Basic Financial Statements – and Management's Discussion and Analysis – Public Colleges and Universities* and GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* 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, 2018 and 2017

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

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

- *Unrestricted:* Net assets 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 assets are 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 cash on deposit with banking institutions and highly liquid short-term investment securities held in the State of New Jersey Cash Management Fund (the Fund) and other investment accounts, 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.

***Assets Held Under Bond Indenture Agreements***

Assets held under bond indenture agreements are recorded in the financial statements at fair value, which is based on quoted market price and consist of money market accounts, and U.S. treasury obligations.

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

Notes to Financial Statements  
June 30, 2018 and 2017

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

***Receivables***

Student receivables consist of tuition and fees charged to current and former students. State of New Jersey receivables, grants and contracts receivables are amounts due from federal and state governments in connection with reimbursement of allowable expenditures made pursuant to grants and contracts and other miscellaneous sources. Loans receivable consist of funds loaned to students under federal loan programs.

Receivables are reported at net realizable value. Receivables are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon management's evaluation and periodic review of individual accounts.

***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	10 - 25 years
Equipment and Vehicles	3 - 10 years
Furniture and Fixtures	10 years
Leasehold improvements	5 years
Software and Licenses	3 years

The University owns works of art and other collectibles valued at approximately \$3.8 million and \$3.7 million as of June 30, 2018 and 2017, respectively. Management has elected not to capitalize these items in accordance with GASB Statement No. 34.

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

Notes to Financial Statements  
June 30, 2018 and 2017

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

***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 \$153 thousand and \$200 thousand in 2018 and 2017, 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***

Deferred outflows of resources are defined as a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net position that is applicable to a future reporting period.

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.

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 includes commitments for capital purchases.

Deferred inflows also accounts for service concession agreements.

***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, and totaled \$8.7 million as of June 30, 2018 and \$10.0 million as of June 30, 2017. Unearned revenue includes summer session activity for July and August which will be recognized as revenue in the following fiscal year.

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

Notes to Financial Statements  
June 30, 2018 and 2017

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

Grants and contracts revenue is comprised mainly of revenues received from grants from the State, Federal governments, and other nongovernmental sources 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 deferred revenue from grantors in the accompanying financial statements and totaled \$5.9 million as of June 30, 2018 and \$8.2 million as of June 30, 2017.

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.

***Scholarship Allowance***

Student tuition and fees and residence life revenues are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position.

Scholarship allowances are the difference between the stated charge for tuition and services provided by the University and the amount that is paid to students and/or third parties making payments on students' behalf. To the extent that revenues from such programs are used to satisfy tuition and fees and other student services, the University has recorded a scholarship allowance.

***Classification of Revenue and Expense***

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.

Interest expense is reported as a nonoperating activity.

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

Notes to Financial Statements  
June 30, 2018 and 2017

**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, 2015.

***Reclassification***

Certain prior year amounts related to student accounts receivable, unearned tuition and various expenses have been reclassified to conform with current year presentation.

***Subsequent Events***

Except as disclosed in Note 6 and 15, management has reviewed and evaluated all events and transactions from June 30, 2018 through March 27, 2019, 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 and cash equivalents, 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. 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.

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

Notes to Financial Statements  
June 30, 2018 and 2017

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

Cash, investments and assets held under bond indenture agreements as of June 30, 2018 are classified in the statements of net position as follows (dollars in thousands):

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 23,768	\$ 38,677
Assets held under bond indenture agreements	51,082	63,570
Investments	<u>128,579</u>	<u>138,841</u>
	<u>\$ 203,429</u>	<u>\$ 241,088</u>

***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, 2018 and 2017, cash and cash equivalents were held by depositories and amounted to \$9.7 million and \$17.6 million, respectively.

As of June 30, 2018 and 2017, \$250,000 was FDIC insured and \$9.5 million and \$17.3 million was collateralized with securities according to the tri-party agreement.

The University participates in the 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, 2018 and 2017 was \$3.9 million and \$23.6 million, respectively. These amounts are collateralized in accordance with Chapter 64 of Title 18A of New Jersey statutes. The Fund is unrated.

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

Notes to Financial Statements  
June 30, 2018 and 2017

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

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.

***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, 2018, 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	\$ 61,528	\$ 25,888	\$ 35,640	\$ -
U.S. agencies	10,569	-	10,569	-
Municipal bonds	3,474	1,180	-	2,294
Corporate bonds	41,386	12,760	27,969	657
Mortgage securities	2,433	219	2,214	-
Asset based securities	3,087	-	3,087	-
Other fixed income securities	6,102	3,600	2,502	-
Total	\$ 128,579	\$ 43,647	\$ 81,981	\$ 2,951

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

Notes to Financial Statements  
June 30, 2018 and 2017

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

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	\$ 40,591	\$ -	\$ 40,591	\$ -
U.S. agencies	7,186	-	7,186	-
Municipal bonds	5,584	-	3,278	2,306
Corporate bonds	62,859	18,088	43,769	1,002
Mortgage securities	3,785	-	2,027	1,758
Asset based securities	1,336	-	235	1,101
Other fixed income securities	17,500	13,816	3,684	-
Total	<u>\$ 138,841</u>	<u>\$ 31,904</u>	<u>\$ 100,770</u>	<u>\$ 6,167</u>

**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, 2018, investments were in U.S. treasuries of \$22.6 million, and money market funds of \$28.4 million. As of June 30, 2017, investments were in U.S. treasuries of \$35.1 million, money market funds of \$28.4 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).



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

Notes to Financial Statements  
June 30, 2018 and 2017

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

***Credit Risk (continued)***

The following table summarizes Moody's agency ratings of the University's investments at fair value as of June 30, 2018 and 2017 (in thousands):

Investment Type	Quality Rating	2018	2017
U.S. treasuries	AAA	\$ 61,528	\$ 40,591
U.S. agencies	AAA	10,569	7,186
Municipal bonds	AAA	680	1,300
Municipal bonds	AA	500	1,471
Municipal bonds	A	2,293	2,813
Corporate bonds	AAA	3,662	2,531
Corporate bonds	AA	13,069	18,777
Corporate bonds	A	24,654	40,938
Corporate bonds	Baa	-	613
Mortgage securities	AAA	1,341	2,478
Mortgage securities	A	1,092	1,307
Asset backed securities	AAA	2,154	1,101
Asset backed securities	A	933	235
Other fixed income securities	AAA	-	1,998
Other fixed income securities	AA	1,001	2,320
Other fixed income securities	A	5,100	13,182
		<u>\$ 128,579</u>	<u>\$ 138,841</u>

***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)**

***Concentration of Credit Risk (continued)***

	<u>2018</u>	<u>2017</u>
Project and construction fund	\$ 30,250	\$ 43,106
Debt service fund for principal and interest	<u>20,832</u>	<u>20,464</u>
Assets Held Under Bond Indenture Agreements	<u>\$ 51,082</u>	<u>\$ 63,570</u>

***Fair Value Measurement***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date

Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly

Level 3 – unobservable inputs for an asset or liability

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following is a description of the valuation methodologies used for instruments measured at fair value:

- U.S. treasuries and agencies are valued at quoted price reported on the active market

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

***Fair Value Measurement (continued)***

- Municipal bonds, corporate bonds, mortgage securities, asset backed securities and other fixed income securities are valued using prices based on bid evaluations or quoted prices in an inactive market.
- Money market accounts are recorded at the quoted price which approximates fair value.

