

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

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2019 and 2018

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

Financial Statements

June 30, 2019 and 2018

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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, 2019 and 2018, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

**The Board of Trustees
Montclair State University**

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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, 2019 and 2018, 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 and the schedules of employer contributions and schedules of proportionate share of the net position liability be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PKF O'Connor Davies, LLP

Cranford, New Jersey
January 22, 2020

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(A Component Unit of The State of New Jersey)

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, 2019, with selected comparative information for the years ended June 30, 2018 and 2017. 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 (2019, 2018, and 2017) 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.

In 2019, U.S. News & World Report ranked the University at No. 79 out of 146 top public schools in the nation and No. 166 out of 399 national universities. The University's graduate programs in education is ranked among the nation's best in U.S. News & World Report's 2020 Best Education Schools. The University's online MA in Educational Leadership program is ranked No. 19 in Best Online Graduate Education Programs.

The institution has earned the designation of R2 – Doctoral University – High Research Activity – in the latest Carnegie Classification of Institutions of Higher Education. Seen as the national standard for college and university classifications, the Carnegie Classification has been the leading framework for recognizing and classifying the diversity of U.S. higher education institutions since 1970.

The accomplishment comes just three years after Montclair State earned an initial Research Doctoral University (R3) designation, and signifies a continued expansion of the University's research portfolio and doctoral program offerings.

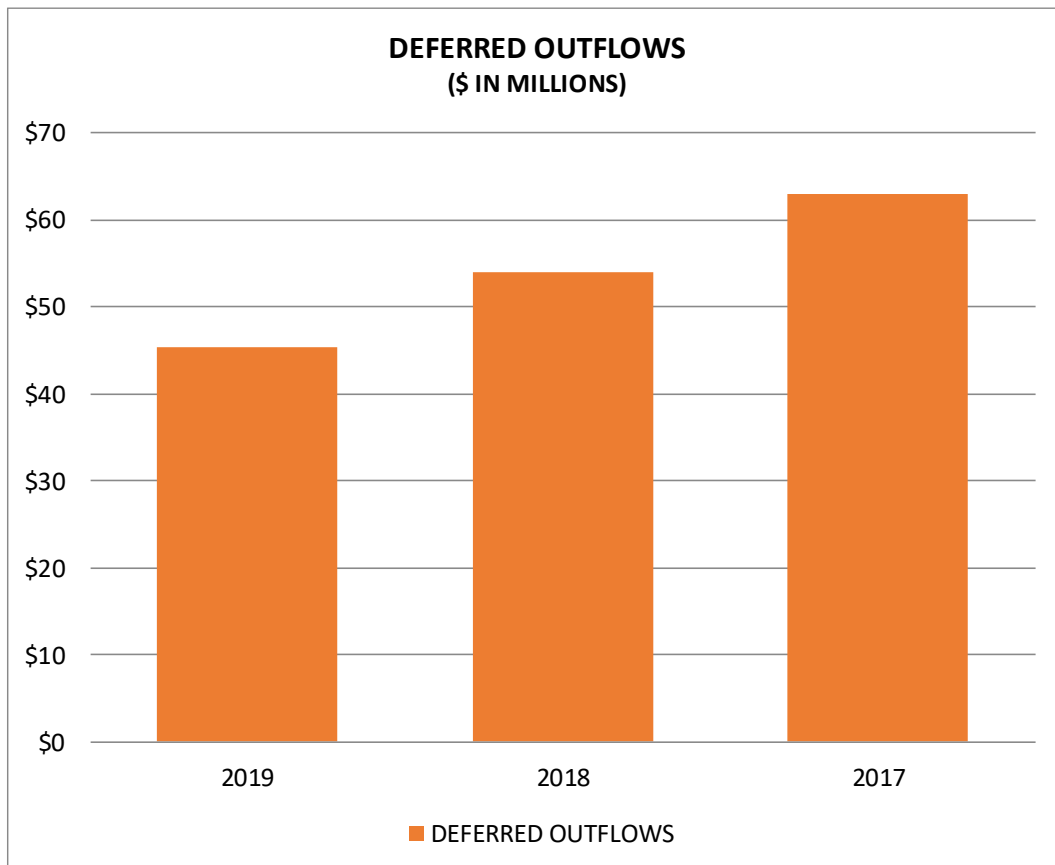
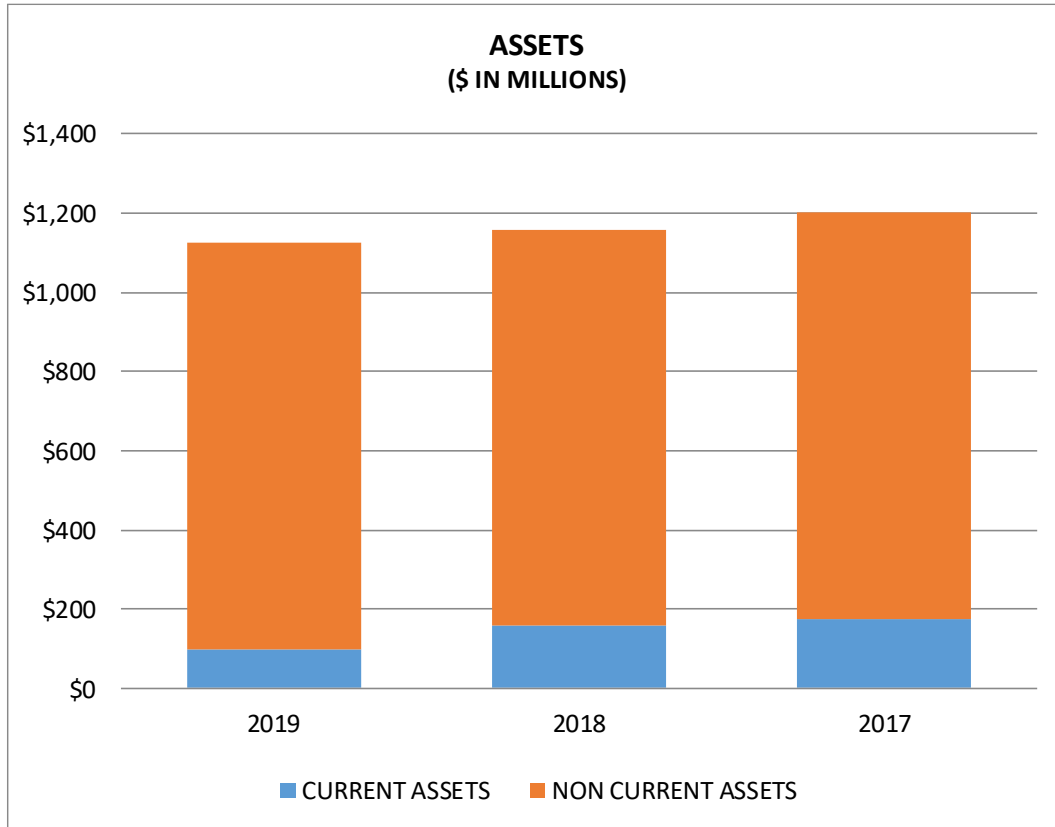
Financial Highlights

Beginning in 2019, the University changed its procedures for recognizing tuition revenue from its summer session programs. The University now recognizes the revenue earned from summer programs run prior to June 30 in the current year and defers revenue for courses held after June 30. In previous years, all summer session revenue was deferred to the following year. The University restated the prior amounts herein to reflect this change and to provide comparability across years. This change in revenue recognition procedure resulted in higher amounts of tuition revenue in each of the last three years (\$.308 million, \$.029 million, \$1.6 million), compared to the amount if the change were not implemented. Please refer to Note 2 in the Notes to Financial Statements on the impact of the restatement on previously reported 2018 amounts.

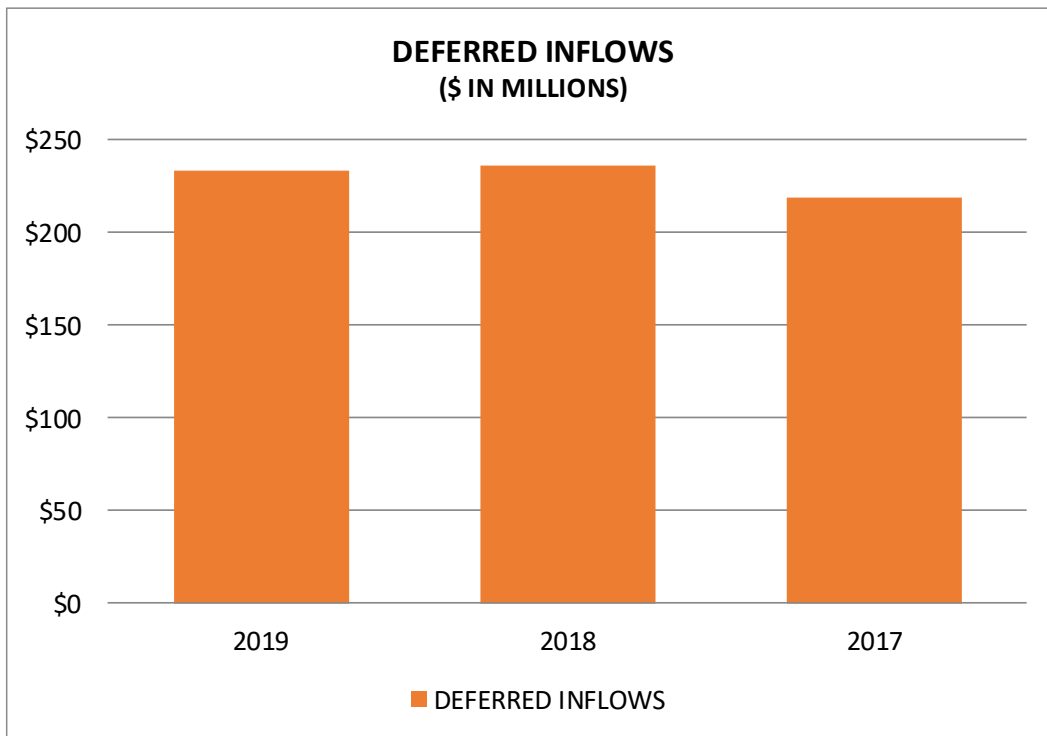
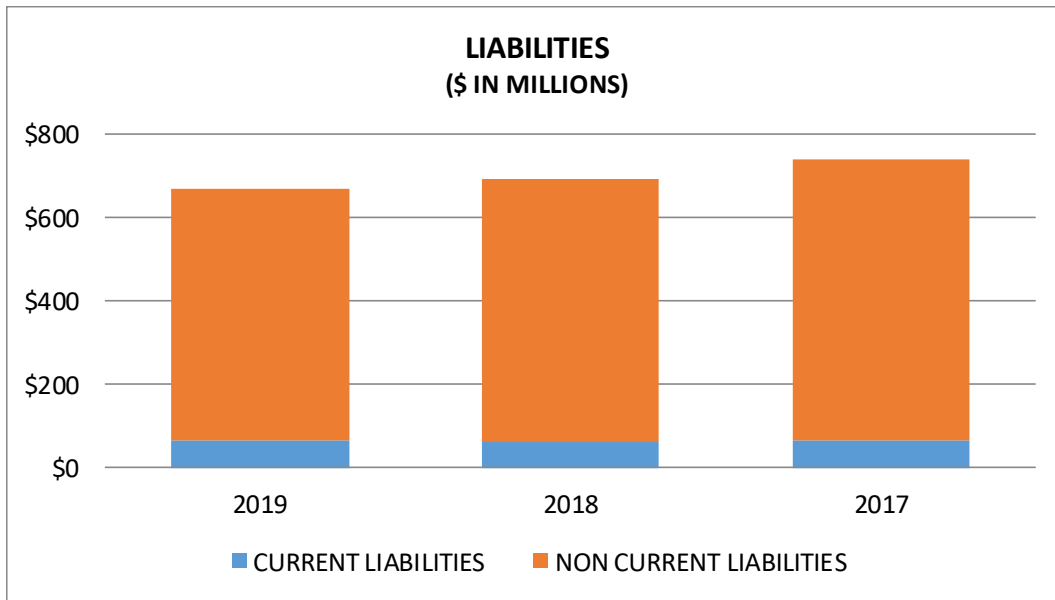
In 2018, the University implemented GASB Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (OPEB), which establishes standards of accounting and financial reporting for certain benefits that state and local governments provide to their retired employees. The statement seeks to improve the accounting and financial reporting for postemployment 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 accumulated OPEB liability and related deferrals due to its *Special Funding* status. The University did recognize \$16.8 million and \$24.6 million in OPEB expense in 2019 and 2018, respectively. OPEB expense was allocated to each operating functional category in the Statement of Revenues, Expenses, and Changes in Net Position, in the same proportion as were pension expenses. Because the State of New Jersey is responsible for funding OPEB costs, an amount equal to the total OPEB expense was recorded as a non-operating revenue on the same financial statement.

