



NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Basic Financial Statements, Management's Discussion
and Analysis, Required Supplementary Information and Schedules of
Expenditures of Federal and State of New Jersey Awards

June 30, 2018

(With Independent Auditors' Reports Thereon)

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

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Independent Auditors' Report

The Board of Trustees
New Jersey City University:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of New Jersey City University (the University), a component unit of the State of New Jersey, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(b) to the financial statements, on July 1, 2017, the University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 10 and the schedules of employer contributions, schedules of proportionate share of the net pension liability, and schedule of proportionate share of the total OPEB liability on pages 49 through 51, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

March 29, 2019

NEW JERSEY CITY UNIVERSITY
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Management's Discussion and Analysis (Unaudited)
June 30, 2018 and 2017

Introduction

The following management's discussion and analysis (MD&A) provides an analytical overview of the financial position of New Jersey City University (the University or NJCU), a component unit of the State of New Jersey (the State), as of June 30, 2018 and 2017 and its results of operations for the fiscal years then ended, with fiscal year 2016 data presented for comparative purposes. Management has prepared this MD&A and the financial statements and related notes to the financial statements in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) for public colleges and universities.

University Overview

Since its opening in 1929, the University has been evolving as a place of higher education in the context of a dynamic, ethnically diverse urban environment. The mission of the University is "to provide a diverse population with an excellent university education." Its vision is to become a nationally recognized leader in urban education. The University, as an urban institution, is committed to the improvement of the educational, intellectual, cultural, socio-economic, and physical environment of the surrounding urban region. Although the University's mission remains the same, its physical presence has changed dramatically. The size of the campus has expanded significantly; the number of buildings and facilities have increased from one structure to 24. The academic focus has expanded from normal school training to 44 undergraduate degree programs, 28 master's and post-master's level programs, and 3 doctoral programs offered in three colleges and the School of Business. Degree and certificate programs have been developed in Business (MBA, BS/MS Bridge Program in Accounting and Finance), the Arts (MFA in Media Production), National Security Studies, Geoscience, Education, Nursing (accelerated second baccalaureate in nursing), and Women and Gender Studies. The University has over 50 partnerships with colleges and universities in 17 countries and has partnered with four international institutions to develop four joint-degree programs. Coincident with building up its academic departments, the University has expanded its faculty, emphasized accreditation for its programs, created partnerships with local high schools, and raised the average standardized test score profiles of its incoming freshmen during the past few years. NJCU is one of just three institutions of higher learning in New Jersey to be recognized as top producer of U.S. Fulbright students for 2017-2018. In fiscal year 2018, four NJCU students and alumni were awarded the prestigious and highly competitive Fulbright U.S. Student Program awards. In the past four years, NJCU has sent 15 Fulbright awardees abroad.

Since 1929, the student body has grown and diversified from 330 New Jersey residents to close to 6,300 undergraduate and 1,800 graduate students from across New Jersey, the United States, and countries around the world. The student body reflects the social and cultural diversity of the New Jersey/New York metropolitan area. Consistent with national demographics, women represent 59% of the undergraduate student body. The University has also set up program initiatives to maintain the affordability of its tuition in comparison with other universities within the state of New Jersey and across the nation. Ongoing efforts towards enhancing student support programs and offerings have been geared towards providing students with financial aid and scholarship awards for eligible students, strengthened internship opportunities and partnerships as well as expanded study abroad and career placement programs. The University's tuition ranks among the best values in the New Jersey state university system. During the past fiscal year, the University launched the *NJCU Debt-Free Promise Program*, which aims to make a college education more accessible and affordable for New Jersey residents who are admitted to the University from high school, attend full time, and are from families with household incomes of \$60,000 or less. For the fiscal year ended June 30, 2018, the University granted

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approximately \$500,000 to students who qualified for this program. For the fiscal year ended June 30, 2017, the University granted approximately \$465,000 to students who qualified for this program.

The New Jersey City University Foundation (the Foundation) was established as a nonprofit corporation to provide an independent instrument to raise and control funds from donors other than the State, with its primary purpose to support the mission of the University. The Foundation qualifies under Section 501(c)(3) of the Internal Revenue Code and is exempt from both federal and State taxes. Because the Foundation's resources have historically been used only for the benefit of the University, the Foundation is considered a component unit and is discretely presented in the University's financial statements.

Financial Statements

The University's financial report includes three financial statements: the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

GASB Statement No. 35 (GASB 35), *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, establishes standards for external financial reporting for public colleges and universities requiring that financial statements be presented with the focus placed on the University as a whole. GASB Statement No. 61, *The Financial Reporting Entity, Omnibus an amendment of GASB Statements No. 14 and No. 34*, establishes criteria for assessing whether certain organizations should be reported as a component unit of the financial reporting entity and has resulted in the inclusion of the Foundation's consolidated financial statements in the University's financial statements.

As of July 1, 2017, the University has adopted GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. This guidance establishes standards for the measurement, recognition and reporting of the OPEB plans. 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 by GASB 75. The State has recorded the University's proportion of the OPEB liability on its respective financial statements. The University has recognized OPEB expense and an off-setting State appropriation of approximately \$13.3 million as a result of the adoption of GASB 75.

The University follows GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* (GASB 68), which requires the total pension liability and pension expense of a defined benefit pension plan to be recorded on the financial statements of state and local governmental employers. Historically, the State of New Jersey (the State) provided the contributions to the plan while seeking reimbursement from the University for the University's non-State-authorized positions. The University recorded the fringe benefit revenue (100% of the State-authorized positions) and expense (100% of State-authorized positions plus non-State-authorized positions reimbursed to the State of New Jersey) in its financial statements.

With respect to the Teachers' Pension and Annuity Fund (TPAF), the State determined TPAF met the "special funding situation" included in GASB 68 and the State recorded the University's proportion of the net pension liability on its respective financial statements. With respect to the Public Employees' Retirement System (PERS), the State treats the University as a separate employer. Thus, for financial reporting purposes, the University records on its financial statements its proportion of the net pension liability and related deferred inflows and deferred outflows of resources as determined by the State. However, the State has communicated

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to the Colleges that the GASB 68 pension liability "allocations do not impact state laws or past funding arrangements that have been established annually in the State budget". The State funds the contributions to the plans directly and the University records revenues related to that contribution through the annual fringe benefit appropriation.

Statements of Net Position

The Statement of Net Position presents the University's financial position at the end of the fiscal year. Assets, excluding capital assets, are generally carried at estimated fair value. Capital assets are carried at cost and are depreciated over their respective useful lives. Assets are classified as current and noncurrent. Current assets generally are those assets considered to be convertible to cash within one year. The University's current assets consist primarily of cash, short-term investments, including the State of New Jersey Cash Management Fund, restricted deposits held with bond trustees, and student, grants, and other receivables. The University's noncurrent assets consist primarily of capital assets, the noncurrent portion of restricted deposits held with bond trustees and student loans. Net position is one indicator of the financial condition of the University, while the change in net position during the year is a measure of whether the overall condition has improved or worsened during the year.

Deferred outflows of resources are a consumption of net position by the University that is applicable to a future reporting period. The University's deferred outflows of resources consist of bond deferred refunding amounts and changes in proportion of the allocated pension liability and differences in actuarial amounts used to calculate the pension liability.

Liabilities are also classified as current and noncurrent. Current liabilities are those liabilities due and anticipated to be paid within the upcoming fiscal year. The University's current liabilities consist primarily of accounts payable, accrued benefits and the current portion of long-term debt, while noncurrent liabilities consist primarily of the noncurrent portion of long-term debt and the pension liability.

Deferred inflows of resources are an acquisition of net position by the University that is applicable to a future reporting period. The University's deferred inflows of resources are composed of changes in proportion of the allocated pension liability and differences in actuarial amounts used to calculate the pension liability.

Net position is the residual interest in the University's assets after the liabilities are deducted. Net position is classified into three categories: net investment in capital assets, restricted expendable and unrestricted. Net investment in capital assets reflects the University's equity in capital assets. Restricted expendable net position includes funds for debt service and government loans that are subject to externally imposed restrictions governing their use. Unrestricted net position is available to the University for general purposes and operational needs.