As of June 30, 2018 and 2017, the University's investments and assets held under bond indenture are summarized in the following table by their fair value hierarchy (dollars in thousands):

Type	Total	2018		
		Level 1	Level 2	Level 3
Investments:				
U.S. treasuries	\$ 61,528	\$ 61,528	\$ -	\$ -
U.S. agencies	10,569	10,569	-	-
Municipal bonds	3,474	-	3,474	-
Corporate bonds	41,386	-	41,386	-
Mortgage securities	2,433	-	2,433	-
Asset backed securities	3,087	-	3,087	-
Other fixed income securities	<u>6,102</u>	<u>-</u>	<u>6,102</u>	<u>-</u>
Total investments	<u>\$ 128,579</u>	<u>\$ 72,097</u>	<u>\$ 56,482</u>	<u>\$ -</u>
Assets Held Under Bond Indenture:				
U.S. treasuries	\$ 22,610	\$ 22,610	\$ -	\$ -
Money market funds	<u>28,472</u>	<u>28,472</u>	<u>-</u>	<u>-</u>
Total assets held under bond indenture	<u>\$ 51,082</u>	<u>\$ 51,082</u>	<u>\$ -</u>	<u>\$ -</u>

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

***Fair Value Measurement (continued)***

Type	Total	2017		
		Level 1	Level 2	Level 3
Investments:				
U.S. treasuries	\$ 40,592	\$ 40,592	\$ -	\$ -
U.S. agencies	7,186	7,186	-	-
Municipal bonds	5,584	-	5,584	-
Corporate bonds	62,859	-	62,859	-
Mortgage securities	3,785	-	3,785	-
Asset backed securities	1,335	-	1,335	-
Other fixed income securities	<u>17,500</u>	<u>-</u>	<u>17,500</u>	<u>-</u>
Total investments	<u>\$ 138,841</u>	<u>\$ 47,778</u>	<u>\$ 91,063</u>	<u>\$ -</u>
Assets Held Under Bond Indenture:				
U.S. treasuries	\$ 35,145	\$ 35,145	\$ -	\$ -
Money market funds	<u>28,425</u>	<u>28,425</u>	<u>-</u>	<u>-</u>
Total assets held under bond indenture	<u>\$ 63,570</u>	<u>\$ 63,570</u>	<u>\$ -</u>	<u>\$ -</u>

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**4. Capital Assets**

Capital asset activity for the year ended June 30, 2018 is comprised of the following (dollars in thousands):

	Beginning Balance	Acquisitions and Other Increases	Dispositions and Other Decreases	Ending Balance
Depreciable assets:				
Infrastructure	\$ 45,044	\$ 912	\$ -	\$ 45,956
Buildings and improvements	974,846	9,607	-	984,453
Equipment	241,275	11,518	1,147	251,646
Other	30,391	1,987	-	32,378
Total Depreciable Assets	<u>1,291,556</u>	<u>24,024</u>	<u>1,147</u>	<u>1,314,433</u>
Less accumulated depreciation on:				
Infrastructure	20,682	1,664	-	22,346
Buildings and improvements	253,849	24,587	-	278,436
Equipment	149,120	28,724	1,147	176,697
Other	16,909	1,825	-	18,734
Total Accumulated Depreciation	<u>440,560</u>	<u>56,800</u>	<u>1,147</u>	<u>496,213</u>
Depreciable Assets, Net	<u>850,996</u>	<u>(32,776)</u>	<u>-</u>	<u>818,220</u>
Nondepreciable assets:				
Land	37,136	685	-	37,821
Construction in progress	28,568	50,894	21,934	57,528
Total Nondepreciable Assets	<u>65,704</u>	<u>51,579</u>	<u>21,934</u>	<u>95,349</u>
Total Capital Assets, Net	<u>\$ 916,700</u>	<u>\$ 18,803</u>	<u>\$ 21,934</u>	<u>\$ 913,569</u>

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**4. Capital Assets (*continued*)**

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	<u>1,177,542</u>	<u>114,560</u>	<u>546</u>	<u>1,291,556</u>
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	<u>388,205</u>	<u>52,901</u>	<u>546</u>	<u>440,560</u>
Depreciable Assets, Net	<u>789,337</u>	<u>61,659</u>	<u>-</u>	<u>850,996</u>
Nondepreciable assets:				
Land	37,101	35	-	37,136
Construction in progress	83,446	56,632	111,510	28,568
Total Nondepreciable Assets	<u>120,547</u>	<u>56,667</u>	<u>111,510</u>	<u>65,704</u>
Total Capital Assets, Net	<u>\$ 909,884</u>	<u>\$ 118,326</u>	<u>\$ 111,510</u>	<u>\$ 916,700</u>

Estimated costs to complete the projects classified as construction in progress as of June 30, 2018 and 2017 approximated \$112.3 million and \$74.6 million and are expected to be funded from unrestricted resources, State grants and contracts and NJEFA bonds.

Effective May 2018, the University entered into a contract with a general contractor in the amount of \$36 million for services for the renovation of and additions to College Hall. The total project cost is approximately \$56 million and is expected to be completed in fiscal year 2021.

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**5. Accounts Payable and Accrued Expenses**

As of June 30, 2018 and 2017, accounts payable and accrued expenses consist of the following (dollars in thousands):

	<u>2018</u>	<u>2017</u>
Vendors	\$ 6,471	\$ 16,527
Capital projects	6,157	2,040
Employees	10,569	7,592
Interest payable	9,897	10,149
Compensated absences	<u>6,282</u>	<u>6,084</u>
	<u>\$ 39,376</u>	<u>\$ 42,392</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, 2018 and 2017 (dollars in thousands):

	<u>Interest rates</u>	<u>2018</u>	<u>2017</u>
New Jersey Educational Facilities Authority Revenue Bonds:			
Series 2006 J Revenue Bonds, due serially to 2021	3.75 - 4.25	\$ 24,160	\$ 30,315
Series 2007 A Revenue Bonds, due serially to 2021	5.25	2,540	3,095
Series 2008 J Revenue Bonds, due serially to 2018	3.00 - 5.00	675	1,335
Series 2014 A Revenue Bonds, due serially to 2044	3.00 - 5.00	185,250	186,015
Series 2015 D Revenue Bonds, due serially to 2036	3.75 - 5.00	69,520	71,700
Series 2016 B Revenue Bonds, due serially to 2038	3.00 - 5.00	<u>118,190</u>	<u>118,190</u>
 Bonds payable		 400,335	 410,650
 Plus: Bond premium		 16,807	 17,567
Less: Bond discount		<u>-</u>	<u>(99)</u>
 Total bonds payable		 <u>\$ 417,142</u>	 <u>\$ 428,118</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, 2018 and 2017 (dollars in thousands):

	<u>Interest rates</u>	<u>2018</u>	<u>2017</u>
Series 2002 A Higher Education Capital Improvement Fund, due serially to 2022	3.00 - 5.25	\$ 45	\$ 45
Series 2016 A Higher Education Capital Improvement Fund, due serially to 2022	2.25 - 2.51	3,912	4,496
Series 2016 B Higher Education Capital Improvement Fund, due serially to 2022	3.00 - 5.50	2,233	2,281
Note payable for land purchase, due serially to 2019	4.75 - 5.00	647	788
New Jersey Environmental Infrastructure Trust, due serially to 2022	3.00 - 5.25	485	570
New Jersey Environmental Infrastructure due serially to 2022	3.00 - 5.25	363	436
2014 Higher Education Equipment Leasing Fund Program 032-10	5.00	94	111
2014 Higher Education Equipment Leasing Fund Program 032-11	5.00	94	111
Obligations under capital leases, due in equal monthly installments through 2020	1.14 - 4.53	<u>1,938</u>	<u>2,363</u>
Total other long-term debt		<u>\$ 9,811</u>	<u>\$ 11,201</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, 2018 (dollars in thousands):

	<u>Principal</u>	<u>Interest and fees</u>
Year ending June 30:		
2019	\$ 17,705	\$ 19,749
2020	17,058	19,144
2021	19,548	18,425
2022	24,548	17,677
2023	<u>12,259</u>	<u>16,994</u>
2019 - 2023 Subtotal	91,118	91,989
2024 - 2028	93,760	74,023
2029 - 2033	100,064	51,173
2034 - 2038	52,246	29,042
2039 - 2043	61,508	13,250
2044	<u>28,257</u>	<u>722</u>
	<u>\$ 426,953</u>	<u>\$ 260,199</u>

***Subsequent event***

On August 13, 2018, Moody's Investors Service has downgraded the ratings on the University's revenue bonds from an A1 (negative outlook) to an A2 (stable outlook).