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THE UNIVERSITY'S FINANCIAL POSITION

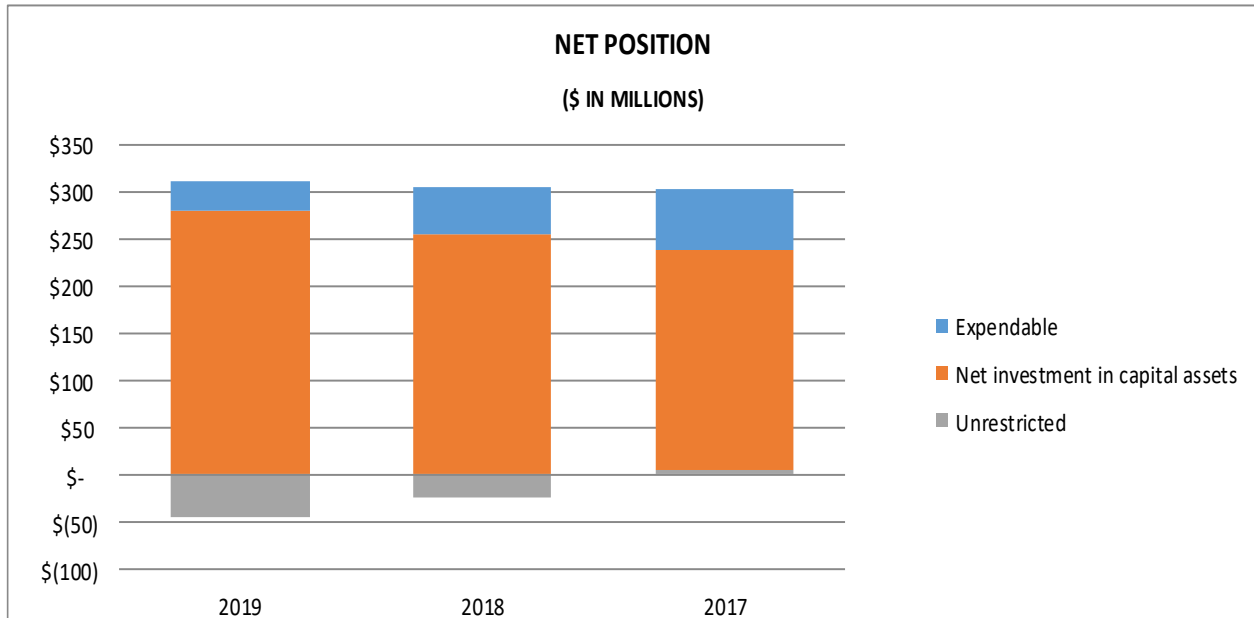


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The statement of net position presents the financial position of the University at the end of each year. The sum of assets and deferred outflows, less the sum of liabilities and deferred inflows, is the organization's net position.



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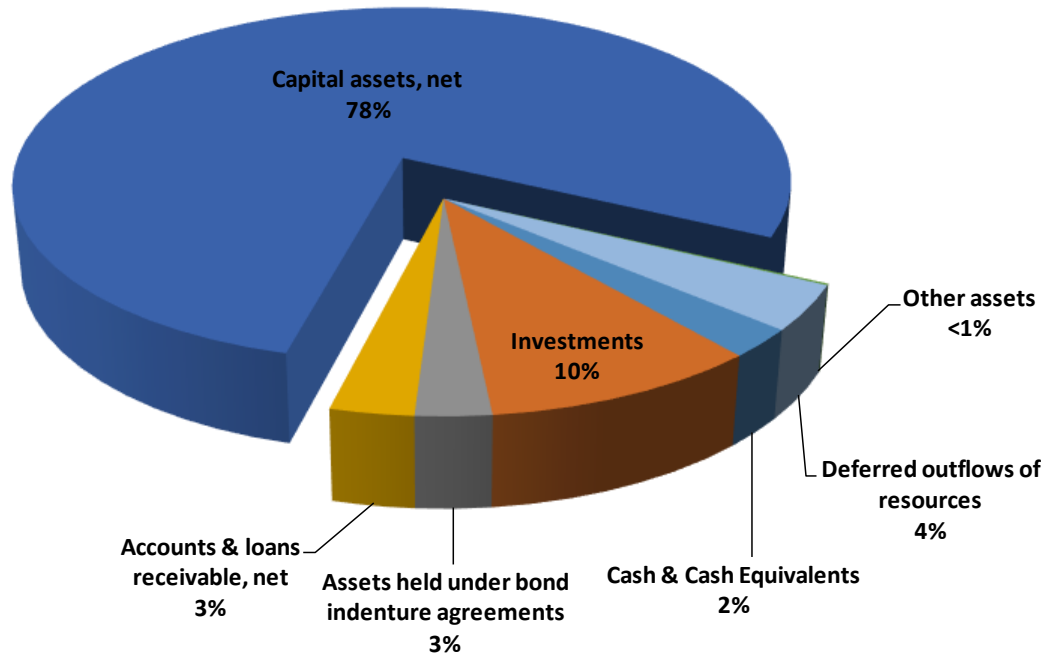
The major components of the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2019, 2018 and 2017 are as follows:

(in thousands of dollars)	2019	2018 (As Restated)	2017 (As Restated)
ASSETS			
Cash & cash equivalents	\$ 28,975	\$ 23,768	\$ 38,677
Investments	113,892	128,579	138,841
Assets held under bond indenture agreements	31,104	51,082	63,570
Accounts & loans receivable, net	34,380	39,850	40,931
Capital assets, net	914,203	913,569	916,700
Other assets	1,515	1,895	1,895
Total assets	<u>1,124,069</u>	<u>1,158,743</u>	<u>1,200,614</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>45,408</u>	 <u>53,745</u>	 <u>63,168</u>
 LIABILITIES			
Bonds payable & other debt	413,622	426,953	439,319
Accounts payable & accrued expenses	41,083	39,376	42,392
Net pension liability	195,357	207,673	236,776
Unearned tuition and grant revenues	10,007	8,969	12,054
Other liabilities	10,060	11,897	12,091
Total liabilities	<u>670,129</u>	<u>694,868</u>	<u>742,632</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>233,788</u>	 <u>236,264</u>	 <u>218,840</u>
 NET POSITION			
Net investment in capital assets	279,572	254,446	233,586
Expendable	31,105	51,082	63,596
Unrestricted	(45,117)	(24,172)	5,128
Total net position	<u>\$ 265,560</u>	<u>\$ 281,356</u>	<u>\$ 302,310</u>

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The University's Assets and Deferred Outflows

**2019 TOTAL ASSETS & DEFERRED OUTFLOWS
as of June 30, 2019**



The University's total assets and deferred outflows of resources decreased to \$1.169 billion in 2019, from \$1.212 billion in 2018 and \$1.264 billion in 2017. Total assets decreased mainly due to the reduction in assets held under bond indenture agreement, due to draw-downs of proceeds principally for the College Hall renovation project described below; and due to reductions in investments to meet outlays for university-funded capital projects. Deferred outflows decreased due mainly to changes in the University's net pension liability. This decrease is primarily driven by changes in actuarial assumptions in the discount rate. The interest rate of return remained unchanged at 7% in both years. Discount rate increased from 5.00% to 5.66% for PERS and from 6.14% to 6.51% for PFRS.

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 held in these accounts rose from \$46.6 million in 2018 to \$47.2 million in 2019, reflecting modest increases in state appropriations and grant receipts. The balance at June 30, 2019 was \$5.2 million higher than at June 30, 2018.

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).

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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, 2019 were \$15 million lower than the previous year; \$113.9 million compared to \$128.6 million, which is largely attributable to outlays for university-funded capital projects.

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 \$20 million, largely due to the drawdown of Series 2014A funds for the renovation costs of College 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, 2019 were \$5.5 million lower than at June 30, 2018 due to timing of collections.

Capital assets, net

Capital spending during 2019 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. In 2019 capital assets, net increased by \$.634 million over 2018. Assets increased \$97.2 million and accumulated depreciation increased \$52.2 million.

Major renovations completed during fiscal year 2019 included:

- Bohn Hall – This project was a renovation of a sixteen floor resident community of approximately 500 students. This project included a new heating/cooling system, elevator upgrade, new windows, painting, and modest exterior building and site improvements.
- Russ Hall Practice Rooms Conversion – This project included a conversion of seven acoustically rated music practice rooms for the John J. Cali School of Music in the lower level of Russ Hall and the creation of an assembly space on the first floor. The assembly space is multi-functional and used for practice, teaching and recitals. Classes will accommodate approximately 30 students and recitals will host audiences of up to 100 people. The newly renovated space allows for the continued growth of the music program.