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A summary of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30, 2018, 2017 and 2016 follows:

	<u>2018</u>	<u>2017</u> (In millions)	<u>2016</u>
Assets:			
Cash and investments	\$ 22.0	33.9	40.0
Receivables	18.5	24.6	14.6
Restricted deposits and student loans	22.0	27.9	31.7
Capital assets, net	<u>247.5</u>	<u>239.0</u>	<u>225.3</u>
Total assets	<u>\$ 310.0</u>	<u>325.4</u>	<u>311.6</u>
Deferred outflows of resources	\$ 37.2	42.0	21.8
Liabilities:			
Current liabilities	\$ 26.7	32.7	31.7
Long-term debt, net	166.4	173.7	179.1
Pension liability	150.8	169.3	136.2
Other noncurrent liabilities	<u>13.1</u>	<u>9.1</u>	<u>5.8</u>
Total liabilities	<u>\$ 357.0</u>	<u>384.8</u>	<u>352.8</u>
Deferred inflows of resources	\$ 21.5	0.3	1.0
Net position:			
Net investment in capital assets	\$ 86.1	74.0	57.4
Restricted expendable	5.2	5.1	5.0
Unrestricted	<u>(122.6)</u>	<u>(96.8)</u>	<u>(82.8)</u>
Total net position	<u>\$ (31.3)</u>	<u>(17.7)</u>	<u>(20.4)</u>

Statements of Net Position – Financial Highlights

As of June 30, 2018, the University's total assets decreased by \$15.4 million to \$310.0 million from \$325.4 million as of June 30, 2017. This decrease is primarily attributable to an \$11.9 million decrease in cash and investments primarily due to debt payments and payments to suppliers, a decrease of \$8.9 million in grants receivables due to the Science Building extension grant in prior year and a decrease of \$5.9 million in restricted deposits due to the drawdown of funds. These decreases were partially offset by an \$8.5 million increase in net capital assets related to improvements to the Science Building, the renovation of the nursing facilities and improvements to other campus buildings and an increase in other receivables of \$2.8 million.

As of June 30, 2017, total assets increased by \$13.8 million as compared to June 30, 2016, primarily due to an increase of \$13.7 million in capital assets related to the Science Building and nursing projects and increases of \$4.4 million in grant receivables and \$2.4 million in receivables from the State. These increases were partially offset by decreases of \$6.1 million in cash and investments and \$3.8 million in restricted deposits.

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The University follows GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* (GASB 68), which requires the University to record its proportionate share of the net pension liability and pension expense as determined by the State for the PERS defined benefit plan. The changes in net pension liability adjusted for deferred outflows and inflows of resources result in pension expense. Prior to 2015, the University only recognized pension expense for PERS up to the amount contributed to the plan by the State as indicated within the fringe benefit rate provided by the State. Historically, the State has directly covered pension contributions on behalf of the University, and there are no plans to change that process.

The impact of GASB 68 on the University's financial statements has been a reduction to its unrestricted net position of \$141.5 million, \$134.3 million and \$122.5 million as of June 30, 2018, 2017 and 2016, respectively.

With respect to the TPAF, the State determined that TPAF met the 'special funding situation' included in GASB 68, and the State has recorded the University's proportionate share of the net pension liability and pension expense on its financial statements.

The University's deferred outflows decreased by \$4.8 million as of June 30, 2018 and increased by \$20.2 million as of June 30, 2017. The University's deferred inflows increased by \$21.2 million as of June 30, 2018 and decreased by \$0.7 million as of June 30, 2017. These changes were primarily due to changes in GASB 68-related deferrals.

As of June 30, 2018, the University's total liabilities decreased by \$27.8 million to \$357.0 million from \$384.8 million as of June 30, 2017. This decrease is primarily attributable to a reduction of \$18.5 million related to the updated GASB 68 valuation of the net pension liability allocated to the University as a participant in the PERS and a decrease of \$7.3 million in long-term debt as a result of scheduled debt service.

Total liabilities increased by \$32.0 million as of June 30, 2017, primarily due to a \$33.1 million increase in the GASB 68 valuation of the net pension liability allocated to the University as a participant in the PERS.

Statements of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. The Statement of Revenues, Expenses, and Changes in Net Position is categorized into three sections: operating revenues, operating expenses, and net nonoperating revenues (expenses). The net difference between operating and nonoperating revenues and expenses and other changes in net position results in an increase or decrease in the University's net position. The change in net position indicates whether the overall financial condition of the University has improved or declined during the year.

Generally, operating revenues are earned in exchange for providing goods or services. Operating revenues of the University consist of net tuition and fees revenue, as well as Federal, State of New Jersey, and local grant revenue. Operating expenses are primarily incurred to carry out the University's mission, goals and objectives, and costs related to the operation and maintenance of its facilities and auxiliary services. The State of New Jersey appropriation and interest income are classified as nonoperating revenue. Nonoperating expenses consist of interest expense and gifts to the Foundation.

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The following is the Statement of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2018, 2017 and 2016.

	<u>2018</u>	<u>2017 ⁽¹⁾</u> (In millions)	<u>2016 ⁽¹⁾</u>
Operating revenues:			
Student revenues, net	\$ 58.6	62.7	61.4
Grants and contracts	40.5	37.5	36.5
Other	2.8	2.5	2.4
Total operating revenues	<u>101.9</u>	<u>102.7</u>	<u>100.3</u>
Operating expenses	<u>175.5</u>	<u>161.8</u>	<u>160.3</u>
Operating loss	<u>(73.6)</u>	<u>(59.1)</u>	<u>(60.0)</u>
Nonoperating revenues (expenses):			
State of New Jersey appropriations	24.2	24.2	24.2
State of New Jersey fringe benefit appropriations, including OPEB	37.4	24.2	25.6
Investment income	0.3	0.4	0.4
Interest expense	(6.1)	(6.4)	(4.6)
Other nonoperating revenues (expenses)	0.2	(0.2)	1.5
Net nonoperating revenues	<u>56.0</u>	<u>42.2</u>	<u>47.1</u>
Capital grants	4.0	19.5	6.9
Net asset transfer to New Jersey City University Foundation	<u>—</u>	<u>—</u>	<u>(8.9)</u>
(Decrease) increase in net position	<u>(13.6)</u>	<u>2.6</u>	<u>(14.9)</u>
Net position as of beginning of year	<u>(17.7)</u>	<u>(20.3)</u>	<u>(5.5)</u>
Net position as of end of year	<u>\$ (31.3)</u>	<u>(17.7)</u>	<u>(20.4)</u>

(1) The 2017 and 2016 amounts have not been updated to reflect the adoption of GASB 75 in 2018.

Financial Highlights – Revenues

The University derives its revenue from a variety of sources. Student net revenues, State appropriations and grants and contracts are the primary sources of funding for the University's academic programs. Student revenues totaled \$58.6 million, \$62.7 million and \$61.4 million for the fiscal years ended June 30, 2018, 2017 and 2016, respectively. Tuition rates were increased by 2.90%, 2.25%, and 3.00% for fiscal years 2018, 2017 and 2016, respectively, while enrollment declined slightly in each year due to softness in undergraduate enrollment and lower than expected transfer matriculation. The \$4.1 million decrease in net student revenues in fiscal year 2018 was primarily due to higher Federal Pell Grants (\$1.1 million) and New Jersey Tuition Aid

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Grants (\$2.7 million) in financial aid awards, which coincides with the increase in federal and state grants of \$3.0 million in 2018.

Capital grants totaled \$4.0 million, \$19.5 million and \$6.9 million for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, and were primarily related to the Science Building renovation project.

Financial Highlights – Expenses

Operating expenses totaled \$175.5 million, \$161.8 million and \$160.3 million in 2018, 2017 and 2016, respectively.

Salaries and benefits, excluding amounts related to accounting for under GASB 68 and 75, totaled \$114.1 million in 2018, representing approximately 65% of operating expenses, and increased by \$4.8 million in 2018, primarily due to the impact of several union contract settlements by the State. These costs totaled \$109.3 million in 2017, which was \$3.2 million lower than 2016 as a result of cost control initiatives and lower benefit costs.

Pension costs related to GASB 68 totaled \$12.1 million in 2018, \$15.7 million in 2017 and \$11.8 million in 2016.

The increase in operating costs between 2018 and 2017 is primarily due to the adoption of GASB 75, as of July 1, 2017. OPEB costs related to the adoption of GASB 75 totaled \$13.3 million in 2018.