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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, 2018 and 2017 (dollars in thousands):

	2018				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable and other					
long-term debt	\$ 439,319	\$ 647	\$ (13,013)	\$ 426,953	\$ 12,763
Compensated absences (see note 11)	8,517	638	(794)	8,361	6,282
Assets held on behalf of Federal					
government for loan programs	3,830	-	(15)	3,815	391
Net pension liability	236,776		(29,103)	207,673	-
Other long term liability	5,494	1,161	(746)	5,909	746
Total Noncurrent Liabilities	<u>\$ 693,936</u>	<u>\$ 2,446</u>	<u>\$ (43,671)</u>	<u>\$ 652,711</u>	<u>\$ 20,182</u>

	2017				
	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	1,950	3,882	(338)	5,494	526
Total Noncurrent Liabilities	<u>\$ 651,842</u>	<u>\$ 58,059</u>	<u>\$ (15,965)</u>	<u>\$ 693,936</u>	<u>\$ 18,694</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/financial-reports.shtml](http://www.state.nj.us/treasury/pensions/financial-reports.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/financial-reports.shtml](http://www.state.nj.us/treasury/pensions/financial-reports.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  $1/55^{\text{th}}$  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  $1/60^{\text{th}}$  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

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

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

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. 43:15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution for PERS is based on an actuarially determined amount, 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. The State's contribution for PFRS is based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. For fiscal year 2017, the State's pension contribution for PERS and PFRS was less than the actuarial determined amount.

During the years ended June 30, 2018 and 2017, PERS members were required to contribute 7.34% and 7.20%, 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 2018 or 2017 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, 2018 totaled \$3.8 million and \$597 thousand, respectively and for the year ending June 30, 2017 totaled \$2.8 million and \$379 thousand, 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, 2017 ("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, 2018 and 2017, are as follows:

	<b>2018</b>		
	<b>PERS</b>	<b>PFRS</b>	<b>Total</b>
Proportionate share of the net pension liability (\$)			
2017	\$ 185,255	\$ 22,418	\$ 207,673
2016	215,708	21,068	236,776
Proportionate share of the net pension liability (%)			
2017	0.722%	0.510%	
2016	0.734%	0.447%	
Deferred outflows of resources	35,397	6,735	42,132
Deferred inflows of resources	30,851	2,481	33,332
Pension expense	12,103	2,606	14,709
	<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

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, 2016 to June 30, 2017 relative to the total contributions from all participating employers.

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**8. Retirement Plans (*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, 2018 and 2017, are as follows:

	<b>2018</b>		
	<b>PERS</b>	<b>PFRS</b>	<b>Total</b>
<b>Deferred Outflows of Resources:</b>			
Differences between expected and actual experience	\$ 4,244	\$ -	\$ 4,244
Changes of assumptions	24,233	1,342	25,575
Net differences between projected and actual earnings on pension plan investments	1,177	410	1,587
Changes in proportionate share	1,243	3,483	4,726
Contributions subsequent to the measurement date	<u>4,500</u>	<u>1,500</u>	<u>6,000</u>
	<u>\$ 35,397</u>	<u>\$ 6,735</u>	<u>\$ 42,132</u>

The contributions paid to the plan subsequent to the measurement date will be recognized of the net pension liability in fiscal year 2019.

	<b>PERS</b>	<b>PFRS</b>	<b>Total</b>
<b>Deferred Inflows of Resources:</b>			
Differences between expected and actual experience	\$ -	\$ 291	\$ 291
Changes of assumptions	26,228	1,907	28,135
Changes in proportionate share	<u>4,623</u>	<u>283</u>	<u>4,906</u>
	<u>\$ 30,851</u>	<u>\$ 2,481</u>	<u>\$ 33,332</u>

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**8. Retirement Plans (continued)**

	<b>2017</b>		
	<b>PERS</b>	<b>PFRS</b>	<b>Total</b>
<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 earnings on pension plan investments	3,564	657	4,221
Changes in proportionate share	1,636	1,694	3,330
Contributions subsequent to the measurement date	<u>3,226</u>	<u>996</u>	<u>4,222</u>
	<u>\$ 45,259</u>	<u>\$ 4,988</u>	<u>\$ 50,247</u>
	<b>PERS</b>	<b>PFRS</b>	<b>Total</b>
<b>Deferred Inflows of Resources:</b>			
Differences between expected and actual experience	\$ -	\$ 182	\$ 182
Changes of assumptions	-	-	-
Changes in proportionate share	<u>3,334</u>	<u>395</u>	<u>3,729</u>
	<u>\$ 3,334</u>	<u>\$ 577</u>	<u>\$ 3,911</u>

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$4,500 for PERS and \$1,500 for PFRS will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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:

	<b>2018</b>		
	<b>PERS</b>	<b>PFRS</b>	<b>Total</b>
Years ending:			
2019	\$ 3,884	\$ (1,339)	\$ 2,545
2020	5,346	(2,407)	2,939
2021	3,081	865	3,946
2022	(4,152)	4,628	476
2023	<u>(3,613)</u>	<u>2,507</u>	<u>(1,106)</u>
	4,546	4,254	8,800
Contributions paid subsequent to Measurement Date	<u>4,500</u>	<u>1,500</u>	<u>6,000</u>
	<u>\$ 9,046</u>	<u>\$ 5,754</u>	<u>\$ 14,800</u>



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

***Actuarial Assumptions***

The University's net pension liability as of June 30, 2017 (based on July 1, 2016 actuarial valuation) and June 30, 2016 (based on July 1, 2015 actuarial valuation) were determined using the following assumptions:

<b>June 30, 2017</b>		
	<b>PERS</b>	<b>PFRS</b>
Inflation Rate	2.25%	2.25%
Salary increases:		
Through 2026	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	7.00%	7.00%
<b>June 30, 2016</b>		
	<b>PERS</b>	<b>PFRS</b>
Inflation Rate	3.08%	3.08%
Salary increases:		
Through 2026	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%

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

**PERS**

Pre-retirement mortality rates were based on RP-2000 Employee Pre-Retirement 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 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 RP-2000 Employee 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 on 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 on 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, 2016 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, 2015 actuarial valuations were based on the results of the 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.

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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 (7.00% at June 30, 2017 and 7.65% at June 30, 2016) 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 and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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, 2017 and 2016 are summarized in the following tables:

Asset Class	2017 PERS and PFRS	
	Target Allocation	Long-Term Expected Real Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.00%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
US Equity	30.00%	8.19%
Non US developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

**Montclair State University**  
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**8. Retirement Plans (*continued*)**

Asset Class	2016	
	PERS and PFRS	Long-Term Expected Real Rate of Return
	Target Allocation	
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

***Discount Rates***

The discount rates used to measure the total pension liabilities were 5.00% and 6.14% for PERS and PFRS as of the Measurement Date and 3.98% and 5.55% at June 30, 2016, respectively. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% 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. 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. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plans' fiduciary net position as of June 30, 2017 was projected to be available to make projected future benefit payments of current plan members through 2040 for PERS and 2057 for PFRS. Therefore, the long-term expected rate of return on plan investments was applied to the projected benefit payments through 2040 for PERS and 2057 for PFRS, and the municipal bond rate was applied to projected benefit payments after those dates in determining the total pension liabilities.

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**8. Retirement Plans (continued)**

***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, 2017 and 2016 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):

2018				
	PERS		PFRS	
	Rate	Amount	Rate	Amount
1% decrease	4.00%	215,399	5.14%	26,532
Current discount rate	5.00%	185,255	6.14%	22,418
1% increase	6.00%	160,218	7.14%	19,046

2017				
	PERS		PFRS	
	Rate	Amount	Rate	Amount
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

***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.

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

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.

***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. For fiscal year 2017, the State's pension contribution was less than the actuarial determined amount.

Allocated employer contributions provided by the State and recognized by the plan from the University totaled \$60,121 and \$43,076 for the year ending June 30, 2018 and 2017, respectively.