Major construction in progress during 2019 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.
- University Hall Exterior Repairs – This project is a repair of the existing stucco façade, which has experienced significant staining, discoloration, failed control joints, water infiltration and biological growth. The scope of work began in the summer of 2019.

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- Richardson Hall - This project is a renovation of a 40-year old, three-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.
- Calcia Hall – This project is a two-phase renovation. Phase 1 includes the interior renovation of four digital art labs that make up the College of the Arts Foundations Courses for 2D & 3D Art and Design, Life Drawing, Animation-Illustration Lab and a Digital Literacy Lab which will include a new artwork presentation and gallery space. This renovation will include modest upgrades to the finishes, new LED lighting systems and substantial improvements to the HVAC systems throughout the eastern side of the building. Phase 2 includes architectural improvements to the photography studio and an integrated multi-disciplinary studio for shared Art and Design environments.

Major construction completed during 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 -- a 52-year old, 34,400 gross square foot building. These improvements created 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 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.

Other assets

Other assets include other prepaid expenses of \$407 thousand and deposits related to software licenses of \$1.1 million.

The University's Liabilities and Deferred Inflows

The University's liabilities and deferred inflows of resources decreased to \$903.9 million in 2019, from \$931.1 million in 2018 and \$961.5 million in 2017. The decline in 2019 was attributable to a \$13.3 million decrease in bonds payable and other debt, and a \$12.3 million decrease in accumulated pension liabilities.

Debt

Capital assets are funded from a variety of sources, including University unrestricted cash & cash equivalents, investments, federal and state support, revenue bonds, and leases.

University debt is used to partially finance the addition of new capital assets. Amounts outstanding at the end of 2019, 2018 and 2017 were \$413.6 million, \$426.9 million, and \$439.3 million respectively.

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The table below shows the components of the \$13.3 million decrease in outstanding debt in 2019, and the \$12.4 million decrease that occurred in 2018.

(\$ in thousands)	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 426,953	\$ 439,319	\$ 447,871
ADDITIONS TO OUTSTANDING DEBT			
Higher Education Capital Improvement Fund (CIF)	-	-	6,777
Capital leases	<u>1,029</u>	<u>647</u>	<u>1,374</u>
Additions to outstanding debt	<u>1,029</u>	<u>647</u>	<u>8,151</u>
REDUCTIONS TO OUTSTANDING DEBT			
Refinancing and prepayments	-	-	(4,320)
Scheduled principal payments	<u>(13,600)</u>	<u>(12,352)</u>	<u>(11,722)</u>
Reductions to outstanding debt	<u>(13,600)</u>	<u>(12,352)</u>	<u>(16,042)</u>
Amortization of bond premium/discount - net	<u>(760)</u>	<u>(661)</u>	<u>(661)</u>
Net decrease in outstanding debt	<u>(12,571)</u>	<u>(12,366)</u>	<u>(8,552)</u>
Ending Balance	<u><u>\$ 413,622</u></u>	<u><u>\$ 426,953</u></u>	<u><u>\$ 439,319</u></u>

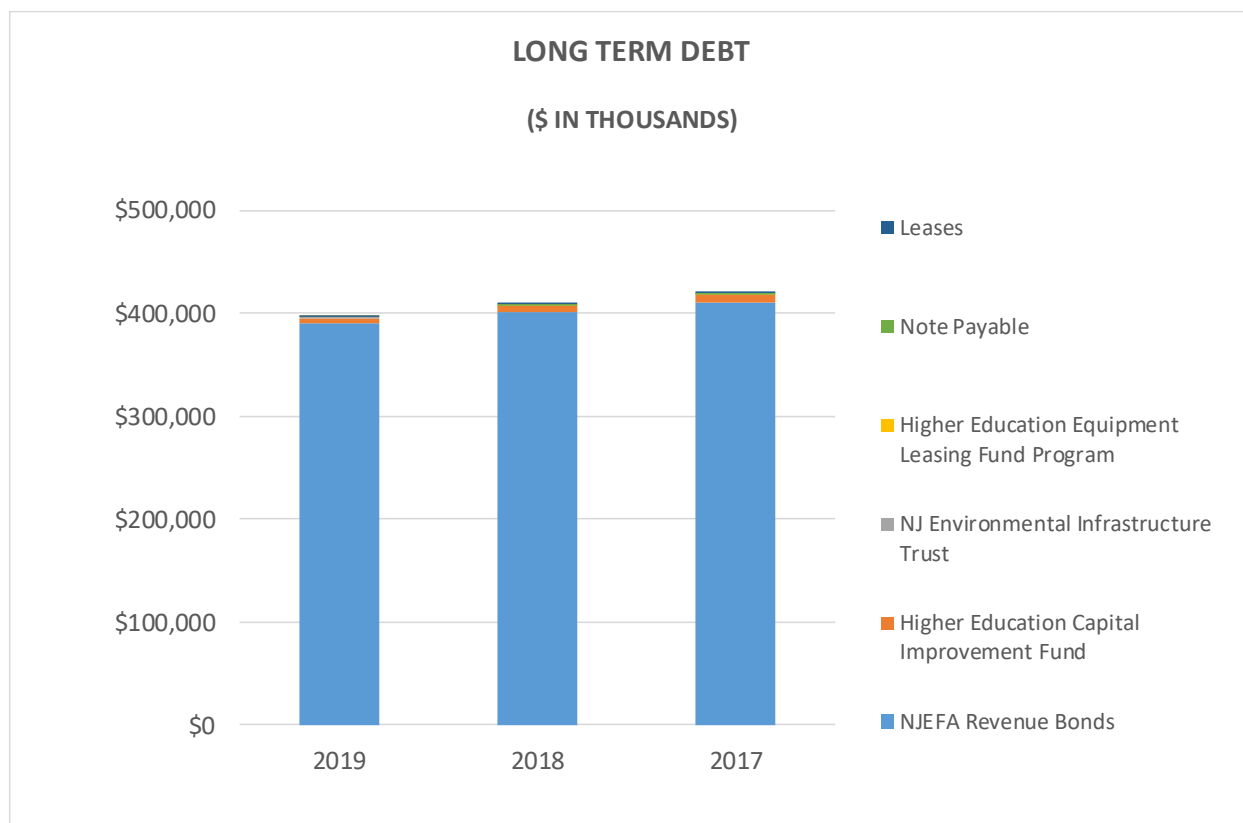
As of June 30, 2019, the University had outstanding indebtedness in the form of annual rentals it assumed under certain leases and agreements with the Authority of \$389 million.

In addition, the University is obligated to service debt with principal totaling approximately \$8 million, under several state programs that support capital improvements, environmental infrastructure, and education-related technologies.

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 to reduce its annual interest expense. Over the two-year period, interest expense declined from \$15.5 million in 2017 to \$14.9 million in 2019.

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The composition of the University's long-term debt as of June 30, 2019, 2018, and 2017 follows:



During fiscal 2019, Moody's Investor Service downgraded the ratings on the University's outstanding NJEFA revenue bonds from A1 "negative" outlook, to A2 "stable" outlook. In June 2019, Fitch Ratings placed its AA- rating on the University's outstanding revenue bonds Under Criteria Observation (or UCO), following the publication of its new ratings criteria for U.S. colleges and universities. In November 2019, Fitch Ratings completed its review of the University's outstanding revenue bonds UCO, and the University's rating was changed to 'A+' from 'AA-' with a 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 \$195.4 million, \$207.7 million and \$236.8 million in 2019, 2018 and 2017, respectively. The decline in the accumulated net pension liability for 2019 was driven primarily by changes in actuarial assumptions. The actuarial valuation for 2019 is based on a measurement date as of June 30, 2018.

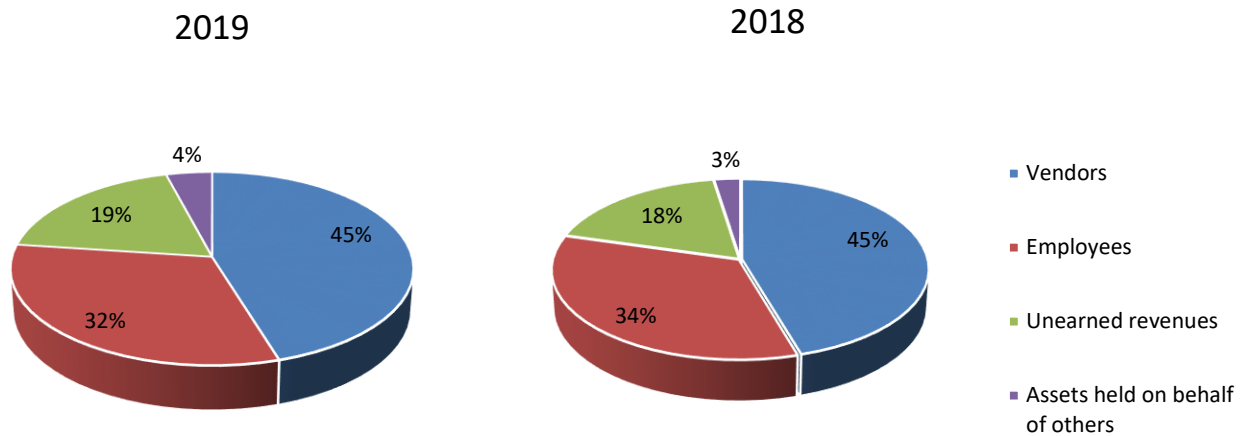
For the years 2018, 2017 and 2016 the portfolio's total investment rate of return was 7.00%, 7.00%, and 7.65%, respectively. The liability as of June 30, 2019, which reflects the present value of projected future payments to those already retired and those who will retire with benefits due, decreased by \$12.3 million (6%).

The decrease is largely attributable increases in the discount rate (5.0% in 2018 to 5.66% in 2019 for PERS and 6.14% 2018 to 6.51% in 2019 for PFRS).

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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 decreased by \$2.47 million in 2019, after having increased by \$17.4 million in 2018.

The \$2.47 million decrease in 2019 is due primarily to a \$7.3 million decline in deferred service concession revenue (which increases revenue) and a \$9.17 million increase in deferred inflow from pension resources associated with changes in actuarial assumptions and the university's proportion of the state-wide payroll. The University's share increased from .722% to .728% (PERS) and from .510% to .525% (PFRS). The \$17.4 million increase between 2018 and 2017 was due primarily to the \$29 million increase in deferred inflow from pension resources associated with the actuarial assumptions and changes in proportion of the state-wide payroll. The University's proportionate share increased from .729% to .734% (PERS) and .402% to .447% (PFRS). The \$17.4 million increase is offset by the recognition of \$7.3 million of deferred service concession revenue and the amortization of \$4.7 million in savings from debt refundings.

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 \$266 million, \$281 million, and \$302 million in 2019, 2018, and 2017, 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 \$279.6 million in 2019, an increase from \$254.4 million and \$233.6 million for the years ended June 30, 2018 and 2017, 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.