Capital Projects

A key component of the University's Transforming Lives – Strategic Plan 2013 – 2018 (the Plan) is to enhance the environment for teaching, learning, living and working by creating a state-of-the-art academic campus. This Plan guides the University's strategic allocation of existing resources to academic and residential buildings, infrastructure improvement, and technological endeavors. Initiatives undertaken are geared towards enhancing student experience, enriching the surrounding neighborhood, and addressing the State of New Jersey's workforce and economic development goals and priorities.

In fiscal year 2018, the University incurred construction expenditures totaling \$18.2 million, reflecting the University's continued commitment to enhancing the main campus as well as developing the West Campus property. On the main campus, several major capital additions were funded via internal capital funds, as well as bonds issued through the New Jersey Educational Facilities Authority (NJEFA).

As of June 30, 2018, significant projects under construction or in the design stage include:

- Renovation of the Science Building, which included state of the art labs and classrooms and a new vivarium and greenhouse, to be completed in 2019 at a cost of \$44 million, of which \$32 million was funded by a State capital grant and \$10 million by bond proceeds;
- Transformation and expansion of the Nursing facilities into a Nursing Education Center which began in 2018 and is expected to cost \$5.2 million, to be funded by revenue bonds, one third of which the University is responsible for; and
- West Campus infrastructure and roadway project which improves the connection of the main campus to the West Campus and is expected to be completed in phases at a cost of \$12 million as part of the University Place development. Expenditures to date have been funded by bond proceeds.

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Moody's Investors Service and Fitch Ratings Services have assigned debt ratings of "A3" and "A", respectively, to the University. Bonds that are rated "A" possess many favorable attributes and are considered upper-medium-grade obligations. Factors providing security to principal and interest are considered adequate, while the resources to absorb future financial challenges are not as strong as Aaa or Aa rated institutions.

Economic Outlook

The University remains very dependent on the State for operating and fringe benefit support, as State appropriations, excluding GASB 75, represented 31% of revenues in 2018. The level of State support has remained flat since 2016 and is expected to continue to remain flat. In addition, the impact on the University's financial results from absorbing pension costs from the State as well as salary increases has been challenging. The State's high debt load and unfunded liabilities related to the public pension system may limit the State's budgetary flexibility in the future.

With a price sensitive student base, the University has limited its annual tuition increase to 2.7% over the last three years and has seen a slight decline in enrollment each year.

In light of these financial challenges, the University has initiated several strategies to improve student enrollment and retention by investing additional resources in advancement and marketing activities to increase and diversify fundraising and other sources of revenue and further engage the business community in University partnerships and programs. The University also plans to expand its satellite campus and academic programs as the cornerstone educational partner in the redevelopment of the Fort Monmouth property for students who have completed two years at Brookdale Community College in Monmouth County.

Another University strategy is to create a more inviting, student friendly campus as part of its urban mission, as evidenced by the recent renovation and expansion of its Science building and the redesign of its nursing facilities. In addition, the University, in conjunction with the City of Jersey City through public private partnerships, is developing University Place, a master mixed-use redevelopment plan that is designed to transform its 22 acre west campus into a university urban village that will include residential units, a performing arts center, restaurants and parking.

The University will continue to monitor and evaluate institutional operations to identify and implement efficiencies as part of a more rigid budget and planning process.

Additional information regarding State budget issues and the State's financial condition may be found on the State's Treasury department website.

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Statements of Net Position

Business-Type Activities – University Only

June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,624	27,585
Investments	16,340	6,340
Receivables:		
Students, net of allowance of \$5,609 and \$4,722 in 2018 and 2017, respectively	3,600	4,176
Grants	978	9,866
State of New Jersey	4,170	3,534
Due from New Jersey City University Foundation and affiliate	5,302	3,279
Other	4,448	3,759
Total receivables	<u>18,498</u>	<u>24,614</u>
Restricted deposits held with bond trustees	<u>10,809</u>	<u>7,165</u>
Total current assets	<u>51,271</u>	<u>65,704</u>
Noncurrent assets:		
Restricted deposits held with bond trustees	10,635	20,059
Student loans, net of allowance of \$918 and \$889 in 2018 and 2017, respectively	603	639
Capital assets, net of accumulated depreciation of \$136,815 and \$128,082 in 2018 and 2017, respectively	<u>247,483</u>	<u>239,001</u>
Total noncurrent assets	<u>258,721</u>	<u>259,699</u>
Total assets	<u>\$ 309,992</u>	<u>325,403</u>
Deferred Outflows of Resources		
Deferred amounts from pensions	\$ 30,836	35,247
Deferred amounts from debt refunding	<u>6,339</u>	<u>6,722</u>
Total deferred outflows of resources	<u>\$ 37,175</u>	<u>41,969</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses:		
Vendor	\$ 6,508	9,435
Payroll	2,239	2,092
Compensated absences, current portion	4,439	4,386
Accrued interest	<u>3,265</u>	<u>3,363</u>
Total accounts payable and accrued expenses	16,451	19,276
Long-term debt, current portion, net	7,782	11,195
Unearned student tuition and fees	<u>2,447</u>	<u>2,238</u>
Total current liabilities	<u>26,680</u>	<u>32,709</u>
Noncurrent liabilities:		
Long-term debt, noncurrent portion, net	166,418	173,716
Net pension liability	150,813	169,296
Other noncurrent liabilities	9,207	5,222
Unearned grant revenue	<u>3,873</u>	<u>3,901</u>
Total noncurrent liabilities	<u>330,311</u>	<u>352,135</u>
Total liabilities	<u>\$ 356,991</u>	<u>384,844</u>
Deferred Inflows of Resources		
Deferred amounts from pensions	\$ 21,543	271
Net Position		
Net investment in capital assets	\$ 86,110	74,030
Restricted expendable:		
Debt service principal	4,900	4,595
Debt service reserve	—	230
Perkins loans	255	251
Unrestricted	<u>(122,631)</u>	<u>(96,848)</u>
Total net position	<u>\$ (31,366)</u>	<u>(17,742)</u>

See accompanying notes to basic financial statements.

**NEW JERSEY CITY UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

(A Component Unit of New Jersey City University)

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(In thousands)

Assets	2018	2017
Cash and cash equivalents	\$ 1,204	1,156
Other receivables	656	389
Prepaid expenses	124	120
Due from New Jersey City University	462	20
Contributions receivable	2,623	2,541
Investments	637	603
Restricted deposits held by bond trustees	10,294	8,362
Restricted investments	12,697	11,986
Capital assets, net	<u>51,156</u>	<u>52,646</u>
Total assets	\$ <u>79,853</u>	<u>77,823</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued expenses	\$ 182	238
Accrued interest	1,179	1,180
Due to New Jersey City University	5,302	3,279
Annuities payable	12	16
Long-term debt, net	<u>51,251</u>	<u>51,220</u>
Total liabilities	<u>57,926</u>	<u>55,933</u>
Net assets:		
Unrestricted:		
Foundation operating and board designated	118	311
West Campus Housing, LLC	<u>6,302</u>	<u>7,050</u>
Total unrestricted net assets	6,420	7,361
Temporarily restricted	11,370	10,537
Permanently restricted	<u>4,137</u>	<u>3,992</u>
Total net assets	<u>21,927</u>	<u>21,890</u>
Total liabilities and net assets	\$ <u>79,853</u>	<u>77,823</u>

See accompanying notes to consolidated financial statements.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Statements of Revenues, Expenses, and Changes in Net Position

Business-Type Activities – University Only

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Operating revenues:		
Student revenues:		
Tuition and fees	\$ 92,626	91,890
Auxiliary enterprises	8,134	8,291
Less scholarship allowances	(42,188)	(37,492)
Total student revenues, net	58,572	62,689
Federal grants	22,310	21,983
State of New Jersey grants	18,149	15,553
Private and other grants	73	—
Other operating revenues	2,826	2,492
Total operating revenues	101,930	102,717
Operating expenses:		
Instruction	72,283	67,073
Research and programs	16	91
Academic support	14,468	13,703
Student services	23,198	19,687
Institutional support	27,139	23,572
Operation and maintenance of plant	21,082	18,410
Student aid	2,262	2,299
Real estate-related activity	1,883	3,749
Auxiliary enterprises	3,529	3,546
Depreciation	9,649	9,648
Total operating expenses	175,509	161,778
Operating loss	(73,579)	(59,061)
Nonoperating revenues (expenses):		
State of New Jersey appropriations	24,154	24,154
State of New Jersey fringe benefit appropriations	24,104	24,229
State of New Jersey OPEB appropriation (note 9)	13,254	—
Gifts to affiliates	(1,024)	(1,009)
Investment income	277	334
Interest expense	(6,135)	(6,414)
Other nonoperating income, net	1,298	857
Net nonoperating revenues	55,928	42,151
Loss before other changes	(17,651)	(16,910)
Capital grants	4,027	19,520
(Decrease) increase in net position	(13,624)	2,610
Net position as of beginning of year	(17,742)	(20,352)
Net position as of end of year	\$ (31,366)	(17,742)

See accompanying notes to basic financial statements.