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

***Net Pension Liability***

As of June 30, 2018 and 2017, the State's proportionate share of the TPAF net present liability associated with the University was \$3.6 million and \$4.2 million, respectively. The University's proportionate share was \$0.

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. 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, 2017 and 2016 actuarial valuations used the following actuarial assumptions, applied to all periods in the measurement:

Inflation Rate	2.25% (2017); 2.50% (2016)
Salary increases:	
2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment rate of return	7.00% (2017); 7.65% (2016)

For the July 1, 2016 and July 1, 2015 actuarial valuations, 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.

The actuarial assumptions used in the July 1, 2016 and July 1, 2015 valuations were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

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

***Discount Rate***

The discount rate used to measure the total pension liability was 4.25% and 3.22% as of June 30, 2017 and 2016, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and 7.65% as of June 30, 2017 and 2016, respectively, and a municipal bond rate of 3.58% and 2.85% as of June 30, 2017 and 2016, 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 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 40% of the actuarially determined 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 2036. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2036, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.



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**8. Retirement Plans (continued)**

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

The following presents the net pension liability of the University as of June 30, 2017 and 2016 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>2017</b>		
	At 1% Decrease (3.25%)	At Current Discount Rate (4.25%)	At 1% Increase (5.25%)
Net Pension Liability	\$ 80,394,331	\$ 67,670,209	\$ 57,188,022
Allocation Percentage	<u>0.0053540217%</u>	<u>0.0053540217%</u>	<u>0.0053540217%</u>
University's proportionate share of the net pension liability	<u>\$ 4,304</u>	<u>\$ 3,610</u>	<u>\$ 3,062</u>
<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>\$ 4,255</u>	<u>\$ 3,597</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 (7.00% at June 30, 2017 and 7.65% at June 30, 2016) 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. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2017 and 2016 are summarized in the following table:

Asset Class	2018	
	Target Allocation	Long-Term Expected Real Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-US developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

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

Asset Class	<b>2017</b>	
	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.39%
Government Bonds	1.50%	1.28%
Credit Bonds	13.00%	2.76%
Mortgages	2.00%	2.38%
Inflation-Indexed Bonds	1.50%	1.41%
High Yield Bonds	2.00%	4.70%
Equity Market	26.00%	5.14%
Foreign Developed Equity	13.25%	5.91%
Emerging Markets Equities	6.50%	8.16%
Private Real Estate Property	5.25%	3.64%
Timber	1.00%	3.86%
Farmland	1.00%	4.39%
Private Equity	9.00%	8.97%
Commodities	0.50%	2.87%
Hedge Funds - Multi Strategy	5.00%	3.70%
Hedge Funds - Equity Hedge	3.75%	4.72%
Hedge Funds - Distressed	3.75%	3.49%

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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, 2017 and 2016 are as follows:

	<u>2017</u> State	<u>2016</u> State
Total pension liability	\$ 90,726,371	\$ 101,746,770
Plan fiduciary net position	<u>23,056,162</u>	<u>22,717,863</u>
Net Pension Liability	<u>\$ 67,670,209</u>	<u>\$ 79,028,907</u>
Plan fiduciary net position as a percentage of the total pension liability	25.41%	22.33%
	<u>University</u>	<u>University</u>
Net pension liability	\$ 67,670,209	\$ 79,028,907
Allocation percentage	<u>0.0053540217%</u>	<u>0.0054088505%</u>
University's Proportionate Share of the Net Pension Liability	<u>\$ 3,610</u>	<u>\$ 4,255</u>

The employer contributions for local participating employers are legally required to be funded by the State in accordance with N.J.S.A 18:66-33. Therefore, these local participating employers are considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the University. The University's portion of the nonemployer contributing entities' total proportionate share of the net pension liability was \$3,609,875 as of June 30, 2018 and \$4,254,946 as of June 30, 2017. The University records their proportionate share of the pension expense as a revenue and expense in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The amount was \$250,074 in 2018 and \$319,700 in 2017.

**Alternate Benefit Program (ABP) Information**

ABP provides the choice of seven investment carriers, which are privately operated, defined contribution retirement plans and is administered by the NJ Division of Pensions and Benefits. These seven investment carriers are VOYA, Metropolitan Life Insurance

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

(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 retirement program as an alternative to PERS. 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 participation in the New Jersey State Employees Deferred Compensation Plan (NJSEDCP). The 403(b) and/or NJSEDCP plan accounts are available to employees in ABP, PERS, PFRS, and DCRP pension plans. 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, 2018 and 2017, ABP received employee contributions of approximately \$7.2 and \$6.0 million, respectively, and employer contributions of approximately \$11.6 million and \$9.6 million, respectively, which were based on participating employee salaries of \$144.7 million and \$120.4 million, respectively. Employer contributions to ABP are paid by the State and the University and are reflected within operating expenses by function and within non-operating revenues as State of New Jersey paid fringe benefits in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

***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.

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

DCRP enrollment eligibility criteria includes employees enrolled in PERS or PFRS 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 and the employer match contributions are 3% of base salary.

During the years ended June 30, 2018 and 2017 Prudential received employer and employee contributions as follows:

	2018	2017
Employer contributions	\$ 31,509	\$ 36,216
Employee contributions	57,326	65,886
Basis for contributions:		
Participant employee salaries	\$ 1,042,285	\$ 1,197,926

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.

**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.

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

***Supplemental Alternate Benefits 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 IRC 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 of \$141,000 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. Participation in the plan is limited and the associated amounts are not significant.

***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.

***Supplemental Annuity Collective Trust (SACT)***

As a PERS, PFRS, or ABP member, employees may also participate in the Supplemental Annuity Collective Trust (SACT), which invests the entire voluntary contributions in common stocks. There are two separate plans, the SACT-Regular Plan and the SACT-Tax-Sheltered Plan (IRC Section 403[b]). Under the SACT-Regular Plan, contributions are made post-tax. Under the SACT-Tax-Sheltered Plan, a portion of salary is tax deferred. Participation in the plan is limited and the associated amounts are not significant.

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**9. Postemployment Benefits Other than Pensions**

The University's retirees participate in the State Health Benefit State Retired Employees Plan (the "Plan"). Plan description, including benefits provided - The Plan is a single-employer defined benefit other postemployment benefit (OPEB) plan, which provides medical, prescription drug, and Medicare Part B reimbursements to retirees and their covered dependents. Although the Plan is a single-employer plan, it is treated as a cost-sharing multiple employer plan for standalone reporting purposes. In accordance N.J.S.A. 52:14-17.32, the State of New Jersey (the State) is required to pay the premiums and periodic charges for OPEB of State employees who retire with 25 years or more of credited service, or on a disability pension, from one or more of the following pension plans: the Public Employees' Retirement System (PERS), the Alternate Benefit Program (ABP) or the Police and Firemen's Retirement System (PFRS). In addition, Chapter 302, P.L. 1996 provides that for purposes of this Plan, the University's employees retain any and all rights to the health benefits in the Plan, even though the University is considered autonomous from the State, therefore, its employees are classified as State employees. As such, the State is legally obligated for the benefit payments on behalf of the retirees of the University; therefore, the Plan meets the definition of a special funding situation as defined in GASB Statement No. 75, Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions (GASB Statement No. 75).

Retirees who are not eligible for employer-paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage, who have less than 20 years of creditable service on June 28, 2011, will be required to pay a percentage of the cost of their healthcare coverage in retirement provided they retire with 25 years or more of pension service credit. The percentage of the premium for which the retiree will be responsible for will be determined based on the retiree's annual retirement benefit and level of coverage.

The Plan is administered on a pay-as-you-go-basis. Accordingly, no assets are accumulated in a qualifying trust that meets the definition of a trust as per GASB Statement No. 75.

**Total OPEB Liability and OPEB Expense**

As of June 30, 2018, the State recorded a liability of \$418.6 million, which represents the portion of the State's total proportionate share of the collective total OPEB liability that is associated with the University (the University's share). The University's share was based on the ratio of its members to the total members of the Plan. At June 30, 2018, the University's share was 5.118672% and 1.489602% of the special funding situation and of the Plan, respectively.