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Restricted - expendable

Restricted - expendable net position is subject to externally imposed restrictions governing the use of certain assets. A portion of 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 \$20 million decrease in restricted, expendable funds is due principally to the change in assets held under bond indenture, which reflects reimbursements for capital expenditures.

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 2019 and 2018, due primarily to the recording of the non-cash obligations for pension benefits that are in excess of University reserves. Increased operational costs, including union contract settlements and the rising cost of fringe benefits, resulted in an increase in the unrestricted net deficit position, from -\$24.1 million in 2018 to -\$45.1 million in 2019. However, excluding the effect of the non-cash pension obligation, the net position was decreased by \$12.5 million in 2018 and \$10.9 million in 2019.

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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 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 2019, 2018 and 2017, 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):

	2019	2018 (As Restated)	2017 (As Restated)
REVENUES			
Student revenues, net	\$ 210,869	\$ 210,522	\$ 215,745
State appropriations (general & fringe)*	75,877	75,733	73,200
Federal Pell Grants*	37,257	35,046	31,912
State paid other post employment health benefits*	16,782	24,629	-
Grants and contracts	59,615	54,648	46,050
Educational activities	7,178	6,782	6,565
Auxiliary enterprises	31,620	31,075	30,414
Private gifts*	1,837	1,315	1,524
Investment income*	3,107	2,735	2,405
Other revenues**	15,582	15,810	16,195
Revenues supporting core activities	459,724	458,295	424,010
EXPENSES			
Salaries and benefits	262,375	256,642	238,253
Pension benefits	12,005	14,709	20,589
Postemployment health benefits	16,782	24,629	-
Utilities	21,081	20,229	21,521
Supplies and materials	9,526	10,704	10,848
Depreciation and amortization	52,151	56,801	52,901
Interest expense*	14,928	15,201	15,513
Other expenses*	88,937	81,699	74,881
Expenses associated with core activities	477,785	480,614	434,506
Income (loss) from core activities	(18,061)	(22,319)	(10,496)
OTHER NONOPERATING ACTIVITIES			
Net appreciation (depreciation) in fair value	1,853	(1,741)	(688)
Income (loss) before other changes in net position	(16,208)	(24,060)	(11,184)
OTHER CHANGES IN NET POSITION			
Capital gifts and grants, net	412	3,106	4,510
Decrease in net position	(15,796)	(20,954)	(6,674)
NET POSITION			
Beginning of year, as previously reported (as restated)	281,356	302,310	308,984
End of year	\$ 265,560	\$ 281,356	\$ 302,310

* Represents nonoperating revenues or expenses.

** Other revenues consist of less than 5% of nonoperating revenues and expenses.

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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* (\$ in thousands):

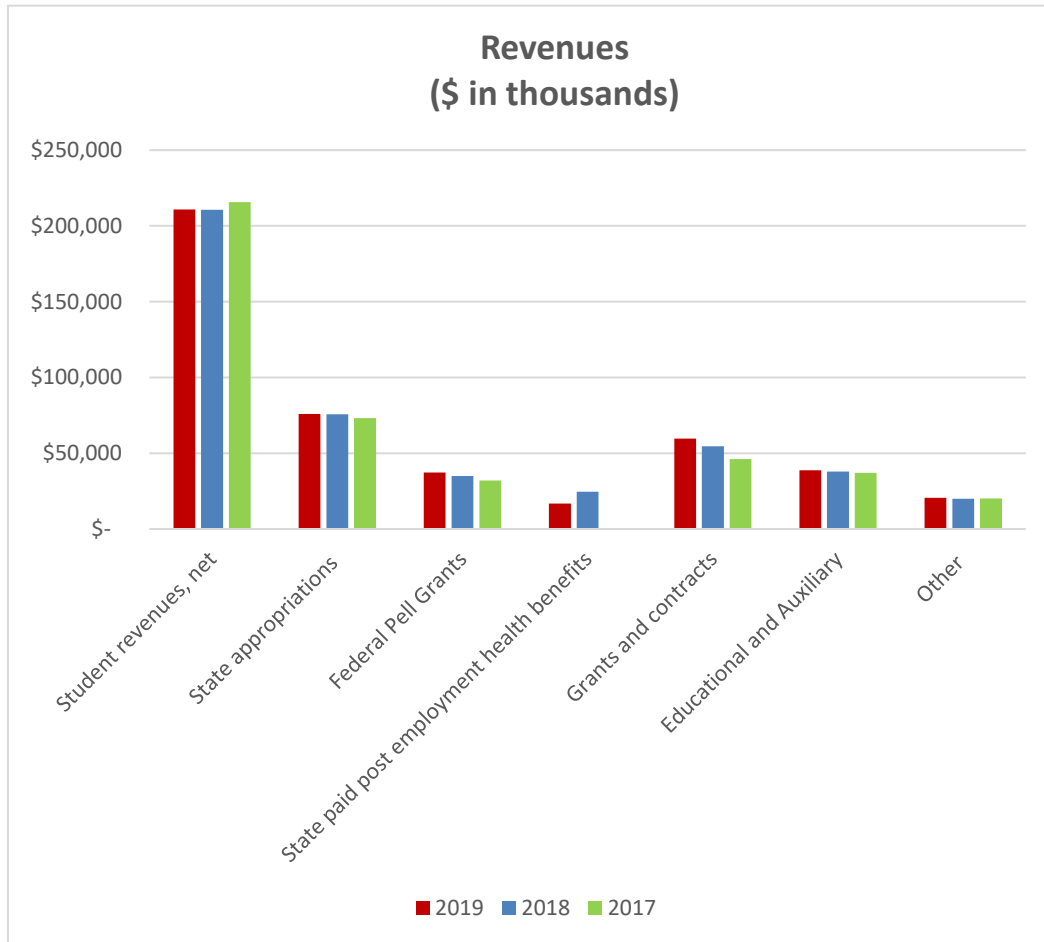
	2019	2018 (As Restated)	2017 (As Restated)
<u>Net Position from the Financial Statements</u>			
Net Investment in Capital Assets	\$ 279,572	\$ 254,446	\$ 233,586
Restricted	31,105	51,082	63,596
Unrestricted (Deficit)	<u>(45,117)</u>	<u>(24,172)</u>	<u>5,128</u>
Total Net Position - Financial Statements	<u>\$ 265,560</u>	<u>\$ 281,356</u>	<u>\$ 302,310</u>
<u>Restatement of Unrestricted Deficit Above</u>			
Unrestricted Deficit (as restated)	(45,117)	(24,172)	5,128
GASB 68 Pension Adjustment:			
Net Pension Liability	195,357	207,673	236,776
Deferred Outflow of Resources	(34,103)	(42,132)	(50,247)
Deferred Inflow of Resources	<u>42,503</u>	<u>33,332</u>	<u>3,911</u>
Total Unrestricted Net Position (As Adjusted)	<u>\$ 158,640</u>	<u>\$ 174,701</u>	<u>\$ 195,568</u>
Total Net Position (As Adjusted)	<u>\$ 469,317</u>	<u>\$ 480,229</u>	<u>\$ 492,750</u>

*Since GASB75 has no effect in Net Position it is excluded from the restatement.

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Revenues supporting core activities

Revenues supporting the University's core activities, including those classified on the financial statements as non-operating revenues, were \$460 million, \$458 million and \$424 million in 2019, 2018 and 2017, respectively. These diversified sources of revenue increased by \$2 million in 2019, following a \$34 million increase during 2018.



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.

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Categories of both operating and non-operating revenue that supported the University's core activities in 2019 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 \$236.4 million, \$228.6 million and \$226.2 million in 2019, 2018 and 2017, 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 -- 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 offsets to revenue. The allowances are based on the availability of federal and state grants. Scholarship allowances increased 9.9% and 13% in 2019 and 2018, respectively. Scholarships and fellowships, representing grants made directly to students and reported as an offset to student tuition and fees and housing rentals and board, were \$73.9 million, \$67.2 million and \$59.5 million in 2019, 2018 and 2017, respectively.

Student revenues, net of scholarship allowances, increased by \$.347 million in 2019, after decreasing \$5.2 million in 2018.

In 2019, total student enrollment was 20,996, virtually unchanged compared to the two prior years. Tuition and fee rates increased in 2019 by approximately 3%. Room and board revenue decreased by \$868 thousand in 2019 after an increase of \$.129 million in 2018; this was the net result of a 3% decrease in meal plan counts, a 1% decrease in residence hall occupancy (6,149 beds in FY2019 vs 6,211 in 2018) offset by a 2% increase in room rates. Although meal plan rates increased on average by 3% in 2019, board revenues in total decreased by \$1.2 million as meal plan counts decreased by 3.8% amidst shifts in meal plan offerings and due to a prior year adjustment.

In 2019, the University also changed its procedures for recognizing tuition revenues derived from its summer session programs. The University now recognizes the revenue earned from summer programs starting prior to June 30 in the current year and defers revenue for courses held after June 30. In the past, all summer session revenue was deferred to the following year. This change in revenue recognition resulted in higher amounts of tuition revenue of \$.308 million in 2019 and \$.029 million in 2018.

State educational appropriations

Appropriations from the State of New Jersey totaled \$76 million in both 2019 and 2018, compared to \$73 million in 2017. The total is comprised of general appropriations and reimbursements for fringe benefits; both of which remained essentially flat at approximately \$35.6 million in 2019, and an increase in reimbursements for fringe benefits costs, which rose to \$40.0 million in 2019 from \$39.8 million in 2018.

State paid other postemployment health benefits

In 2019, the University recognized \$16.8 million of revenue from the State of New Jersey, to cover all of the expenses attributable to postemployment health benefits, in accordance with GASB 75. This was a decrease of \$7.8 million, in both revenue and expenses related to such benefits, compared to 2018. The State is legally obligated to provide the funds required for such benefits.

Grants and contracts

Revenues from federal, state, private and local government grants and contracts — including recoveries of facilities and administration costs of \$1.5 million, \$1.3 million and \$1.5 million in 2019, 2018 and 2017, respectively — were \$60 million, \$55 million and \$46 million in 2019, 2018 and 2017, respectively. The state's Tuition Aid Grant (TAG) increased by \$3.1 million in 2019 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 reflects the growing volume of externally - sponsored research grants and related expenditures.

External research grants totaling \$12.6 million were awarded to the University in 2019 from a growing and diverse list of funders, including major grants from the National Science Foundation, the National Institutes of Health, the U.S. Department of Education, the State of New Jersey, and a number of private sponsors, including the John J. Templeton Foundation and the Spencer Foundation.