**NEW JERSEY CITY UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

(A Component Unit of New Jersey City University)

Consolidated Statement of Activities

Year ended June 30, 2018

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenues:				
Support from public contributions	\$ 204	656	145	1,005
Development grants and contracts	—	300	—	300
Contributed services and facilities	1,024	—	—	1,024
Interest and dividend income	84	379	—	463
Student housing revenues	4,771	—	—	4,771
Special events	107	—	—	107
Other income	34	—	—	34
Fair value adjustment of split interest agreements	—	20	—	20
Appreciation in fair value of investments	22	147	—	169
Gift assessment	68	(68)	—	—
Net assets released from restrictions in satisfaction of program restrictions	601	(601)	—	—
Total support and revenues	<u>6,915</u>	<u>833</u>	<u>145</u>	<u>7,893</u>
Expenses:				
Program services	613	—	—	613
Student housing	4,395	—	—	4,395
Management and general	1,043	—	—	1,043
Special events	141	—	—	141
Fundraising	143	—	—	143
Depreciation and amortization	1,521	—	—	1,521
Total expenses	<u>7,856</u>	<u>—</u>	<u>—</u>	<u>7,856</u>
Change in net assets	(941)	833	145	37
Net assets as of beginning of year	<u>7,361</u>	<u>10,537</u>	<u>3,992</u>	<u>21,890</u>
Net assets as of end of year	<u>\$ 6,420</u>	<u>11,370</u>	<u>4,137</u>	<u>21,927</u>

See accompanying notes to consolidated financial statements.

**NEW JERSEY CITY UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

(A Component Unit of New Jersey City University)

Consolidated Statement of Activities

Year ended June 30, 2017

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenues:				
Support from public contributions	\$ 271	663	17	951
Development grants and contracts	—	46	—	46
Contributed services and facilities	1,009	—	—	1,009
Interest and dividend income	74	346	—	420
Student housing revenues	4,534	—	—	4,534
Special events	223	—	—	223
Other income	52	—	—	52
Fair value adjustment of split interest agreements	—	(16)	—	(16)
Appreciation in fair value of investments	103	273	—	376
Gift assessment	62	(62)	—	—
Net assets released from restrictions in satisfaction of program restrictions	932	(932)	—	—
Total support and revenues	<u>7,260</u>	<u>318</u>	<u>17</u>	<u>7,595</u>
Expenses:				
Program services	1,148	—	—	1,148
Student housing	4,488	—	—	4,488
Management and general	746	—	—	746
Special events	438	—	—	438
Fundraising	731	—	—	731
Depreciation and amortization	1,473	—	—	1,473
Total expenses	<u>9,024</u>	<u>—</u>	<u>—</u>	<u>9,024</u>
Change in net assets	(1,764)	318	17	(1,429)
Net assets as of beginning of year	<u>9,125</u>	<u>10,219</u>	<u>3,975</u>	<u>23,319</u>
Net assets as of end of year	\$ <u>7,361</u>	<u>10,537</u>	<u>3,992</u>	<u>21,890</u>

See accompanying notes to consolidated financial statements.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

Business-Type Activities – University Only

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Cash flows from operating activities:		
Student receipts	\$ 51,707	55,443
Grants and contracts	41,223	41,032
Payments for salaries and benefits	(91,940)	(90,678)
Payments to suppliers	(24,354)	(18,903)
Payments for utilities	(3,359)	(3,494)
Payments to students	(2,261)	(2,299)
Loans issued to students	(123)	(67)
Collection of loans from students	129	166
Auxiliary enterprises	5,765	5,761
Other	5,151	(896)
Net cash used by operating activities	(18,062)	(13,935)
Cash flows from noncapital financing activities:		
State of New Jersey appropriations	24,154	24,154
Net cash provided by noncapital financing activities	24,154	24,154
Cash flows from capital financing activities:		
Proceeds from capital debt	—	1,757
Capital grants	12,465	9,464
Purchase of capital assets	(17,677)	(17,344)
Principal paid on capital debt	(12,308)	(7,419)
Interest paid on capital debt	(6,313)	(6,578)
Deposits withdrawn from bond trustees	16,223	13,354
Deposits made with bond trustees	(10,443)	(14,534)
Net cash used by capital financing activities	(18,053)	(21,300)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	—	13,000
Purchases of investments	(10,123)	(47)
Interest on investments	123	69
Net cash (used by) provided by investing activities	(10,000)	13,022
Net (decrease) increase in cash and cash equivalents	(21,961)	1,941
Cash and cash equivalents as of beginning of year	27,585	25,644
Cash and cash equivalents as of end of year	\$ 5,624	27,585
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (73,579)	(59,061)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Provision for bad debts	1,561	1,386
Amortization expense	(225)	(216)
State of New Jersey paid fringe benefits expense	36,714	23,870
Depreciation expense	9,649	9,648
Changes in assets and liabilities:		
Receivables	(3,264)	(1,363)
Other liabilities, current and noncurrent	115	(3,410)
Unearned capital reimbursement	4,040	—
Accounts payable and accrued expenses	(455)	(704)
Unearned revenue from grants	(28)	3,889
Unearned revenue from student tuition and fees	209	205
Net pension liability and related deferrals	7,201	11,821
Net cash used by operating activities	\$ (18,062)	(13,935)
Supplemental disclosures:		
Gifts made to affiliates	\$ 1,024	1,009
State of New Jersey fringe benefit appropriations, including OPEB	36,714	23,870
Capital leases	1,908	2,811

See accompanying notes to basic financial statements.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018 and 2017

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

New Jersey City University (the University or NJCU) is a public institution of higher education in the State of New Jersey (the State) and an instrumentality of the State with a high degree of autonomy. The University is considered a component unit of the State for financial reporting purposes and its financial statements are included in the State's Comprehensive Annual Financial Report.

Opened in 1929 and granted university status in 1998, NJCU is dedicated to urban programs designed to meet the economic, social and educational needs of the surrounding urban region and beyond. The urban mission is unique among the State's colleges and universities and NJCU has embarked on a plan designed to make it the premier Cooperative Education University in the State. The University offers 44 undergraduate, 28 master and post-master and three doctoral programs, which are housed in four colleges and schools on a 52 acre campus and a harborside waterfront location in Jersey City. NJCU has approximately 6,300 undergraduate and 1,800 graduate students, who reflect the social and cultural diversity of the metropolitan area, 250 full time faculty and 650 staff.

New Jersey City University Foundation (the Foundation) is a separate tax exempt corporation, which serves primarily as a fundraising entity to supplement the resources available to the University in support of its mission. The Foundation is reported as a discretely presented unit in the University's financial report. See note 14 for further details about the Foundation's activities.

(b) Summary of Significant Accounting Policies

(i) Basis of Presentation

The accounting policies of the University conform to generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34) established state and local government financial reporting requirements and set forth the format and contents of the basic financial statements, certain related notes to the financial statements, and required supplementary information including management's discussion and analysis. GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* (GASB 35) established standards for external financial reporting for public colleges and universities and requires 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 used to finance the acquisition, construction, or improvement of those assets.
- *Restricted – expendable:* Assets whose use by the University is subject to externally imposed stipulations as specified by creditors, grantors or the State that can be fulfilled by actions of the University pursuant to the stipulations, including Perkins loans and restricted deposits held with bond trustees.
- *Unrestricted:* Net position not subject to externally imposed stipulations that may be designated for specific purposes by action of management or the board of trustees. Substantially all

NEW JERSEY CITY UNIVERSITY
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Notes to Basic Financial Statements

June 30, 2018 and 2017

unrestricted net position is designated for academic programs, 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.

(ii) 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 34. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Foundation reports under the codified standards of the Financial Accounting Standards Board. As such, certain revenue recognition criteria and presentation features are different from GASB standards. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences. Complete financial statements for the Foundation can be obtained from the Controller's Office at 2039 Kennedy Boulevard, Jersey City, New Jersey 07305 (see note 14).