**Montclair State University**  
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Notes to Financial Statements  
June 30, 2018 and 2017

**9. Postemployment Benefits Other than Pensions (*continued*)**

For the year ended June 30, 2018, the University recognized OPEB expense of \$24.6 million. As the State is legally obligated for benefit payments on behalf of the University, the University recognized revenue related to the support provided by the State of \$24.6 million.

Actuarial assumptions and other inputs – The State's liability associated with (reporting entity) at June 30, 2018 was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to the measurement date of June 30, 2017.

Inflation	2.50 %
Discount rate	3.58 %
Salary Increases	
Through 2026	1.55 - 8.98 %
Thereafter	2.00 - 9.98 %

The discount rate is 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. Salary increases depend on the pension plan a member is enrolled in. In addition, they are based on age or years of service.

Preretirement mortality rates were based on the RP-2014 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2014 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2014 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Certain actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies of the State of New Jersey's defined benefit plans, including PERS (July 1, 2011 through June 30, 2014) ABP (using the experience of the Teacher's Pension and Annuity Fund – July 1, 2012 through June 30, 2015), and PFRS (July 1, 2010 through June 30, 2015).

Health Care Trend Assumptions - For pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, this amount initially is 5.9% and decreases to a 5.0% long-term trend rate after nine years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 10.5% decreasing to a 5.0% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

**Montclair State University**  
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Notes to Financial Statements  
June 30, 2018 and 2017

**10. Contingent Liabilities**

The University is party to various legal actions arising in the ordinary course of business. The University is in litigation with the Township of Little Falls regarding the tax exemption status of certain lots on University property. 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.

**11. 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, 2018 and June 30, 2017, such benefits amounted to approximately \$39.9 million and \$37.3 million, respectively, and are included in nonoperating revenues as State of New Jersey paid fringe benefits and in operating expenses by function in the accompanying statements of revenues, expenses, and changes in net position.

**12. Compensated Absences**

The University recorded a liability for compensated absences (i.e. unused vacation, sick leave, and paid leave bank days attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee) in the amount of \$8.3 million and \$8.5 million as of June 30, 2018 and 2017, respectively. The liability is calculated based upon employees' accrued vacation and furlough leave as of June 30, 2018 and 2017, 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, 2018 and 2017, the University paid approximately \$300 thousand and \$276 thousand, respectively, in sick leave payments for employees who retired.

**13. 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

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Notes to Financial Statements  
June 30, 2018 and 2017

**13. Service Concession Arrangement for Student Residence Hall Facility (*continued*)**

being depreciated in accordance with the University's capitalization policies and accumulated depreciation as of June 30, 2018 and 2017 was \$56.6 million and \$47.8 million, respectively. As of June 30, 2018 and 2017, the deferred inflow of resources on the concession arrangement was \$183.6 million and \$190.9 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.

**14. 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:

2019	\$ 1,184
2020	1,166
2021	1,146
2022	1,076
2023	1,048
Thereafter	22,892

**15. Lease Commitments**

The University entered into operating leases in 2012 to rent dining and office space which expire through May 2042.

Effective August 1, 2018, the University amended its office space lease agreement to lease additional space at the Overlook Corporate Center contingent upon the landlord securing roadway approvals. The expected commencement date is August 1, 2019. The table below reflects the minimum lease payments beginning with fiscal year 2020.

Future minimum lease payments (dollars in thousands) required under these leases are as follows:

2019	\$ 3,461
2020	4,282
2021	4,156
2022	4,308
2023	4,562
Thereafter	30,506

Total expense for the year ending June 30, 2018 and 2017 was \$3,262 and \$3,260, respectively.

**Montclair State University**  
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Notes to Financial Statements  
June 30, 2018 and 2017

**16. 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 \$2,000,000,000. The University also purchases coverage for certain types of theft of financial assets, which provides for the actual loss in excess of \$100,000 with a per loss limit of \$5,000,000, and for certain types of exposures related to cyber threats, which provides for the actual loss in excess of \$50,000 with a per loss limit of \$10,000,000.

All liability risk and employee benefit exposure, including tort, auto and trustees and officers' liability, workers' compensation, unemployment, disability, life insurance and employee retirement plans, are self-funded programs maintained and administered by the State. As an agency of the State, the University's liability is subject to all provisions of the New Jersey Tort Claims Act, the New Jersey Contractual Liability Act and the availability of appropriations. The Tort Claims Act provides for payment of claims under the Act against the State or its employees for which the State is obligated to indemnify against tort claims, which arise out of the performance of their duties.

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

The University may be the subject of employment related lawsuits not covered by the Tort Claims Act. The University retains the risk for any such settlements. Management believes that any employment settlements will not have a material effect on the accompanying financial statements.

**17. 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.

**Montclair State University**  
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Notes to Financial Statements  
June 30, 2018 and 2017

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

*Component Unit*

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, 2018 and 2017, total gifts given to the University from the Foundation amounted to \$4.8 million and \$6.5 million, respectively. Complete financial statements for the Foundation can be obtained from the Foundation's office at 1 Normal Avenue, Montclair, New Jersey 07043.

*Investments*

The following applies to the Foundation's investments which are managed pursuant to a Board of Trustees approved Investment Policy Statement:

**Valuation:** Investments are carried at fair value. The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment funds.

**Investment Income:** Unrealized gains and losses are reported in the statements of activities as part of investment return. Interest and dividends from investments are recorded as investment return when earned. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of income.

**Investment Income Allocations:** The Foundation maintains investment accounts for its endowments, including quasi-endowments, under the pooled unitization method. Realized and unrealized gains and losses from securities in the investment accounts are allocated quarterly to the individual endowment funds based on the relationship of the market value of each endowment fund to the total market value of the investment accounts, as adjusted for additions to or deductions from those accounts.

For the years ended June 30, 2018 and 2017, Foundation's investments totaled \$75.1 million and \$70.6 million, respectively. Complete financial statements for the Foundation can be obtained from the Foundation's office at 1 Normal Avenue, Montclair, New Jersey 07043.

**Montclair State University**  
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Notes to Financial Statements  
June 30, 2018 and 2017

**19. 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.

The University is a 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 statements.

The University receives funds from federal, state, and private agencies under grants and contracts for research, training, and other activities. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and possible disallowance by the sponsoring agency. The University's management believes disallowances, if any, will not have a material adverse effect on the University's financial statements.

Union contracts are effective until June 30, 2019, with the exception of three contracts that were effective through June 30, 2015 and have not yet been renegotiated. Management believes that any adjustment from any renegotiations will not have a material effect on the accompanying financial statements.

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)

Required Supplementary Information (Unaudited)  
June 30, 2018 and 2017

**Schedule of University Contributions**

(dollars in thousands)

	<b>2018</b>	
	<b>PERS</b>	<b>PFRS</b>
Contractually Required Contribution	\$4,500,000	\$1,500,000
Contributions in relation to the Contractually Required Contribution	4,500,000	1,500,000
Contribution Deficiency (Excess)	-	-
University Employee Covered Payroll (reporting date June 30, 2017)	30,903	2,484
Contributions as a percentage of Employee Covered Payroll	14.56%	60.39%
	<b>2017</b>	
	<b>PERS</b>	<b>PFRS</b>
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)	32,212	2,609
Contributions as a percentage of Employee Covered Payroll	10.01%	38.18%
	<b>2016</b>	
	<b>PERS</b>	<b>PFRS</b>
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, 2015)	31,508	2,515
Contributions as a percentage of Employee Covered Payroll	7.24%	24.57%
	<b>2015</b>	
	<b>PERS</b>	<b>PFRS</b>
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, 2014)	32,362	2,315
Contributions as a percentage of Employee Covered Payroll	3.48%	24.26%



**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
	%	\$			
2018 (2017)	0.72%	\$ 185,255	\$ 30,903	599.47%	21.18%
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
	%	\$			
2018 (2017)	0.510%	\$ 22,418	\$ 2,484	902.50%	25.99%
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
	%	\$			
2018 (2017)	0.005%	\$ 3,610	\$ -	0.00%	25.41%
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%

Montclair State University  
Schedule of the State's Proportionate Share of the OPEB Liability Associated With the University  
State Health Benefit State Retired Employees Plan

Last Ten Fiscal Years\*

	Year Ended June 30, 2018
University's proportion of the total OPEB Liability	0.00%
University's proportionate share of the total OPEB liability	\$ -
State of New Jersey's proportionate share of the OPEB liability associated with the University	\$ 418,649,617
Total OPEB liability	\$ 28,104,795,207
University's covered-employee payroll	\$ 126,232,049
University's proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	0.00%

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.