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Examples of major grants from the federal government awarded in 2019 include:

- A five-year, \$1.4 million grant from the National Institutes of Health in collaboration with New York University, to conduct research that will meet a public health need by conducting the first randomized controlled trial comparing the efficacy and efficiency of speech intervention with and without real-time visual biofeedback.
- A four year, \$1.3 million grant from the National Institutes of Health to study how an unusual protein with tumor suppression activities in normal cells is eliminated or misplaced in cancer cells, setting the stage for the testing of pharmacological agents that will block the destruction and abnormal cellular localization of this protein as a potential and novel cancer treatment modality.

In addition, in 2019 the University was awarded three year, \$.750 million funding by the New Jersey Department of Health to administer the Risk and Protective Factors Student Perception Survey (NJRPFS) to middle school students across the state of New Jersey during the 2019-2020 school year.

Educational activities and auxiliary enterprises

Revenue from educational activities and programs are generated primarily by the childcare center, early intervention programs, and the research and evaluation center. These revenues remained essentially unchanged in 2019 at approximately \$7 million.

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 \$.545 million in 2019, following a \$.650 million increase in 2018.

Expenses associated with core activities

Expenses associated with the University's core activities, including those classified as non-operating expenses, were \$478 million, \$481 million, and \$435 million in 2019, 2018 and 2017, respectively. Overall, expenses decreased in 2019 by \$3 million or 1%. Instructional expenses decreased by \$1.3 million (1%), Institutional support rose by \$2.6 million (5%), Student Services decreased by \$1 million (5%), Research expenses decreased by \$1.4 million (11%), Academic support rose by \$3 million (10%), and Depreciation expense decreased by \$4.6 million (8%).

Overall, expenses excluding depreciation and interest, totaled \$411 million in 2019, representing an increase of \$2.1 million (less than 1%). The modest overall increase in expenses was the net result of a \$6 million increase in salaries and benefits and a \$7 million increase in other expenses (primarily repairs and maintenance); and decreases in post-employment expenses for pensions (\$3 million) and health benefits (\$8 million).

During 2018, total expenses increased 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%).

In 2018, expenses excluding depreciation and interest expenses totaled \$409 million, representing an increase of \$42 million over 2017. The increase was driven primarily by \$24 million related to postretirement health benefits and an \$18 million increase in salaries and benefits, a \$2 million increase in student aid, a \$2 million increase in services (\$1.4 million in Auxiliary Enterprises and \$.8 million in Instruction), and \$1 million increase in other expenses (primarily repairs and maintenance). Pension expenses associated with GASB 68 decreased by \$5.8 million.

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Categories of both operating and non-operating expenses related to the University's core activities in 2019 are as follows:

Salaries and benefits

Approximately 60% of the University's 2019 expenses are related to payroll costs and employee benefits (including pension expense). There was an average of 5,834 employees in the University in FY 2019, as compared to 5,816 in FY 2018, an increase of .3%.

Payroll and benefits increased by \$5.7 million or 2% in 2019; the total payroll rose from \$205.9 million in 2018 to \$211.4 million in 2019 (3%), while fringe benefits costs increased from \$50.7 million to \$50.9 million (.4%) during the same period.

In 2018, payroll and benefits increased by 8% (\$18 million) compared to 2017, which was largely attributable to payments made to members of the American Federation of Teachers pursuant to a newly negotiated contract with the AFT.

Pension expense attributable to GASB 68 decreased by \$2.7 million (18%) in 2019, mainly from changes in actuarial assumptions as described above.

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

	2019	2018	2017
PERS	\$ 9,319	\$ 12,103	\$ 18,302
PFRS	2,686	2,606	2,287
	<u>\$ 12,005</u>	<u>\$ 14,709</u>	<u>\$ 20,589</u>
TPAF	186	250	320
Alternate Benefit Program (ABP)	11,509	11,580	9,632
Defined Contribution Retirement Program (DCRP)	31	32	36
Total	<u>\$ 23,731</u>	<u>\$ 26,571</u>	<u>\$ 30,577</u>

State-sponsored other postemployment benefits expense attributable to GASB 75 totaled \$16.8 and \$24.6 million in 2019 and 2018, respectively, which was offset by an equivalent amount of revenue from the state.

Other expenses

Other expenses include travel, rent, insurance, service costs, repairs and maintenance, scholarships and fellowships, and gains/losses on disposed capital assets all of which remained essentially the same in 2019 as compared to 2018.

Operating results

Operating losses of \$138.4 million, \$146.9 million, and \$104.1 million in 2019, 2018 and 2017, 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 \$137.3 million, \$140.0 million, and \$109.3 million, in 2019, 2018, and 2017 respectively. Total expenses associated with core activities in 2019 and 2018 exceeded total revenues supporting core activities by \$18 million and \$22 million respectively. The \$4 million improvement from 2018 to 2019 is attributable to an \$8 million decrease in GASB 75 postemployment health benefits in 2019, and a \$4 million decrease in depreciation, offset by a \$6 million increases in salaries & benefits and \$2 million increase in certain non-personnel operating costs.

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LOOKING FORWARD

For the 2020 academic year the University will launch the New Jersey STEM Innovation Fellowship, a new program designed to improve math education for public school students across New Jersey. The University is the lead institution for the newly created initiative, working with partner institutions and nationally recognized STEM education nonprofit Math for America (MfA). The fellowship program is giving New Jersey public school teachers the opportunity to improve STEM teaching and student learning throughout the state with stipends, workshops and professional support.

The University received a New Jersey Department of Education “Diversifying the Teacher Pipeline” grant to encourage teacher diversity and expand recruitment and preparation opportunities for teachers of color in high-needs schools. Montclair State will partner with Newark Public Schools in a 19-month pilot program.

The University has earned the designation of R2- Doctoral University- High Research Activity in the latest reclassification of the Carnegie Classification of Institutions of Higher Education.

Montclair State University Center of Pedagogy is partnering with the Newark Public Schools and the American Federation of Students to launch the Newark public Schools Teacher Academy which is scheduled to open in 2020. The University will help redesign a curriculum that prepares students for teaching careers, as well as provide instruction by professors and internship opportunities.

The University's School of Nursing received phase 1 approval for its application to establish a pre-licensure MSN degree program designed to serve students with baccalaureate degrees in non-Nursing fields, such as Biology, Nutrition, Exercise Science and Public Health. The phase 2 application was submitted during the summer, and the School of Nursing is planning to admit the first cohort of 20 students into the program in summer 2020.

Montclair State University's Feliciano School of Business Center for Entrepreneurship and Innovation, has successfully collaborated with the University of Graz in Austria on a Transatlantic Entrepreneurship Academy and is now recruiting its next 2020 cohort.

This fall, the College of Science and Mathematics hopes to initiate a formal partnership with the Galapagos National Park and with the Universidad Internacional del Ecuador, providing educational and research opportunities for students and faculty in the biological and environmental sciences.

In January 2020, the University will be converting its Finance system from PeopleSoft Financial Management System to Workday Finance.

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.

Montclair State University
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Statement of Net Position
(dollars in thousands)
June 30, 2019

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 28,975	\$ 1,490	\$ 30,465
Investments	6,826		6,826
Assets held under bond indenture agreements	31,104		31,104
Receivables			
Students, less allowance for doubtful accounts of \$3,245	13,282		13,282
Loans, less allowance for doubtful loans of \$190	811		811
Grants and contracts	6,220		6,220
State of New Jersey	4,885		4,885
Other receivables	6,875	5,481	12,356
Total Receivables	32,073	5,481	37,554
Other current assets	1,413	185	1,598
Total Current Assets	100,391	7,156	107,547
Noncurrent Assets			
Investments	107,066	83,001	190,067
Loans receivable, less allowance for doubtful loans of \$540	2,307		2,307
Capital assets, net	914,203		914,203
Other noncurrent assets	102	1,645	1,747
Total Noncurrent Assets	1,023,678	84,646	1,108,324
Total Assets	1,124,069	91,802	1,215,871
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount from debt refundings	2,305		2,305
Deferred outflow of pension resources	34,103		34,103
Deferred outflow from capital purchase	9,000		9,000
Total Deferred Outflows of Resources	45,408	-	45,408
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	41,083	2,714	43,797
Bonds payable and other long-term debt - current portion	13,555		13,555
Unearned tuition, fees, and deposits	3,816		3,816
Unearned revenue from grantors	6,191		6,191
Assets held on behalf of others	2,205		2,205
Total Current Liabilities	66,850	2,714	69,564
Noncurrent Liabilities			
Bonds payable and other long-term debt - noncurrent portion	400,067		400,067
Compensated absences - noncurrent portion	2,423		2,423
Assets held on behalf of Federal government for loan programs	2,981		2,981
Net pension liability	195,357		195,357
Other long term liability	2,451		2,451
Total Noncurrent Liabilities	603,279	-	603,279
Total Liabilities	670,129	2,714	672,843
DEFERRED INFLOWS OF RESOURCES			
Deferred service concession arrangement	176,242		176,242
Deferred inflow of pension resources	42,503		42,503
Deferred amount from debt refundings	15,043		15,043
Total Deferred Inflows of Resources	233,788	-	233,788
NET POSITION			
Net investment in capital assets	279,572		279,572
Restricted nonexpendable		47,697	47,697
Restricted expendable for			
Scholarships		1,791	1,791
Renewal and replacement	9,804		9,804
Debt service and debt service reserve	21,301		21,301
Other		34,969	34,969
Unrestricted	(45,117)	4,631	(40,486)
Total Net Position	\$ 265,560	\$ 89,088	\$ 354,648

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

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

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
ASSETS			
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 \$2,273	10,670		10,670
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	36,582	1,945	38,527
Other current assets	1,741	149	1,890
Total Current Assets	156,820	4,386	161,206
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	1,158,743	86,378	1,245,121
DEFERRED OUTFLOWS OF RESOURCES			
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
LIABILITIES			
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	3,048		3,048
Unearned revenue from grantors	5,921		5,921
Assets held on behalf of others	1,230		1,230
Total Current Liabilities	62,338	3,013	65,351
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	694,868	3,013	697,881
DEFERRED INFLOWS OF RESOURCES			
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
NET POSITION			
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	(24,172)	3,620	(20,552)
Total Net Position	\$ 281,356	\$ 83,365	\$ 364,721