(iii) Adoption of Accounting Pronouncements

In fiscal year 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to OPEB in the basic financial statements, in addition to requiring more extensive note disclosures and required supplementary information. For the year ended June 30, 2018, the University recognized OPEB expense and related fringe benefits appropriations of \$13.3 million (see note 9).

(iv) Accounting Pronouncements Applicable to the University, Issued but Not Yet Effective

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for an asset retirement obligation (ARO). GASB 83 also requires disclosure of information about the nature of the governmental unit's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. GASB 83 will be effective for fiscal years beginning after June 15, 2018. The University is in the process of evaluating the impact of this new statement.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are

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June 30, 2018 and 2017

effective for reporting periods beginning after December 15, 2018 (fiscal year 2020). The University is evaluating the impact of this new standard.

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 increases the usefulness of governmental financial statements by requiring the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on the lease contract's payment provisions. GASB 87 will require lessees to recognize a lease liability and an intangible right-to-use lease asset, and a lessor to recognize a lease receivable and a deferred inflow of resources. GASB 87 will be effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). The University is currently evaluating the impact of this new statement.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities a government should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (fiscal year 2019). The University is evaluating the impact of this new standard.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (fiscal year 2021). As a result of this Standard, the University will no longer capitalize interest related to debt-financed construction projects beginning in fiscal year 2021.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*. This Statement improves the accounting and financial reporting of a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (fiscal year 2020). The University is evaluating the impact of this new standard.

(v) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the 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.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018 and 2017

(vi) *Cash and Cash Equivalents*

The University classifies resources that are in short-term, highly liquid investments and are readily convertible to known amounts of cash as cash equivalents. These funds mature in three months or less. The University maintains portions of its cash in two funds, a money market account which permits the overnight sweep of available cash balances directly into a short-term investment, and the State of New Jersey Cash Management Fund wherein amounts also contributed by other state entities are combined into a large scale investment program. Both are interest bearing accounts from which the funds are available upon demand.

(vii) *Investments*

All investments are reported at fair value based upon quoted market prices. Purchases and sales of investments are accounted for on the trade-date basis. Investment income is recorded on an accrual basis. Changes in fair value, including realized and unrealized gains and losses, are reported as unrealized and realized gains (losses) on investments.

(viii) *Other receivables*

Other receivables include amounts due from the State for appropriations and reimbursement of fringe costs and amounts due from the Foundation and other affiliates for services rendered.

(ix) *Restricted Deposits Held with Bond Trustees*

Restricted deposits held with bond trustees are reported at fair value, based on quoted market prices and consist of money market accounts, U.S. Treasury notes and government securities. Restricted deposits are externally restricted to maintain sinking or reserve funds or to purchase or construct capital or other noncurrent assets.

(x) *Capital Assets*

Capital assets are carried at historical cost or if the asset is donated, at acquisition value on the date the asset was donated. The costs for replacements are capitalized and the replaced items are retired. Gains or losses resulting from disposal of capital assets are included in nonoperating revenues (expenses). Depreciation is calculated on the straight-line basis over the following estimated useful lives:

Land improvements	10 years
Buildings and building improvements	25 to 50 years
Equipment and other assets	5 to 15 years

The University does not capitalize equipment with a cost less than \$1,000.

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

Deferred outflows of resources refer to the consumption of net assets by the University that is applicable to a future reporting period. Deferred inflows of resources refer to the acquisition of net assets by the University that is applicable to a future reporting period. Deferred outflows of

NEW JERSEY CITY UNIVERSITY
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Notes to Basic Financial Statements

June 30, 2018 and 2017

resources increase the University's net position, similar to assets, while deferred inflows of resources decrease the University's net position, similar to liabilities. The University's deferred outflows of resources represent unamortized amounts from debt refunding and amounts related to changes in the net pension liability. The University's deferred inflows of resources represent amounts related to changes in the net pension liability.

(xii) *Net Pension Liability and Related Pension Amounts*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF), and additions to/deductions from PERS's and TPAF's fiduciary net position have been determined on the same basis as they are reported by PERS and TPAF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For additional information about PERS and TPAF, please refer to the plans' Comprehensive Annual Financial Report (CAFR), which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

(xiii) *Net Position*

The difference between the University's assets and deferred outflows of resources, and its liabilities and deferred inflows of resources is referred to as the net position in the financial statements of the University. Net position reported as restricted refers to amounts restricted for the payment of future debt service obligations and Federal Perkins Loan Program loans due back to the United States Department of Education. Net position reported as unrestricted refers to the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the aforementioned restricted components of the University's net position.

(xiv) *Revenue Recognition*

Revenues from student tuition and fees and auxiliary enterprises are presented net of scholarships applied to student accounts and are recognized in the period earned. Other payments made directly to students are presented as scholarships and are included in operating expenses in the period incurred. Student tuition and fees and deposits collected in advance of the school year are recorded as unearned student tuition and fees in the accompanying statements of net position.

Grant revenues are comprised primarily of funds received from Federal and State sources and are recognized when all eligibility requirements for revenue recognition are met which is generally the period in which related expenses are incurred. Amounts received from grants for which eligibility requirements have not been met under the terms of the agreements are included in unearned grant revenue in the accompanying statements of net position.

Revenues from State appropriations are recognized in the fiscal year during which the State appropriates the funds to the University.

NEW JERSEY CITY UNIVERSITY
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Notes to Basic Financial Statements

June 30, 2018 and 2017

(xv) *Classification of Revenue*

The University's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that serve the University's principal purpose and generally result from exchange transactions such as the payment received for services. Examples include (1) student tuition and fees, net of scholarship allowances, (2) auxiliary enterprises, and (3) most Federal and State grants. Nonoperating revenues and expenses include activities that primarily have the characteristics of nonexchange transactions or do not result from the receipt or provision of goods and services, such as appropriations from the State, investment income, interest expense and capital grants.

(xvi) *Income Taxes*

The University is exempt from Federal income taxes under Internal Revenue Code Section 115.

(xvii) *Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year presentation.

(xviii) *Financial Dependency*

Appropriations from the State are the University's largest source of nonoperating revenues. The University is economically dependent on these appropriations to carry on its operations.

(2) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments are subject to various risks. Among these risks are custodial credit risk, concentration of credit risk, credit risk and interest rate risk which, in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are discussed below.

(a) Cash and Cash Equivalents

The carrying amount of cash and cash equivalents as of June 30, 2018 and 2017 was approximately \$5.6 million and \$27.6 million, respectively, while the amount on deposit with banks was approximately \$5.6 million and \$27.5 million, respectively.

Custodial credit risk associated with the University's cash and cash equivalents includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the University's name. The University's bank deposits as of June 30, 2018 and 2017 were partially insured by Federal Depository Insurance in the amount of \$250,000. Bank balances in excess of insured amounts of \$5.4 million in 2018 and \$27.3 million in 2017 are collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes.

The University participates in the State of New Jersey Cash Management Fund (NJCMF) wherein amounts also contributed by other state entities are combined into a large scale investment program. The carrying amount and fair value of amounts invested in this program by the University as of June 30, 2018 and 2017 was approximately \$74,000. The NJCMF is unrated and the majority of its investments at June 30, 2018 mature in one year or less.

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State statutes and Regulations of the State Investment Council authorize the New Jersey Division of Investment to invest in obligations of the U.S. Treasury, agencies, and 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 agreements, 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 criteria as minimum capital, dividend paying history, credit history, and other evaluation factors.

(b) Investments

Investments consist of the following as of June 30, 2018 and 2017:

	2018	2017
	(In thousands)	
Money market fund	\$ 6,429	6,340
U.S. Treasury notes	9,911	—
	\$ 16,340	6,340

The University's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the University, and are held by either the counterparty or the counterparty's trust department or agent but not in the University's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the sale of the investment or collateral securities that are in the possession of the outside party. As of June 30, 2018 and 2017, the University's investments are insured, registered, or held by the University's investment custodian in the University's name.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's). As of June 30, 2018 and 2017, the University's investment quality ratings as rated by Moody's were as follows:

	2018	
Investment type	Quality rating	Amount
	(In thousands)	
Money market fund	Not rated	\$ 6,429
U.S. Treasury notes	Aaa	9,911
		\$ 16,340

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Notes to Basic Financial Statements

June 30, 2018 and 2017

Investment type	2017	
	Quality rating	Amount
	(In thousands)	
Money market fund	Not rated	\$ <u>6,340</u>
		\$ <u><u>6,340</u></u>

Concentration of credit risk is the risk associated with the amount of investments the University has with any one issuer that exceed 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The University's investment policy provides limitations pertaining to the diversification to avoid undue risk of large losses over long time periods of the investment portfolio. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 10% of total portfolio assets. With respect to fixed income investments, the minimum average credit quality of these investments shall be investment grade (Standard and Poor's BBB or Moody's Baa or higher). The University was not subject to concentration of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's investment policy provides limitations in the maturities of the various types of investments as a means of managing its exposure to fair value losses arising from interest rate fluctuations. Portfolio holdings will be sufficiently liquid to ensure that 5% of the portfolio can be sold on a day's notice with no material impact on fair value. The final maturity of each security within the portfolio will not exceed five years for intermediate investments and thirty years for long-term investments. All of the University's investments at June 30, 2018 and 2017 had maturities of less than one year.