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Notes to Required Supplementary Information (Unaudited)  
June 30, 2018 and 2017

Pensions

Benefit Changes

None.

Changes of Assumptions

PERS

The discount rate changed from 3.98% as of June 30, 2016 to 5.00% as of June 30, 2017.

PFRS

The discount rate changed from 5.55% as of June 30, 2016 to 6.14% as of June 30, 2017.

Post-Retirement Benefits

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017.

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

**FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

<u>Federal Grantor / Pass-through Grantor/ program or cluster title</u>	<u>CFDA Number (1)</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>						
<b>U.S. Department of Education</b>						
<b>Direct Programs:</b>						
Federal Supplemental Educational Opportunity Grants	84.007	P007A172586				\$ 1,138,546
Federal Work-Study Program	84.033	P033A172586				784,512
Federal Perkins Loan Program _ Federal Capital Contributions	84.038	N/A				5,271,344
Federal Pell Grant Program	84.063	P063P171815				35,046,333
Federal Direct Students Loans	84.268	P268K181815				114,405,051
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	P379T181815				29,442
<b>Subtotal Student Financial Assistance Cluster</b>						<b>156,675,228</b>
<b>Research and Development Cluster:</b>						
<b>U.S. Department of Agriculture</b>						
<b>Direct Programs:</b>						
Agriculture and Food Research Initiative (AFRI)	10.310	2012-67009-19742				119,262
Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)	10.326	2017-70001-25994	Tuskegee University	2012-67009-19742 TU	\$ 18,584	77,308
Environmental Quality Incentives Program	10.912	69-2B29-17-99				5,104
<b>Indirect Programs:</b>						
University of Florida						
Agriculture and Food Research Initiative (AFRI)	10.310	2017-67023-26274				7,500
<b>Subtotal U.S. Department of Agriculture</b>					<b>18,584</b>	<b>209,174</b>
<b>U.S. Department of Commerce</b>						
<b>Indirect Programs:</b>						
New Jersey Institute of Technology						
Sea Grant Support	11.417	996521				9,256
New Jersey Sea Grant Consortium						
Sea Grant Support	11.417	6605-0001, 6610-0006, 6710-0006				101,914
<b>Subtotal U.S. Department of Commerce</b>						<b>111,170</b>
<b>U.S. Department of Defense</b>						
<b>Direct Programs:</b>						
Basic, Applied, and Advanced Research in Science and Engineering	12.630	W911NF-17-1-0394				130,843
Air Force Defense Research Sciences Program	12.800	FA9550-16-0261				88,526
<b>Subtotal U.S. Department of Defense</b>						<b>219,369</b>
<b>U.S. Department of Energy</b>						
<b>Indirect Programs:</b>						
University of Florida						
Renewable Energy Research and Development	81.087	DE-P10000031				(27,092)
<b>Subtotal U.S. Department of Energy</b>						<b>(27,092)</b>
<b>U.S. Department of Health and Human Services</b>						
<b>Direct Programs:</b>						
Cancer Research Manpower	93.398	K01CA157690				78,768
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	RNS081251B				84,715
Biomedical Research and Research Training	93.859	1SC1GM125583-01, R15GM121986				20,182
<b>Indirect Programs:</b>						
Harvard University						
Mental Health Research Grants	93.242	114202-5099871				25,265
The Board of Trustees of University of Alabama						
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	5R25DK099080				10,725
Placental Analytics LLC						
Child Health and Human Development Extramural Research	93.865	1R43HD084277-01				(1,500)
University of Nebraska Medical Center						
Child Health and Human Development Extramural Research	93.865	34-5321-2003-918				72,213
New Jersey Department of Children and Families						
Injury Prevention and Control Research and State and Community Based Programs	93.136	MOU-NIDCF				64,069
New Jersey Department of Children and Families						
Children's Justice Grants to States	93.643	17SDGA				14,711
New York University						
Drug Abuse and Addiction Research Programs	93.279	F8784-08				9,557
Rutgers, The State University of New Jersey						
Allergy, Immunology and Transplantation Research	93.855	1R01AI133633-01				151,089
<b>Subtotal U.S. Department of Health and Human Services</b>						<b>529,794</b>

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

<u>Federal Grantor / Pass-through Grantor/ program or cluster title</u>	<u>CFDA Number (1)</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>Research and Development Cluster, continued:</b>						
<b>Department of the Interior</b>						
<b>Indirect Programs:</b>						
Rutgers, The State University of New Jersey						
Assistance to State Water Resources Research Institutes	15.805	5858				\$ 271
<b>Subtotal U.S. Department of the Interior</b>						<b>271</b>
<b>U.S. Department of Transportation</b>						
<b>Indirect Programs:</b>						
Manhattan College						
University Transportation Centers	20.701	49198-23-27-02				(637)
<b>Subtotal U.S. Department of Transportation</b>						<b>(637)</b>
<b>U.S. Environmental Protection Agency</b>						
<b>Direct Programs:</b>						
P3 Award: National Student Design Competition for Sustainability	66.516	83677301, 83935501				4,851
<b>Indirect Programs:</b>						
Hudson River Foundation						
Water Quality Management Planning	66.454	NEIWPPC Aquatic Trash				45,489
New Jersey Department of Environmental Protection						
Nonpoint Source Implementation Grants	66.460	FS17-010-MSU				6,075
Regional Wetland Program Development Grants	66.461	SR16-013, SR17-023				16,780
<b>Subtotal U.S. Environmental Protection Agency</b>						<b>73,195</b>
<b>National Aeronautics and Space Administration</b>						
<b>Direct Programs:</b>						
Science	43.001	NNX15AU08A				10,377
<b>Indirect Programs:</b>						
Temple University	43.001	251940, 259709MONT				17,420
<b>Subtotal National Aeronautics and Space Administration</b>						<b>27,797</b>
<b>National Science Foundation</b>						
<b>Direct Programs:</b>						
Engineering Grants	47.041	1603741, CMMI-1233397, CMMI 1462884 1464960, 1620152, 1653374, 1709272, DMS-1418956, PHY-1308527	Cooper Union for Advancement of Science and Art	DMS-1418956-CU	\$ 8,482	172,891
Mathematical and Physical Sciences	47.049					310,401
Geosciences	47.050	1531719, PLR-1342000				75,768
Computer and Information Science and Engineering	47.070	1625636, 1704113, 1737846, IIS-1319846				126,666
Biological Sciences	47.074	1556701, 1744460				342,872
Social, Behavioral and, Economic Sciences	47.075	1555123, 1650861, 1654827, BCS - 1424084 DUE-1339956/DRL-1350814/DUE-1259758/DUE-				284,149
Education and Human Resources	47.076	1241704/DUE-1245630				849,351
Polar Programs	47.078	ANT-1245283				14,538
<b>Indirect Programs:</b>						
Consortium for Ocean Leadership						
Geosciences	47.050	OCE-0652315 PO T347A72				339
Wood Hole Oceanographic Institution						
Geosciences	47.050	A101281				59,971
American Association for the Advancement of Science						
Education and Human Resources	47.076	1548986				11,933
Rutgers, The State University of New Jersey						
Biological Sciences	47.074	4-368-44/10193				70,899
Education and Human Resources	47.076	5414				46,136
<b>Subtotal National Science Foundation</b>					<b>8,482</b>	<b>2,365,914</b>
<b>Subtotal Research and Development Cluster</b>					<b>27,066</b>	<b>3,508,955</b>
<b>Other Clusters:</b>						
<b>TRIO Cluster:</b>						
<b>U.S. Department of Education</b>						
<b>Direct Programs:</b>						
TRIO Upward Bound	84.047	P047A120558, P047A170412				251,626
<b>Total Trio Cluster</b>						<b>251,626</b>