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, 2019

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
OPERATING REVENUES			
Student Revenues			
Student tuition and fees	\$ 236,423	\$ -	\$ 236,423
Residence life - room and board	48,313		48,313
Less scholarship allowance	73,867		73,867
Net Student Revenues	210,869	-	210,869
Federal grant and contracts	11,709		11,709
State of New Jersey grants and contracts	39,133		39,133
Nongovernmental grants and contracts	8,773		8,773
Sales and services of educational departments	7,178		7,178
Auxiliary enterprises	31,620		31,620
Other operating revenues	14,993	10,695	25,688
Total Operating Revenues	324,275	10,695	334,970
OPERATING EXPENSES			
Instruction	154,686		154,686
Research	11,435		11,435
Public service	15,698		15,698
Academic support	34,598		34,598
Student services	18,123		18,123
Institutional support	56,795	9,846	66,641
Operations and maintenance of plant	42,732		42,732
Depreciation	52,151		52,151
Student aid	17,994		17,994
Residence life and auxiliary enterprises	58,449		58,449
Total Operating Expenses	462,661	9,846	472,507
Operating (Loss) Income	(138,386)	849	(137,537)
NONOPERATING REVENUES (EXPENSES)			
State of New Jersey appropriations	35,859		35,859
State of New Jersey paid fringe benefits	40,018		40,018
Pell grants	37,257		37,257
State paid other postemployment health benefits	16,782		16,782
Gifts and non-exchange grants	1,837		1,837
Unrealized and realized gains on investment securities	1,853		1,853
Investment income, net of investment expenses of \$257	3,107	4,874	7,981
Interest on indebtedness	(14,928)		(14,928)
Administrative costs	(196)		(196)
Other nonoperating revenues	589		589
Net Nonoperating Revenues	122,178	4,874	127,052
(Loss) Income Before Other Revenues	(16,208)	5,723	(10,485)
Capital gifts and grants	412		412
(Decrease) Increase in Net Position	(15,796)	5,723	(10,073)
NET POSITION			
Beginning of year (as restated)	281,356	83,365	364,721
End of year	\$ 265,560	\$ 89,088	\$ 354,648

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
(As Restated)

	Business-Type Activities Montclair State University	Component Unit Montclair State University Foundation	Total
OPERATING REVENUES			
Student Revenues			
Student tuition and fees	\$ 228,580	\$ -	\$ 228,580
Residence life - room and board	49,181		49,181
Less scholarship allowance	67,239		67,239
Net Student Revenues	210,522	-	210,522
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	318,294	8,841	327,135
OPERATING EXPENSES			
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	(146,920)	(825)	
NONOPERATING REVENUES (EXPENSES)			
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	(24,060)	3,638	(20,422)
Capital gifts and grants	3,106	-	3,106
(Decrease) Increase in Net Position	(20,954)	3,638	(17,316)
NET POSITION			
Beginning of year (as restated)	302,310	79,727	382,037
End of year	\$ 281,356	\$ 83,365	\$ 364,721

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)	
		(As Restated)
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 159,771	\$ 156,823
Grants and contracts	63,417	59,315
Payments for salaries	(211,734)	(203,094)
Payments for fringe benefits	(27,110)	(27,106)
Payments to suppliers	(77,974)	(76,334)
Payments for utilities	(21,081)	(20,229)
Payments for student aid	(17,994)	(18,260)
Loans issued to students	47	(613)
Collection of loans from students	677	559
Auxiliary enterprises charges		
Residence life	48,307	49,356
Other	31,620	31,075
Sales and services of educational departments	7,178	6,782
Other receipts	15,820	14,250
Net Cash from Operating Activities	<u>(29,056)</u>	<u>(27,476)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State of New Jersey appropriations	48,567	44,082
Pell grants	37,257	35,046
Gifts and non-exchange grants	1,837	1,316
Student organization agency transactions	975	370
Other receipts	588	543
Net Cash from Noncapital Financing Activities	<u>89,224</u>	<u>81,357</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital gifts and grants	412	3,106
Proceeds from capital debt	1,027	647
Principal paid on capital debt	(13,600)	(12,352)
Interest paid on capital debt	(20,202)	(20,717)
Purchases of capital assets	(62,325)	(63,416)
Administrative costs	111	109
Change in deposits held by bond trustees	19,979	12,487
Net Cash from Capital Financing Activities	<u>(74,598)</u>	<u>(80,136)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	3,956,664	7,188,098
Purchases of investments	(3,938,269)	(7,181,314)
Interest on investments	1,242	4,562
Net Cash from Investing Activities	<u>19,637</u>	<u>11,346</u>
Net (Increase) in Cash and Cash Equivalents	5,207	(14,909)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>23,768</u>	<u>38,677</u>
End of year	<u>\$ 28,975</u>	<u>\$ 23,768</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)	
		(As Restated)
	2019	2018
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (138,386)	\$ (146,920)
Adjustments to reconcile operating loss to net cash used by operating activities		
State of New Jersey paid fringe benefits	29,984	30,043
State paid other postemployment health benefits	16,782	24,628
Depreciation expense	52,151	56,801
Provision for bad debts	(33)	986
Changes in assets and liabilities :		
Student receivables	(2,555)	(4,532)
Loans receivables	724	(54)
Grants receivables	3,977	7,360
Other receivables	694	(1,160)
Other current assets	328	(51)
Accounts payable and accrued expenses	1,455	834
Unearned tuition, fees and deposits	768	(798)
Unearned revenue from granters	270	(2,287)
Compensated absences - noncurrent portion	345	(354)
Assets held on behalf of Federal government for loan programs	(444)	(405)
Net pension liability	4,884	8,433
Net Cash from Operating Activities	<u>\$ (29,056)</u>	<u>\$ (27,476)</u>

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

Notes to Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018

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, 2019 and 2018

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 as of June 30, 2019 and June 30, 2018, respectively. Management has elected not to capitalize these items in accordance with GASB Statement No. 34.

Montclair State University
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Notes to Financial Statements
June 30, 2019 and 2018

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. Prepaid financing costs, net of accumulated amortization, amounted to \$102 and \$154 thousand in 2019 and 2018, 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 \$3.8 million as of June 30, 2019 and \$3.0 million as of June 30, 2018. Unearned revenue includes summer session activity for July and August which will be recognized as revenue in the following fiscal year.

Montclair State University
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Notes to Financial Statements
June 30, 2019 and 2018

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 unearned revenue from grantors in the accompanying financial statements and totaled \$6.1 million as of June 30, 2019 and \$5.9 million as of June 30, 2018.

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
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Notes to Financial Statements
June 30, 2019 and 2018

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, 2016.

Reclassification

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

Restatement

In fiscal year 2019, the University changed its procedures for recognizing tuition revenue from its summer session programs. The University now recognizes the revenue earned from summer programs that started prior to June 30 in the current fiscal year and defers revenue for courses held after June 30. Previously, all summer session revenue was deferred to the following year.

As a result, the following restatements have been made to the University's financial statements.

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated</u>
As of July 1, 2017			
Net Position	\$ 289,878	\$ 12,432	\$ 302,310
For the year ended June 30, 2018			
Student tuition and fees	228,551	29	228,580
Net Student Revenues	210,493	29	210,522
Total Operating Revenues	318,265	29	318,294
Operating (Loss) Income	(146,949)	29	(146,920)
(Decrease) Increase in net position	(20,983)	29	(20,954)
As of June 30, 2018			
Students Receivables	4,718	5,952	10,670
Unearned tuition, fees, and deposits	9,557	(6,509)	3,048
Unrestricted net position	(36,633)	12,461	(24,172)
Total Net Position	268,895	12,461	281,356

Montclair State University
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Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has reviewed and evaluated all events and transactions from June 30, 2019 through January 22, 2020, 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
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Notes to Financial Statements
June 30, 2019 and 2018

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, 2019 are classified in the statements of net position as follows (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 28,975	\$ 23,768
Assets held under bond indenture agreements	31,104	51,082
Investments	<u>113,892</u>	<u>128,579</u>
	<u>\$ 173,971</u>	<u>\$ 203,429</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, 2019 and 2018, cash and cash equivalents were held by depositories and amounted to \$24.1 and \$9.7 million, respectively.

As of June 30, 2019 and 2018, \$250,000 was FDIC insured and \$23.9 and \$9.5 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, 2019 and 2018 was \$7.7 and \$3.9 million, respectively. These amounts are collateralized in accordance with Chapter 64 of Title 18A of New Jersey statutes. The Fund is unrated.

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

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, 2019, the University had the following investments and maturities (dollars in thousands):

Montclair State University
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Notes to Financial Statements
June 30, 2019 and 2018

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

Investment Type	Fair Value	Maturities (in years)		
		less than 1	1 - 5	greater than 5
U.S. treasuries	\$ 65,502	\$ -	\$ 65,502	\$ -
U.S. agencies	15,921	2,696	13,225	
Municipal bonds	850			850
Corporate bonds	26,429	4,130	22,299	
Mortgage securities	386		386	
Asset based securities	1,375		1,375	
Other fixed income securities	3,428		3,428	
Total	\$ 113,892	\$ 6,826	\$ 106,215	\$ 850

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
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Notes to Financial Statements
June 30, 2019 and 2018

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

Interest Rate Risk

Assets held under bond indenture agreements are not governed by the University's investment policies, but rather by the investment policies of New Jersey Educational Facilities Authority (the Authority). As of June 30, 2019, investments were in U.S. treasuries of \$6.0 million and money market funds of \$25.1 million. As of June 30, 2018, investments were in U.S. treasuries of \$22.6 million, and 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
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Notes to Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018 (in thousands):

Investment Type	Quality Rating	2019	2018
U.S. treasuries	AAA	\$ 65,502	\$ 61,528
U.S. agencies	AAA	15,921	10,569
Municipal bonds	AAA		680
Municipal bonds	AA		500
Municipal bonds	A	850	2,293
Corporate bonds	AAA		3,662
Corporate bonds	AA	9,055	13,069
Corporate bonds	A	17,374	24,654
Mortgage securities	AAA	386	1,341
Mortgage securities	A		1,092
Asset backed securities	AAA	434	2,154
Asset backed securities	A	941	933
Other fixed income securities	AAA	2,430	-
Other fixed income securities	AA	998	1,001
Other fixed income securities	A		5,100
		<u>\$ 113,892</u>	<u>\$ 128,579</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):

Montclair State University
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Notes to Financial Statements
June 30, 2019 and 2018

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

Concentration of Credit Risk (continued)

	<u>2019</u>	<u>2018</u>
Project and construction fund	\$ 9,804	\$ 30,250
Debt service fund for principal and interest	<u>21,300</u>	<u>20,832</u>
Assets Held Under Bond Indenture Agreements	<u><u>\$ 31,104</u></u>	<u><u>\$ 51,082</u></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

Montclair State University
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Notes to Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018, 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	2019		
		Level 1	Level 2	Level 3
Investments:				
U.S. treasuries	\$ 65,502	\$ 65,502	\$ -	\$ -
U.S. agencies	15,921	15,921	-	-
Municipal bonds	850	-	850	-
Corporate bonds	26,429	-	26,429	-
Mortgage securities	386	-	386	-
Asset backed securities	1,375	-	1,375	-
Other fixed income securities	<u>3,428</u>	<u>-</u>	<u>3,428</u>	<u>-</u>
Total investments	<u>\$ 113,892</u>	<u>\$ 81,423</u>	<u>\$ 32,468</u>	<u>\$ -</u>
Assets Held Under Bond Indenture:				
U.S. treasuries	\$ 6,036	\$ 6,036	\$ -	\$ -
Money market funds	<u>25,068</u>	<u>25,068</u>	<u>-</u>	<u>-</u>
Total assets held under bond indenture	<u>\$ 31,104</u>	<u>\$ 31,104</u>	<u>\$ -</u>	<u>\$ -</u>