(3) Restricted Deposits Held with Bond Trustees

Restricted deposits held with bond trustees include funds that are restricted under the terms of various long-term debt agreements. Restricted deposits held with bond trustees are carried in the financial statements at fair value and consist of the following:

	2018	2017
	(In thousands)	
Money market funds	\$ 17,273	11,518
U.S. Treasury notes and government securities	4,171	15,706
	21,444	27,224
Less noncurrent portion	(10,635)	(20,059)
Restricted deposits held with bond trustees, current portion	\$ <u>10,809</u>	<u>7,165</u>

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The University's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the University, and are held by either the counterparty or the counterparty's trust department or agent but not in the University's name. As of June 30, 2018 and 2017, the University's deposits held with bond trustees were either insured, registered, or held by the University's investment custodian in the University's name.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's. As of June 30, 2018 and 2017, the University's investment quality ratings as rated by Moody's for the U.S. Treasury notes and government securities were AAA and the money market funds are not rated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2018 and 2017, all deposits held with bond trustees had maturities of less than one year.

(4) 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 or published prices for identical assets or liabilities in active markets available 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:

Money market funds – the fair value of these investments at measurement date is based on the net asset value of this open-end fund which invests in a broad range of U.S. dollar-denominated money market instruments, including government, bank, and commercial obligations and repurchase agreements.

U.S. Treasury notes and government securities – The fair value of Treasury notes and government securities are based on quoted prices in an active market that is available but not readily accessible for

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the equivalent units of government securities held, given the large blocks of similar units of government securities available in secondary markets through brokerages and banks.

All of the University's cash, investments and restricted deposits held by trustees as of June 30, 2018 and 2017 were categorized as Level 1.

(5) Capital Assets

The detail of capital assets activity for the years ended June 30, 2018 and 2017 follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Capitalization/ Retirements</u>	<u>June 30, 2018</u>
		(In thousands)		
Depreciable assets:				
Land improvements	\$ 5,708	8,307	—	14,015
Buildings and building improvements	228,161	752	—	228,913
Equipment and other assets	<u>60,339</u>	<u>1,318</u>	<u>(957)</u>	<u>60,700</u>
	<u>294,208</u>	<u>10,377</u>	<u>(957)</u>	<u>303,628</u>
Less accumulated depreciation:				
Land improvements	(1,432)	(491)	—	(1,923)
Buildings and building improvements	(78,866)	(6,114)	—	(84,980)
Equipment and other assets	<u>(47,784)</u>	<u>(3,044)</u>	<u>916</u>	<u>(49,912)</u>
	<u>(128,082)</u>	<u>(9,649)</u>	<u>916</u>	<u>(136,815)</u>
Total depreciable assets	166,126	728	(41)	166,813
Nondepreciable assets:				
Land	31,538	—	—	31,538
Construction in progress	<u>41,337</u>	<u>17,444</u>	<u>(9,649)</u>	<u>49,132</u>
Capital assets, net	<u>\$ 239,001</u>	<u>18,172</u>	<u>(9,690)</u>	<u>247,483</u>

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	June 30, 2016	Additions	Capitalization/ Retirements	June 30, 2017
	(In thousands)			
Depreciable assets:				
Land improvements	\$ 5,708	—	—	5,708
Buildings and building improvements	228,089	88	(16)	228,161
Equipment and other assets	58,738	1,838	(237)	60,339
	<u>292,535</u>	<u>1,926</u>	<u>(253)</u>	<u>294,208</u>
Less accumulated depreciation:				
Land improvements	(941)	(491)	—	(1,432)
Buildings and building improvements	(72,765)	(6,105)	4	(78,866)
Equipment and other assets	(44,965)	(3,052)	233	(47,784)
	<u>(118,671)</u>	<u>(9,648)</u>	<u>237</u>	<u>(128,082)</u>
Total depreciable assets	173,864	(7,722)	(16)	166,126
Nondepreciable assets:				
Land	31,538	—	—	31,538
Construction in progress	19,903	23,272	(1,838)	41,337
Capital assets, net	<u>\$ 225,305</u>	<u>15,550</u>	<u>(1,854)</u>	<u>239,001</u>

The major projects included in construction in progress as of June 30, 2018 are the renovation and expansion of the Science Building, the redesign of the Nursing facilities and the Stegman Roadway and Infrastructure Phase II expansion. The costs to complete these projects are estimated at \$19 million and are expected to be funded by bond proceeds, unrestricted resources and developers.

During 2018 and 2017, the University capitalized interest income of approximately \$127 thousand and \$62 thousand respectively, and interest expense of approximately \$791 thousand in both years, which are included in construction in progress in the accompanying statements of net position.

(6) Long-Term Debt

The University has financed capital assets through various revenue bonds issued by the New Jersey Educational Facilities Authority (NJEFA). Capital assets of approximately \$327.0 million and \$317.4 million as of June 30, 2018 and 2017, respectively, funded by bond proceeds are included in the accompanying statements of net position.

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The following obligations to the Authority were outstanding as of June 30, 2018 and 2017:

	<u>Interest rate</u>	<u>2018</u>	<u>2017</u>
		(In thousands)	
NJEFA Revenue Bonds:			
Series 2003 B, due July 1, 2018	5.45 %	\$ 250	500
Series 2007 F, due July 1, 2032	3.00–5.00%	14,580	15,355
Series 2008 E, due July 1, 2035	4.00–5.00%	1,950	3,710
Series 2008 F, due July 1, 2036	6.85 %	6,175	6,175
Series 2010 F, due July 1, 2028	2.00–4.00%	16,860	18,670
Series 2010 G, due July 1, 2040	6.19 %	18,310	18,310
Series 2015 A, due July 1, 2045	2.75–5.25%	35,340	35,340
Series 2016 D, due July 1, 2035	3.00–5.00%	52,075	52,075
Total bonds payable		<u>145,540</u>	<u>150,135</u>
Other long-term debt:			
NJEFA Capital Improvement Fund:			
Series 2000 B	4.13–5.75%	1,317	1,726
Series 2016 B	3.00–5.50%	1,666	1,702
NJEFA Equipment Leasing Fund:			
Series 2014 A	— %	210	256
New Jersey Environmental Infrastructure:			
Trust Loan 2005 A	4.00–5.00%	410	450
Fund Loan 2005 A, net of imputed interest of \$181 and \$226, respectively	—%	721	784
Trust Loan 2013 A	3.00–5.00%	2,965	3,110
Fund Loan 2013 A	—%	8,296	8,861
Capital lease obligations	3.00–7.00%	2,025	6,228
Total other long-term debt		<u>17,610</u>	<u>23,117</u>
Unamortized bond premiums		<u>11,050</u>	<u>11,659</u>
Total long-term debt		174,200	184,911
Less-current portion		<u>(7,782)</u>	<u>(11,195)</u>
Noncurrent portion		<u>\$ 166,418</u>	<u>173,716</u>

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In December 2016, the University was issued \$5,222,725 Series 2016B Revenue Refunding Bonds through the NJEFA Higher Education Capital Improvement Fund to finance the Nursing Education Center. The University is responsible for repayment of one third of the grant award.

(a) Capital Leases

The University has entered into various capital lease purchase agreements for equipment which are principally for the duration of one to five years depending on the application and financial advantage to the University. Such agreements are essential to the normal operation of the University, and it is expected that these arrangements, where applicable, would be renegotiated when financially advantageous. The fiscal year 2018 and 2017 payments for these capitalized lease obligations were approximately \$943,000 and \$1,021,100, respectively.