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

<u>Federal Grantor / Pass-through Grantor/ program or cluster title</u>	<u>CFDA Number (1)</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>Other Clusters:</b>						
<b>Maternal, Infant and Early Childhood Home Visiting Cluster:</b>						
<b>U.S. Department of Health and Human Services</b>						
<b>Indirect Programs:</b>						
New Jersey Department of Children and Families						
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	17SMGP				\$ (497)
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	18SMGP				286,159
<b>Total Maternal, Infant and Early Childhood Home Visiting Cluster</b>						<u>285,662</u>
<b>Other Programs:</b>						
<b>U.S. Department the Interior</b>						
<b>Indirect Programs:</b>						
Wildlife Management Institute						
Fish and Wildlife Coordination and Assistance Programs	15.664	2015-08				1,146
<b>Subtotal U.S. Department of the Interior</b>						<u>1,146</u>
<b>U.S. Department of State</b>						
<b>Indirect Programs:</b>						
Partners of the Americas						
Academic Exchange Programs - Undergraduate Programs	19.009	CBG-2016-R2-04				31,851
<b>Subtotal U.S. Department of State</b>						<u>31,851</u>
<b>National Endowment for the Arts</b>						
<b>Direct Programs:</b>						
Promotion of the Arts, Grants to Organizations and Individuals	45.024	17-54000-7169				40,000
<b>Subtotal National Endowment for the Arts</b>						<u>40,000</u>
<b>National Endowment for the Humanities</b>						
<b>Indirect Programs:</b>						
New Jersey Council for the Humanities						
Promotion of the Humanities _Federal/State Partnership	45.129	NJCH 2017-12, NJCH 2017-13, NJCH 217-28				30,806
<b>Subtotal National Endowment for the Humanities</b>						<u>30,806</u>
<b>U.S. Department of Education</b>						
<b>Direct Programs:</b>						
Fund for the Improvement of Education	84.215	U215J140037				395,551
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	H-325T110012				53,041
Teacher Quality Partnership Grants	84.336	U336S140078				1,289,994
<b>Indirect Programs:</b>						
New Jersey Department of Children and Families						
Race to the Top -Early Learning Challenge	84.412	17SMGP, 18SMGP				179,799
University of Nebraska-Lincoln						
English Language Acquisition State Grants	84.365	24-1708-0112-005				10,181
New Jersey Department of Education						
Improving Teacher Quality State Grants	84.367	17E00060				65,519
<b>Subtotal U.S. Department of Education</b>						<u>1,994,085</u>
<b>U.S. Department of Health and Human Services</b>						
<b>Direct Programs:</b>						
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1H79SM080104-01, 5H79SP021157-03				449,649
Drug-Free Communities Support Program Grants	93.276	5H79SP020019-02				78,350
<b>Indirect Programs:</b>						
New Jersey Department of Children and Families						
Maternal and Child Health Federal Consolidated Programs	93.110	17SMGP, 18SMGP				206,754
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	17SMGP, 18SMGP				274,658
Pregnancy Assistance Fund Program	93.500	17SMGP, 18SMGP				115,069
Community-Based Child Abuse Prevention Grants	93.590	17SMGP, 18SMGP				246,349
Trustees of Indiana University						
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243					30,725
<b>Subtotal U.S. Department of Health and Human Services</b>						<u>1,401,554</u>
<b>Corporation for National &amp; Community Service</b>						
<b>Indirect Programs:</b>						
New Jersey Commission on National and Community Service						
AmeriCorps	94.006	16AC185495, AC18Form-019				220,561
<b>Subtotal Corporation for the National &amp; Community Service</b>						<u>220,561</u>
<b>Subtotal Other Clusters and Other Programs</b>						<u>4,257,291</u>
<b>Total Expenditures of Federal Awards</b>					<b>\$ 27,066</b>	<b>\$ 164,441,474</b>

(1) Catalog of Federal Domestic Assistance number

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of New Jersey Awards  
Year ended June 30, 2018

State of New Jersey Grantor / Pass-Through Grantor / Program or Cluster Title	Number	Grant Period	Grant Amount	Amount	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 2018	18-100-074-2405-007	July 1, 2017 - June 30, 2018	\$ 31,694,901	\$ 31,659,674	\$ 31,659,674
Governor's Urban Scholarship Program	18-100-074-2405-329	July 1, 2017 - June 30, 2018	46,000	46,000	46,000
New Jersey College Loans to Assist State Students	N/A	July 1, 2017 - June 30, 2018	5,000,000	4,486,453	4,486,453
New Jersey Student Tuition Assistance Reward Scholarship II (NJ STARS II) Program	18-100-074-2405-313	July 1, 2017 - June 30, 2018	114,327	114,327	114,327
Subtotal N.J. Higher Education Student Assistance Authority			<u>36,855,228</u>	<u>36,306,454</u>	<u>36,306,454</u>
N.J. Commission on Higher Education					
Educational Opportunity Fund - Article III - Summer FYS 16 & 17	17-100-074-2401-001	June 1, 2016 - July 31, 2017	380,817	379,038	(119)
Educational Opportunity Fund - Article III - Summer FYS 17 & 18	18-100-074-2401-001	June 1, 2017 - July 31, 2018	422,707	422,707	421,121
Educational Opportunity Fund - Article III - Academic Year FY18	18-100-074-2601-001	June 1, 2017 - July 31, 2018	812,850	812,850	812,850
Educational Opportunity Fund - Article III - Summer FYS 18 & 19	19-100-074-2401-001	June 1, 2018 - July 31, 2019	422,707	283	283
Educational Opportunity Fund (HCP) - Article III - Summer FYS 16 & 17	17-100-074-2401-001	June 1, 2016 - July 31, 2017	89,529	89,528	(1,592)
Educational Opportunity Fund (HCP) - Article III - Summer FYS 17 & 18	18-100-074-2401-001	June 1, 2017 - July 31, 2018	99,377	99,377	97,189
Subtotal N.J. Higher Education Student Assistance Authority			<u>2,227,987</u>	<u>1,803,783</u>	<u>1,329,732</u>
Total Student Financial Assistance Cluster			<u>39,083,215</u>	<u>38,110,237</u>	<u>37,636,186</u>
N.J. Higher Education Administration					
Fringe Benefits Health other than FICA for Senior Public Colleges and Universities	18-100-094-9410-003	July 1, 2017 - June 30, 2018	16,536,180	16,536,180	16,536,180
Employer Contributions Alternate Benefit Program	18-100-082-2155-017	July 1, 2017 - June 30, 2018	11,579,683	11,579,683	11,579,683
FICA (Social Security Tax) for Senior Public Colleges and Universities	18-100-094-9410-137	July 1, 2017 - June 30, 2018	11,758,212	11,758,212	11,758,212
Grants-In-Aid Appropriations to Senior Public Colleges and Universities	18-100-074-2465-001	July 1, 2017 - June 30, 2018	35,859,000	35,859,000	35,859,000
Subtotal N.J. Higher Education Administration			<u>75,733,075</u>	<u>75,733,075</u>	<u>75,733,075</u>
N.J. Commission on Higher Education					
Educational Opportunity Fund - Article IV - Academic Year FY17	17-100-074-2601-002	June 1, 2016 - July 31, 2017	521,656	512,393	(7,966)
Educational Opportunity Fund - Article IV - Academic Year FY18	18-100-074-2601-002	June 1, 2017 - July 31, 2018	534,697	503,997	503,997
Educational Opportunity Fund - Article IV - Academic Year FY19	19-100-074-2601-002	June 1, 2018 - July 31, 2019	534,697	11,477	11,477
Educational Opportunity Fund (HCP) - Article IV - Academic Year FY16	16-100-084-2401-001	June 1, 2015 - July 31, 2016	154,200	154,200	(868)
Educational Opportunity Fund (HCP) - Article IV - Academic Year FY17	17-100-074-2601-002	June 1, 2016 - July 31, 2017	158,642	158,642	5,685
Educational Opportunity Fund (HCP) - Article IV - Academic Year FY18	18-100-074-2601-002	June 1, 2017 - July 31, 2018	162,608	154,331	154,331
Educational Opportunity Fund (HCP) - Article IV - Academic Year FY19	19-100-074-2601-002	June 1, 2018 - July 31, 2019	162,608	3,900	3,900
Subtotal N.J. Commission on Higher Education			<u>2,229,108</u>	<u>1,498,940</u>	<u>670,556</u>
N.J. Commission on Holocaust Education					
Human Rights Education Intern		September 1, 2017 - August 31, 2018	5,000	4,511	2,343
Subtotal N.J. Commission on Holocaust Education			<u>5,000</u>	<u>4,511</u>	<u>2,343</u>
N.J. Council on the Arts					
General Program Support	1817X020076	July 1, 2017 - June 30, 2018	54,464	54,464	54,464
General Program Support	1805X020008	July 1, 2017 - June 30, 2018	12,828	115	115
Subtotal N.J. Council on the Arts			<u>67,292</u>	<u>54,579</u>	<u>54,579</u>
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 30, 2016	20,001	18,040	30
Subtotal N.J. Council on the Arts			<u>20,001</u>	<u>18,040</u>	<u>30</u>