Montclair State University
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Notes to Financial Statements
June 30, 2019 and 2018

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

Fair Value Measurement (continued)

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>

Montclair State University
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Notes to Financial Statements
June 30, 2019 and 2018

4. Capital Assets

Capital asset activity for the year ended June 30, 2019 is comprised of the following (dollars in thousands):

	Beginning Balance	Acquisitions and Other Increases	Dispositions and Other Decreases	Ending Balance
Depreciable assets:				
Infrastructure	\$ 45,956	\$ 475	\$ 21	\$ 46,410
Buildings and improvements	984,453	29,638	2	1,014,089
Equipment	251,646	11,749	20,455	242,940
Other	<u>32,378</u>	<u>2,170</u>	<u>5</u>	<u>34,543</u>
Total Depreciable Assets	<u>1,314,433</u>	<u>44,032</u>	<u>20,483</u>	<u>1,337,982</u>
Less accumulated depreciation on:				
Infrastructure	22,346	1,691	21	24,016
Buildings and improvements	278,436	25,264	2	303,698
Equipment	176,697	23,213	20,455	179,455
Other	<u>18,734</u>	<u>1,982</u>	<u>5</u>	<u>20,711</u>
Total Accumulated Depreciation	<u>496,213</u>	<u>52,150</u>	<u>20,483</u>	<u>527,880</u>
Depreciable Assets, Net	<u>818,220</u>	<u>(8,118)</u>	<u>-</u>	<u>810,102</u>
Nondepreciable assets:				
Land	37,821	-	-	37,821
Construction in progress	<u>57,528</u>	<u>53,210</u>	<u>44,458</u>	<u>66,280</u>
Total Nondepreciable Assets	<u>95,349</u>	<u>53,210</u>	<u>44,458</u>	<u>104,101</u>
Total Capital Assets, Net	<u>\$ 913,569</u>	<u>\$ 45,092</u>	<u>\$ 44,458</u>	<u>\$ 914,203</u>

Montclair State University
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Notes to Financial Statements
June 30, 2019 and 2018

4. Capital Assets (*continued*)

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	<u>30,391</u>	<u>1,987</u>	<u>-</u>	<u>32,378</u>
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	<u>16,909</u>	<u>1,825</u>	<u>-</u>	<u>18,734</u>
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	<u>28,568</u>	<u>50,894</u>	<u>21,934</u>	<u>57,528</u>
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>

Estimated costs to complete the projects classified as construction in progress as of June 30, 2019 and 2018 approximated \$84 and \$112.3 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, 2019 and 2018, accounts payable and accrued expenses consist of the following (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Vendors	\$ 8,499	\$ 6,471
Capital projects	5,967	6,157
Employees	10,873	10,569
Interest payable	9,634	9,897
Compensated absences	<u>6,110</u>	<u>6,282</u>
	<u>\$ 41,083</u>	<u>\$ 39,376</u>

6. Bonds Payable and Other Long-Term Debt

Bonds Payable

The Board of Trustees of the University, the New Jersey Board of Higher Education and the Authority have entered into various agreements whereby, although legal title remains with the State, the University is given use of buildings, improvements and equipment through enabling legislation and the University agrees to make lease payments equal to the related debt and interest payments of the underlying revenue bonds issued by the Authority. 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, 2019 and 2018 (dollars in thousands):

	<u>Interest rates</u>	<u>2019</u>	<u>2018</u>
New Jersey Educational Facilities Authority Revenue Bonds:			
Series 2006 J Revenue Bonds, due serially to 2021	3.75 - 4.25	\$ 17,695	\$ 24,160
Series 2007 A Revenue Bonds, due serially to 2021	5.25	1,955	2,540
Series 2008 J Revenue Bonds, due serially to 2018	3.00 - 5.00		675
Series 2014 A Revenue Bonds, due serially to 2044	3.00 - 5.00	182,045	185,250
Series 2015 D Revenue Bonds, due serially to 2036	3.75 - 5.00	69,520	69,520
Series 2016 B Revenue Bonds, due serially to 2038	3.00 - 5.00	<u>118,190</u>	<u>118,190</u>
Bonds payable		389,405	400,335
Plus: Bond premium		<u>16,047</u>	<u>16,807</u>
Total bonds payable		<u>\$ 405,452</u>	<u>\$ 417,142</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, 2019 and 2018 (dollars in thousands):

	<u>Interest rates</u>	<u>2019</u>	<u>2018</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	3,276	3,912
Series 2016 B Higher Education Capital Improvement Fund, due serially to 2022	3.00 - 5.50	2,160	2,233
Note payable for land purchase, due serially to 2019	4.75 - 5.00		647
New Jersey Environmental Infrastructure Trust, due serially to 2022	3.00 - 5.25	400	485
New Jersey Environmental Infrastructure due serially to 2022	3.00 - 5.25	292	363
2014 Higher Education Equipment Leasing Fund Program 032-10	5.00	77	94
2014 Higher Education Equipment Leasing Fund Program 032-11	5.00	77	94
Obligations under capital leases, due in equal monthly installments through 2020	1.14 - 4.53	<u>1,843</u>	<u>1,938</u>
Total other long-term debt		<u>\$ 8,170</u>	<u>\$ 9,811</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, 2019 (dollars in thousands):

	<u>Principal</u>	<u>Interest and fees</u>
Year ending June 30:		
2020	\$ 14,314	\$ 19,183
2021	15,401	18,450
2022	16,134	17,682
2023	14,828	16,994
2024	<u>13,746</u>	<u>16,324</u>
2020 - 2024 Subtotal	74,423	88,633
2025 - 2029	84,427	69,967
2030 - 2034	100,866	46,249
2035 - 2039	75,333	25,519
2040 - 2044	64,423	10,150
2045	<u>14,150</u>	<u> </u>
	<u><u>\$ 413,622</u></u>	<u><u>\$ 240,518</u></u>

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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, 2019 and 2018 (dollars in thousands):

	2019				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable and other					
long-term debt	\$ 426,953	\$ 1,029	\$ (14,360)	\$ 413,622	\$ 13,555
Compensated absences (see note 12)	8,361	859	(686)	8,534	6,111
Assets held on behalf of Federal					
government for loan programs	3,815		(3)	3,812	831
Net pension liability	207,673		(12,316)	195,357	
Other long term liability	5,909	69	(2,758)	3,220	769
Total Noncurrent Liabilities	<u>\$ 652,711</u>	<u>\$ 1,957</u>	<u>\$ (30,123)</u>	<u>\$ 624,545</u>	<u>\$ 21,266</u>

	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>

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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. 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.

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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 1/55th 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 1/60th 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 2018, the State's pension contribution for PERS and PFRS was less than the actuarial determined amount.

During the years ended June 30, 2019 and 2018, PERS members were required to contribute 7.50% and 7.34%, 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 2019 or 2018 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, 2019 totaled \$5 million and \$788 thousand, respectively and for the year ending June 30, 2018 totaled \$3.8 million and \$597 thousand, respectively.

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, 2018 ("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, 2019 and 2018, are as follows:

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8. Retirement Plans (*continued*)

	2019		
	PERS	PFRS	Total
Proportionate share of the net pension liability (\$)			
2018	\$ 172,619	\$ 22,738	\$ 195,357
2017	185,255	22,418	207,673
Proportionate share of the net pension liability (%)			
2018	0.728%	0.525%	
2017	0.722%	0.510%	
Deferred outflows of resources	28,142	5,961	34,103
Deferred inflows of resources	39,333	3,170	42,503
Pension expense	9,319	2,686	12,005

	2018		
	PERS	PFRS	Total
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

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, 2017 to June 30, 2018 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, 2019 and 2018, are as follows:

	2019		
	PERS	PFRS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	\$ 3,005	\$ -	\$ 3,005
Changes of assumptions	16,867	837	17,704
Net differences between projected and actual earnings on pension plan investments	488	333	821
Changes in proportionate share	2,061	3,177	5,238
Contributions subsequent to the measurement date	5,721	1,614	7,335
	<u>\$ 28,142</u>	<u>\$ 5,961</u>	<u>\$ 34,103</u>

The contributions paid to the plan subsequent to the measurement date will be recognized of the net pension liability in fiscal year 2020.

	PERS	PFRS	Total
Deferred Inflows of Resources:			
Differences between expected and actual experience	\$ 1,440	\$ 318	\$ 1,758
Changes of assumptions	34,743	2,681	37,424
Changes in proportionate share	3,150	171	3,321
	<u>\$ 39,333</u>	<u>\$ 3,170</u>	<u>\$ 42,503</u>

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8. Retirement Plans (continued)

	2018		
	PERS	PFRS	Total
Deferred Outflows of Resources:			
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	4,500	1,500	6,000
	<u>\$ 35,397</u>	<u>\$ 6,735</u>	<u>\$ 42,132</u>
	PERS	PFRS	Total
Deferred Inflows of Resources:			
Differences between expected and actual experience	\$ -	\$ 291	\$ 291
Changes of assumptions	26,228	1,907	28,135
Changes in proportionate share	4,623	283	4,906
	<u>\$ 30,851</u>	<u>\$ 2,481</u>	<u>\$ 33,332</u>

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$5,721 for PERS and \$1,614 for PFRS will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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:

	2019		
	PERS	PFRS	Total
Years ending:			
2019	\$ (533)	\$ 743	\$ 210
2020	(1,758)	536	(1,222)
2021	(6,013)	43	(5,970)
2022	(6,828)	(41)	(6,869)
2023	(1,780)	(104)	(1,884)
	<u>(16,912)</u>	<u>1,177</u>	<u>(15,735)</u>
Contributions paid subsequent to Measurement Date	<u>5,721</u>	<u>1,614</u>	<u>7,335</u>
	<u>\$ (11,191)</u>	<u>\$ 2,791</u>	<u>\$ (8,400)</u>

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8. Retirement Plans (*continued*)

Actuarial Assumptions

The University's net pension liability as of June 30, 2018 (based on July 1, 2017 actuarial valuation) and June 30, 2017 (based on July 1, 2016 actuarial valuation) were determined using the following assumptions:

	June 30, 2018	
	PERS	PFRS
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%

	June 30, 2017	
	PERS	PFRS
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%

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 2014 projection scale. Postretirement 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. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from 2012 to 2013 using Projection Scale AA and using a generational approach based on the plan actuary's 2014 projection scale thereafter.