(b) Future Minimum Payments

The following is a schedule of future minimum principal and interest payments on the University's long-term debt obligations as of June 30, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		(In thousands)	
Year ending June 30:			
2019	\$ 7,173	6,618	13,791
2020	7,031	6,393	13,424
2021	6,881	6,251	13,132
2022	6,365	6,034	12,399
2023	6,430	5,799	12,229
2019–2023 subtotal	33,880	31,095	64,975
2024–2028	28,582	25,944	54,526
2029–2033	36,180	19,678	55,858
2034–2038	35,874	11,454	47,328
2039–2043	19,940	5,148	25,088
2044–2046	8,694	670	9,364
	\$ 163,150	93,989	257,139

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(7) Noncurrent Liabilities

The following table summarizes the changes in noncurrent liabilities during the years ended June 30, 2018 and 2017:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u> (In thousands)	<u>June 30, 2018</u>	<u>Current portion</u>
Long-term debt	\$ 184,911	1,908	(12,619)	174,200	7,782
Net pension liability	169,296	—	(18,483)	150,813	—
Other noncurrent liabilities:					
U.S. government grants refundable	753	11	—	764	—
Compensated absences	6,472	527	(540)	6,459	4,439
Unearned capital reimbursement	—	4,040	—	4,040	—
Unearned rental revenue	2,383	—	—	2,383	—
Unearned grant revenue	3,901	848	(876)	3,873	—
Total noncurrent liabilities	<u>\$ 367,716</u>	<u>7,334</u>	<u>(32,518)</u>	<u>342,532</u>	<u>12,221</u>
	<u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u> (In thousands)	<u>June 30, 2017</u>	<u>Current portion</u>
Long-term debt	\$ 187,762	4,568	(7,419)	184,911	11,195
Net pension liability	136,182	33,114	—	169,296	—
Other noncurrent liabilities:					
U.S. government grants refundable	687	66	—	753	—
Compensated absences	6,737	379	(644)	6,472	4,386
Unearned rental revenue	2,383	—	—	2,383	—
Unearned grant revenue	501	5,090	(1,690)	3,901	—
Total noncurrent liabilities	<u>\$ 334,252</u>	<u>43,217</u>	<u>(9,753)</u>	<u>367,716</u>	<u>15,581</u>

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(8) Retirement Plans

(a) Introduction

The University participates in the State of New Jersey Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF). Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by the State of New Jersey, Division of Pensions and Benefits and fall within the scope of GASB 68 which requires participating employers to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense in their financial statements, unless the plan meets the GASB 68 special funding situation. Under GASB 68, the University has recorded its proportionate share of the PERS plan in its financial statements. With respect to TPAF, the State has determined that it meets the special funding situation of GASB 68 and therefore the University's proportionate share of the net pension liability is recorded by the State and not the University.

The State issues publicly available financial reports that include financial statements, required supplementary information, and detailed information about the PERS and TPAF plans' fiduciary net position. The reports may be obtained by visiting www.state.nj.us/treasury/pensions/annrpts.shtml or by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The University also participates in two defined contribution retirement plans, the Alternative Benefit Program (ABP) and the Defined Contribution Retirement Program (DCRP). Under these plans, participants make annual contributions, and the State, in accordance with annual appropriations, makes employer contributions on behalf of the University. The University is charged for pension costs through a fringe benefit charge assessed by the State which is included within the State of New Jersey fringe benefit appropriations in the accompanying financial statements.

(b) Plan Descriptions

(i) Public Employees' Retirement System (PERS)

The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A. PERS 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 PERS.

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

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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.

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

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

The following represents the membership tiers for TPAF:

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

Service retirement benefits of 1/55th 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 with 25 years or more of service credit before age 62, and tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

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(iii) Defined Contribution Plans

The ABP pension plan is a defined contribution program administered by the State of New Jersey, Division of Pensions and Benefits. ABP provides retirement and death benefits for or on behalf of those full-time professional employees and faculty members electing to participate in this optional retirement program.

The DCRP, which is administered for the Division of Pensions and Benefits by Prudential Financial, provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Employees otherwise eligible to enroll in the PERS or TPAF plans after May 21, 2010, who do not work the minimum number of hours per week required for PERS or TPAF Tier 4 or Tier 5 enrollment, but who earn a salary of at least \$5,000 annually, are eligible to participate in the program. Participation in this plan is insignificant.

(c) Contributions

The contribution policy for PERS and TPAF is set by N.J.S.A. 43.15A and N.J.S.A 18A:66, respectively, and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State makes employer contributions on behalf of the University. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability.

For permanent employees, PERS enrollment begins after the employees complete their probationary period, which is normally four months. All temporary employees must be enrolled after one year of continuous employment. PERS members were required to contribute 7.34% and 7.20% of their annual covered salary for the years ended June 30, 2018 and 2017, respectively. The PERS contribution rate increased on July 1, 2018 to 7.5%. The State contributes the remaining amounts necessary to pay benefits when due. The contribution requirements of the plan members and the University are established and may be amended by the State. The University's contributions to the PERS plan (amounts paid by the State on behalf of the University) for the fiscal year ended June 30, 2018 and 2017 were \$3.8 million and \$2.8 million, respectively.

Certain faculty members of the University participate in the TPAF. Under the special funding situation, the State is legally responsible for 100% of the employer contributions. TPAF covered employees are required by State statute to contribute a certain percentage of their salaries to the plan. Each member's percentage is based on age determined at the effective date of enrollment. In addition, the required contributions are made on the University's behalf by the State annually at an actuarially determined rate. The University no longer enrolls new employees into the TPAF plan.

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(d) Pension Amounts

In accordance with GASB 68, the University reported a liability of \$150.8 million and \$169.3 million as of June 30, 2018 and June 30, 2017, respectively for its proportionate share of the PERS net pension liability. The PERS net pension liability reported at June 30, 2018 was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The PERS net pension liability reported at June 30, 2017 was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The University's proportionate share of the respective net pension liabilities was based on actual contributions to PERS on behalf of the University relative to the total contributions of participating state-group employers for the plan for the fiscal years 2017 and 2016 and was 0.588% and 0.576%, respectively. The University's proportionate share of the respective net pension liabilities for the plan as a whole for the fiscal years 2017 and 2016 were 0.308% and 0.287%, respectively.

For the years ended June 30, 2018 and 2017, net pension expense of \$11.4 million and \$14.9 million related to PERS, respectively, and \$0.7 million and \$0.8 million related to TPAF, were recognized within the functional classifications in the statements of revenues, expenses and changes in net position.

As of June 30, 2018 and 2017, the University reported deferred outflows of resources and deferred inflows of resources related to the PERS pension plan from the following sources (in thousands):

	2018		2017	
	PERS Deferred outflows of resources	PERS Deferred inflows of resources	PERS Deferred outflows of resources	PERS Deferred inflows of resources
Changes in assumptions	\$ 19,727	21,351	25,305	—
Differences between expected and actual experience	3,455	—	3,603	—
Net difference between projected and actual earnings on pension plan investments	958	—	2,797	—
Changes in proportion University contributions paid subsequent to the measurement date	2,927	192	762	271
	3,769	—	2,780	—
Total	<u>\$ 30,836</u>	<u>21,543</u>	<u>35,247</u>	<u>271</u>

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The \$3,769 thousand reported as deferred outflows of resources related to PERS pensions at June 30, 2018 resulting from University contributions paid subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pensions as of June 30, 2018 will be recognized in pension expense as follows (in thousands):

Year ending June 30:	
2019	\$ 3,017
2020	3,915
2021	2,524
2022	(1,914)
2023	<u>(2,018)</u>
Total	<u>\$ 5,524</u>

The University's proportion of the TPAF net pension liability was based on the ratio of the State's contributions made on behalf of the University towards the actuarially determined contribution amount to total contributions to the TPAF plan, as adjusted by locations who participated in the State's early retirement incentives, for the years ended June 30, 2017 and 2016. The 2018 and 2017 TPAF net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 and 2015, respectively, which was rolled forward to June 30, 2017 and 2016, respectively. The University's proportionate share of the TPAF net pension liability recorded by the State of New Jersey for the fiscal years 2017 and 2016 were \$9.5 million and \$11.2 million, respectively. The University's proportionate share of the respective net pension liabilities for the plan as a whole for the fiscal years 2017 and 2016 was 0.014% in both years. The TPAF net pension expense attributable to the University was \$.7 million and \$.8 million for the years ended June 30, 2018 and June 30, 2017, respectively, and has been recorded as an operating expense by functional classification and related revenue in the statements of revenues, expenses and changes in net position.