**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)  
Schedule of Expenditures of New Jersey Awards  
Year ended June 30, 2018

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 Amount	Current Year Expenditures
N.J. Department of Children and Families					
Direct Programs:					
Post BA Certificate in Adolescent Advocacy	15NJGM	September 1, 2014 - August 31, 2015	\$ 116,624	\$ 108,726	\$ 18,290
Post BA Certificate in Adolescent Advocacy	17SDGM	September 1, 2016 - August 31, 2017	246,238	241,497	46,405
Post BA Certificate in Adolescent Advocacy	18SDGM	September 1, 2017 - August 31, 2018	246,238	200,306	200,306
Indirect Programs:					
Rutgers, The State University of New Jersey					
Summer Housing	16MMMM	July 1, 2015 - June 30, 2016	127,000	125,699	454
Subtotal N.J. Department of Children and Families			<u>736,100</u>	<u>676,228</u>	<u>265,455</u>
N.J. Department of Education					
Being United in Leadership Development (BUILD)	18E00095	October 1, 2017 - July 31, 2018	134,118	106,633	106,633
Subtotal N.J. Department of Education			<u>134,118</u>	<u>106,633</u>	<u>106,633</u>
N.J. Department of Environmental Protection					
Direct Programs:					
Assessment of Clinging Jellyfish Gonionemu	SR17-002, SR17-024	July 1, 2016 - April 30, 2018	102,083	62,316	24,464
Assessing the Biological Control of Sea Nettles	SR16-020	May 1, 2016 - December 30, 2017	56,791	53,163	27,531
Evaluating the Success and Monitoring Usage of Wildlife Crossing Structures	FG17-032	February 1, 2017 - January 31, 2018	1,700	1,488	1,488
Indirect Programs:					
Township of Montclair					
Community Stewardship Incentive Program	FS17-010	August 4, 2016 - August 3, 2018	10,000	10,000	10,000
Subtotal N.J. Department of Environmental Protection			<u>170,574</u>	<u>126,967</u>	<u>63,483</u>
N.J. Department of Health					
The Coordinating Center at Montclair State	CAUT12ACC012	June 15, 2012 - August 31, 2018	3,070,000	3,035,813	486,803
Subtotal N.J. Department of Health			<u>3,070,000</u>	<u>3,035,813</u>	<u>486,803</u>
N.J. Department of Human Services					
NJ Hearing Aid Project	N/A	July 1, 2016 - June 30, 2018	184,105	98,174	57,210
The MSU Socio-Emotional Formation Initiative	SEFI17001	July 1, 2016 - August 31, 2017	850,000	770,738	34,239
The MSU Socio-Emotional Formation Initiative	SEFI18001	July 1, 2017 - June 30, 2018	875,000	868,442	868,442
Subtotal N.J. Department of Human Services			<u>1,909,105</u>	<u>1,737,354</u>	<u>959,891</u>
<b>Total Expenditures of State Awards</b>			<b>\$ 123,157,588</b>	<b>\$ 121,102,376</b>	<b>\$ 115,979,033</b>

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

Notes to Schedules of Expenditures of Federal Awards  
and State Financial Assistance

Year Ended June 30, 2018

**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, 2018 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**

		Loans extended for the year ended	Outstanding principal balance at
	<u>CFDA #</u>	<u>June 30, 2018</u>	<u>June 30, 2018</u>
Perkins Loan Program	84.038	\$ 795,490	\$ 4,547,528

**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, 2018.

**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, 2018, 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 March 27, 2019. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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***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*.

***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*

March 27, 2019

**Report on Compliance for Each Major Federal and State Program and Report  
On Internal Control over Compliance 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 Compliance 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, 2018. 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 each of the major federal and state programs. However, our audit does not provide a legal determination of Montclair State University's compliance.

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***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, 2018.

***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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Board of Trustees**

**Montclair State University**

Page 3

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.

*PKF O'Connor Davies, LLP*

March 27, 2019

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

**Part I - Summary of Auditor's Results**

***Financial Statements***

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Are any material weakness(es) identified?      ☐ Yes    ☒ No
- Are any significant deficiency(ies) identified?      ☐ Yes    ☒ None reported

Is any noncompliance material to financial statements noted?      ☐ Yes    ☒ No

***Federal Awards***

Internal control over major federal programs:

- Are any material weakness(es) identified?      ☐ Yes    ☒ No
- Are any significant deficiency(ies) identified?      ☐ Yes    ☒ None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?      ☐ Yes    ☒ No

Identification of major federal programs:

<u><b>CFDA Number(s)</b></u>	<u><b>Name of Federal Program or Cluster</b></u>
84.007/84.033/84.038/84.063/84.268/84.379	Student Financial Assistance Programs
93.243	Substance Abuse and Mental Health Service-Projects of Regional and National Significance

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?      ☒ Yes    ☐ No



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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

**Part I - Summary of Auditor's Results (continued)**

**State Awards**

Internal control over major state programs:

- Are any material weakness(es) identified?                    ☐ Yes    ☒ No
- Are any significant deficiency(ies) identified?                ☐ Yes    ☒ None reported

Type of auditor's report issued on compliance  
for major state programs:

Unmodified

Any audit findings disclosed that are required  
to be reported in accordance with NJOMB Circular 15-08?

☐ Yes    ☒ No

Identification of major state programs:

GMIS/Program Number

Name of State Program or Cluster

100-074-2465-001

Grant- In- Aid Appropriation to Senior Public  
Colleges and Universities

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

☒ Yes    ☐ No

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

**Part II – Schedule of Financial Statement Findings**

No financial statement findings noted that are required to be reported under *Government Audit Standards*.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

**Part III - Schedule of Federal and State Award Findings  
and Questioned Costs**

No federal award or state financial assistance program compliance findings or questioned costs were noted that are required to be reported in accordance with 2 CFR 200 section .516(a) or NJ OMB Circular Letter 15-08.

**Montclair State University**  
(A Component Unit of the State of New Jersey)  
Summary Schedule of Prior Year Audit Findings

Year Ended June 30, 2018

**2017-001**

*Statement of Condition:* During the course of our audit of student accounts receivable we noted that the University was unable to provide a reconciliation of student accounts receivable by academic term.

*Status:* The University took corrective action related to this finding and the finding was not repeated in the current year.

**2017-002**

*Statement of 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.

*Status:* The University took corrective action related to this finding and the finding was not repeated in the current year.

**2017-003**

*Statement of 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.

*Status:* The University took corrective action related to this finding and the finding was not repeated in the current year.

**2017-004**

*Statement of 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.

*Status:* The University took corrective action related to this finding and the finding was not repeated in the current year.