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8. Retirement Plans (*continued*)

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 Combined Healthy Mortality Tables projected on a generational basis from the base year of 2000 to 2013 Projection Scale BB and plan actuary's modified 2014 projection scale thereafter. For preretirement accidental mortality, a custom table with representative rates was used and there is no mortality improvement assumed. 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 from the base year of 2012 to 2013 and the actuary's modified 2014 projection scale thereafter. Postretirement mortality rates for female service retirements and beneficiaries were based on the RP-2000 Combined Healthy Mortality Tables projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB and the plan actuary's modified 2014 projection scales thereafter. Disability mortality tables were based on a custom table with representative rates and no mortality improvement assumed.

The actuarial assumptions used in the July 1, 2017 and 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.

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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% at June 30, 2018 and June 30, 2017) 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, 2018 and 2017 are summarized in the following table:

Asset Class	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%

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8. Retirement Plans (*continued*)

Discount Rates

The discount rates used to measure the total pension liabilities were 5.66% and 6.51% for PERS and PFRS as of the Measurement Date and 5.00% and 6.14% as of June 30, 2018, 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 3.87% 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 50% 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 was projected to be available to make projected future benefit payments of current plan members through June 30, 2046 for PERS and June 30, 2062 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, 2018 and 2017 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):

2019				
	PERS		PFRS	
	Rate	Amount	Rate	Amount
1% decrease	4.66%	199,627	5.51%	26,735
Current discount rate	5.66%	172,619	6.51%	22,738
1% increase	6.66%	149,993	7.51%	19,447

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

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 1/55th 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 1/60th 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 2018, 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 \$75,954 and \$60,121 for the year ending June 30, 2019 and 2018, respectively.

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8. Retirement Plans (*continued*)

Net Pension Liability

As of June 30, 2019 and 2018, the State's proportionate share of the TPAF net present liability associated with the University was \$3.2 and \$3.6 million, respectively. The University's proportionate share was \$0.

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. 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 June 30, 2018 and 2017 actuarial valuations used the following actuarial assumptions, applied to all periods in the measurement:

Inflation Rate	2.25%
Salary increases:	
2011-2026	1.55 - 4.55%
Thereafter	2.00 - 5.45%
Investment rate of return	7.00%

Pre-retirement rates were based on the RP-2006 Employee White Collar Mortality Tables, set back 3 years for males and 5 years for females, projected on a generational basis from a base year of 2006 using a 60-year average of improvement rates based on Social Security data from 1953 to 2013. Post-retirement mortality rates were based on the RP-2006 Healthy Annuitant White Collar Mortality Tables, with adjustments as described in the latest experience study, projected on a generational basis from a base year of 2006 using a 60-year average of improvement rates based on Social Security data from 1953 to 2013. Disabled mortality rates were based on the RP-2006 Disabled Retiree Mortality Tables with rates adjusted by 90%. No mortality improvement is assumed for disabled retiree mortality.

For the July 1, 2016 actuarial valuation, pre-retirement, post-retirement and disabled mortality rates were based on experience of TPAF members reflecting mortality improvement on a generational basis based on a 60-year average of Social Security data from 1953 to 2013.

The actuarial assumptions used in the July 1, 2017 and July 1, 2016 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 4.86% and 4.25% as of June 30, 2018 and 2017, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% as of June 30, 2018 and 2017, respectively, and a municipal bond rate of 3.87% and 3.58% as of June 30, 2018 and 2017, 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 50% 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, 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, 2018 and 2017 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):

	2019		
	At 1% Decrease (3.86%)	At Current Discount Rate (4.86%)	At 1% Increase (5.86%)
Net Pension Liability	\$ 75,417,895	\$ 63,806,350	\$ 54,180,663
Allocation Percentage	<u>.0050245750%</u>	<u>.0050245750%</u>	<u>0.0050245750%</u>
University's proportionate share of the net pension liability	<u>\$ 3,778</u>	<u>\$ 3,197</u>	<u>\$ 2,714</u>

	2018		
	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>.0053540217%</u>	<u>.0053540217%</u>	<u>.0053540217%</u>
University's proportionate share of the net pension liability	<u>\$ 4,289</u>	<u>\$ 3,610</u>	<u>\$ 3,051</u>

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7% at June 30, 2018 and 2017) 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.

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

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, 2018 and 2017 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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Notes to Financial Statements
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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, 2018 and 2017 are as follows:

	<u>2018 State</u>	<u>2017 State</u>
Total pension liability	\$ 86,797,467	\$ 90,726,371
Plan fiduciary net position	<u>22,991,116</u>	<u>23,056,162</u>
Net Pension Liability	<u>\$ 63,806,352</u>	<u>\$ 67,670,209</u>
Plan fiduciary net position as a percentage of the total pension liability	26.49%	25.41%
	<u>University</u>	<u>University</u>
Net pension liability	\$ 63,806,350	\$ 67,670,209
Allocation percentage	<u>.0050245750%</u>	<u>.0053540217%</u>
University's Proportionate Share of the Net Pension Liability	<u>\$ 3,197</u>	<u>\$ 3,610</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 \$3,196,527 as of June 30, 2019 and \$3,609,875 as of June 30, 2018. 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 \$186,346 in 2019 and \$250,074 in 2018.

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Notes to Financial Statements
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8. Retirement Plans (continued)

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 (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, 2019 and 2018, ABP received employee contributions of approximately \$7.2 million and employer contributions of approximately \$11.5 million and \$11.6 million, respectively, which were based on participating employee salaries of \$143.9 million and \$144.7 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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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, 2019 and 2018 Prudential received employer and employee contributions as follows:

	2019	2018
Employer contributions	\$ 30,797	\$ 31,509
Employee contributions	56,461	57,326
Basis for contributions:		
Participant employee salaries	\$ 1,026,567	\$ 1,042,285

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, 2019 and 2018, the State recorded a liability of \$366.0 million and \$418.6 million, respectively, which represent 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, 2019 and 2018, the University's share of the special funding situation was 5.121253% and 5.118672%, respectively. At June 30, 2019 and 2018, the University's share of the Plan was 1.550809% and 1.489602%, respectively. The State is legally required to pay for the OPEB benefit coverage for eligible retirees. Therefore, the University is considered to be in a special funding situation as defined by GASB Statement 75 and the State is treated as a nonemployer contributing entity. Since the University does not contribute directly to the plan there is no total OPEB liability, deferred outflows of resources, or deferred inflows of resources to report in the financial statements.

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9. Postemployment Benefits Other than Pensions (continued)

For the year ended June 30, 2019 and 2018, the University recognized OPEB expense of \$16.8 million and \$24.6 million, respectively. 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 \$16.8 million and \$24.6 million, respectively.

Actuarial assumptions and other inputs – The State's liability associated with (reporting entity) at June 30, 2019 was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to the measurement date of June 30, 2018.

Inflation	2.50 %
Discount Rate	3.87 %
Salary Increases	
Through 2026	2.00 - 8.98 %
Thereafter	3.00 - 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-2006 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-2006 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-2006 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, 2017 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, 2013).

Health Care Trend Assumptions - For pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, this amount initially is 5.8% and decreases to a 5.0% long-term trend rate after eight 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 8.0% decreasing to a 5.0% long-term trend rate after seven 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.

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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, 2019 and June 30, 2018, such benefits amounted to approximately \$40.0 million and \$39.9 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 \$8.5 million and \$8.4 million as of June 30, 2019 and 2018, respectively. The liability is calculated based upon employees' accrued vacation and furlough leave as of June 30, 2019 and 2018, 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, 2019 and 2018, the University paid approximately \$214 thousand and \$300 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 \$235.0 million. The capital asset is being depreciated

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

in accordance with the University's capitalization policies and accumulated depreciation as of June 30, 2019 and 2018 was \$65.3 million and \$56.6 million, respectively. As of June 30, 2019 and 2018, the deferred inflow of resources on the concession arrangement was \$176.2 million and \$183.6 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:

2020	\$ 1,428
2021	1,185
2022	1,100
2023	1,108
2024	1,129
Thereafter	21,823

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 January 1, 2020. 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:

2020	\$ 4,355
2021	4,608
2022	4,591
2023	4,639
2024	4,698
Thereafter	35,145

Total expense for the year ending June 30, 2019 and 2018 was \$3,656 and \$3,262, respectively.

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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.

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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, 2019 and 2018, total gifts and grants given to the University from the Foundation amounted to \$6.5 million and \$4.8 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, 2019 and 2018, Foundation's investments totaled \$83.0 million and \$75.1 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
(A Component Unit of The State of New Jersey)

Notes to Financial Statements
June 30, 2019 and 2018

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. Annual 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 one contract that is effective through June 30, 2023. 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, 2019 and 2018

Schedule of University Contributions
(dollars in thousands)

	2019	
	PERS	PFRS
Contractually Required Contribution	\$ 5,720,979	\$ 1,613,773
Contributions in relation to the Contractually Required Contribution	5,720,979	1,613,773
Contribution Deficiency (Excess)	-	-
University Employee Covered Payroll (reporting date June 30, 2018)	32,313	2,420
Contributions as a percentage of Employee Covered Payroll	17.70%	66.68%

	2018	
	PERS	PFRS
Contractually Required Contribution	\$ 4,241,979	\$ 1,323,119
Contributions in relation to the Contractually Required Contribution	4,241,979	1,323,119
Contribution Deficiency (Excess)	-	-
University Employee Covered Payroll (reporting date June 30, 2017)	30,903	2,484
Contributions as a percentage of Employee Covered Payroll	13.73%	53.27%

	2017	
	PERS	PFRS
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%

	2016	
	PERS	PFRS
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%

	2015	
	PERS	PFRS
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%

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

Required Supplementary Information (Unaudited)
June 30, 2019 and 2018

**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
	%	\$			
2019 (2018)	0.73%	\$ 172,619	\$ 32,313	534.21%	22.11%
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
	%	\$			
2019 (2018)	0.525%	\$ 22,738	\$ 2,420	939.54%	25.84%
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
	%	\$			
2019 (2018)	0.005%	\$ 3,197	\$ -	0.00%	26.49%
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%

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 which information is available.

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

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, 2019	Year Ended June 30, 2018
University's proportion of the total OPEB Liability	0.00%	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	\$ 366,011,934	\$ 418,649,617
Total OPEB liability	\$ 23,601,362,208	\$ 28,104,795,207
University's covered-employee payroll	\$ 151,734,073	\$ 126,232,049
University's proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	0.00%	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.

Montclair State University
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Notes to Required Supplementary Information (Unaudited)
June 30, 2019 and 2018

Pensions

Benefit Changes

None.

Changes of Assumptions

PERS

The discount rate changed from 5.00% as of June 30, 2017 to 5.66% as of June 30, 2018.

PFRS

The discount rate changed from 6.14% as of June 30, 2017 to 6.51% as of June 30, 2018.

Post-Retirement Benefits

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.