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(e) Defined Benefit Plan Assumptions

The University's net pension liability for PERS as of June 30, 2018 was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The significant actuarial assumptions used to measure the total pension liability were as follows:

Actuarial methods and assumptions		
	PERS	TPAF
Inflation rate	2.25%	2.25%
Salary increases:		
2017–2026	1.65%–4.15% based on age	Varies based on experience
Thereafter	2.65%–5.15% based on age	Varies based on experience
Investment rate of return	7.00%	7.00%
Experience study dates	7/1/2011–6/30/2014	7/1/2012–6/30/2015

The University's net pension liability for PERS as of June 30, 2017 was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial methods and assumptions		
	PERS	TPAF
Inflation rate	3.08%	2.50%
Salary increases:		
2012–2026	1.65%–4.15% based on age	Varies based on experience
Thereafter	2.65%–5.15% based on age	Varies based on experience
Investment rate of return	7.65%	7.65%
Experience study dates	7/1/2011–6/30/2014	7/1/2012–6/30/2015

For the July 1, 2016 and July 1, 2015 actuarial valuations, pre-retirement mortality rates for PERS were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service requirements and beneficiaries of former members and a one-year static projection

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based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirements 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).

For the July 1, 2016 and July 1, 2015 actuarial valuations, TPAF pre-retirement, post-retirement and disabled mortality rates were based on the experience of TPAF members reflecting improvement on a generational basis on a 60-year average of Social Security data from 1953 to 2013.

(i) *Long-Term Expected Rate of Return*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2017 and 2016 measurement dates are summarized in the following tables:

2017		
Target asset allocation and long-term expected rate of return		
Asset class	PERS & TPAF	
	Target allocation	Long-term expected real rate of return
Absolute Return/Risk Mitigation	5.00 %	5.51 %
Cash	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 Estate	2.50	11.83
Equity Related Real Estate	6.25	9.23
U.S. Equity	30.00	8.19
Non-U.S. Developed Equities	11.50	9.00
Emerging Markets Equity	6.50	11.64
Buyouts/Venture Capital	8.25	13.08

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2016				
Target asset allocation and long-term expected rate of return				
Asset Class	PERS		TPAF	
	Target allocation	Long-term expected real rate of return	Target allocation	Long-term expected real rate of return
Cash	5.00 %	0.87 %	5.00 %	0.39 %
U.S. Treasuries, Bonds	1.50	1.74	1.50	1.28
U.S. Credit Bonds	N/A	N/A	13.00	2.76
Investment Grade Credit	8.00	1.79	N/A	N/A
Mortgages	2.00	1.67	2.00	2.38
High Yield Bonds	2.00	4.56	2.00	4.70
Inflation-Indexed Bonds	1.50	3.44	1.50	1.41
Broad U.S. Equities	26.00	8.53	26.00	5.14
Developed Foreign Equities	13.25	6.83	13.25	5.91
Emerging Market Equities	6.50	9.95	6.50	8.16
Private Equity	9.00	12.40	9.00	8.97
Hedge Funds/Absolute Return	12.50	4.68	N/A	N/A
Hedge Funds/MultiStrategy	N/A	N/A	5.00	3.70
Hedge Funds/Equity Hedge	N/A	N/A	3.75	4.72
Hedge Funds/Distressed	N/A	N/A	3.75	3.49
Real Estate (Property)	2.00	6.91	5.25	3.64
Global debt ex U.S.	5.00	(0.25)	N/A	N/A
Real Estate (REIT)	5.25	5.63	N/A	N/A
Commodities	0.50	5.45	0.50	2.87
Timber	N/A	N/A	1.00	3.86
Farmland	N/A	N/A	1.00	4.39

(ii) *Discount Rate*

The discount rate used to measure the PERS total pension liability was 5.00% and 3.98% as of June 30, 2017 and 2016, respectively. The discount rate used to measure the TPAF total pension liability was 4.25% and 3.22% as of June 30, 2017 and 2016, respectively. These discount rates for PERS and TPAF are single blended discount rates and are based on the long-term expected rate of return on pension plan investments of 7.00% and 7.65% as of June 30, 2017 and 2016, respectively, and a municipal bond rate of 3.58% and 2.85% as of June 30, 2017 and 2016, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contributions rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State

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employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their 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 for PERS and 2036 for TPAF. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2040 for PERS and 2036 for TPAF and the municipal bond rate was applied to project benefit payments after that date in determining the total pension liability.

(iii) *Sensitivity to the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following table presents the University's proportionate share of the collective net pension liability calculated using the discount rate as disclosed above for each plan as well as the University's proportionate share of the collective net pension liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate.

Sensitivity of the net pension liability			
Pension plan	1% decrease in discount rate	At current discount rate	1% increase in discount rate
		(In thousands)	
PERS (4.00%, 5.00%, 6.00%)	\$ 175,353	150,813	130,430
TPAF (3.25%, 4.25%, 5.25%)	11,323	9,531	8,055

The TPAF net pension liability shown above represents the State of New Jersey's proportionate share of the net pension liability attributable to the University. It is not included in the net pension liability on the statement of net position because it meets the special funding situation criteria.

(f) **Alternate Benefit Program (ABP)**

The ABP pension plan is a defined contribution retirement program administered by the State of New Jersey Division of Pensions and Benefits. The plan allows enrollees to make contributions to the following carriers: Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA/CREF), AXA Financial, VALIC, MassMutual Retirement Services, MetLife, VOYA Financial Services and Prudential.

Employees enrolled in ABP are faculty members, administrators, and managers of the University. Enrollment begins the first date of hire for all permanent employees. Temporary employees are enrolled after one year of continuous temporary employment. The ABP provides the choice of seven investment carriers all of which are privately operated defined contribution retirement plans. The University assumes no liability for ABP members other than payment of contributions. The ABP also provides retirement and death benefits for or on behalf of these full-time professional employees and faculty members electing to participate in this optional retirement program. Participation eligibility, as well as contributory and noncontributory requirements, is established by the State of New Jersey Retirement and Social Security Law. Benefits are determined by the amount of individual

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accumulations and the retirement income option selected. All benefits vest after the completion of one year of service. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting.

Participating University employees are required to contribute 5% of their base annual salary and may contribute, on a pretax basis, an additional voluntary contribution up to the maximum Federal statutory limit. Employer contributions for the ABP are 8%. During the years ended June 30, 2018 and 2017, the ABP received employer and employee contributions that approximated the following from the University:

	2018	2017
	(In thousands)	
Employer contribution	\$ 4,052	4,080
Employee contribution	2,532	2,550
Basis for contribution:		
Participating employee salaries	50,648	51,002

Employer contributions to the ABP are paid by the State and are reflected in the accompanying financial statements as appropriations revenue and operating expenses.

(9) Postemployment Benefits Other Than Pensions

(a) Introduction and Description

The University's retirees participate in the State Health Benefit State Retired Employees plan (the Plan). The Plan is a single-employer defined 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 plan for standalone reporting purposes. In accordance with N.J.S.A. 52:14-17.32, 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 PERS, the 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 by GASB 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 30, 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.

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

(b) OPEB Liability and Expense

As of June 30, 2018, the State recorded a liability of \$225.3 million which represents the portion of the State's total proportionate share of the collective total OPEB liability that is associated with the University. The University's share was based on the ratio of its members to the total members of the Plan. As of June 30, 2018, the University's share was 2.75% and 0.80% of the special funding situation and of the Plan, respectively.

For the year ended June 30, 2018, the University recognized OPEB expense of \$13.3 million. As the State is legally obligated for benefit payments on behalf of the University, the University also recognized revenue related to the support provided by the State of \$13.3 million related appropriations.

(c) Actuarial Assumptions

The State's liability associated with the University as of June 30, 2018 was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to the measurement date of June 30, 2017. Other actuarial assumptions used in this illustration to measure the OPEB liability were as follows:

Inflation rate	2.50 %
Discount rate	3.58 %
Salary increases:	
Through 2026	1.55%–8.98%
Thereafter	2.00%–9.98%

The discount rate is based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general municipal bonds with an average rating of AA/aa or higher. Salary increases depend on the pension plan a member is enrolled in. In addition they are based on age or years of service.

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

Certain actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies of the State's defined benefit plans, including PERS (July 1, 2011 through June 30, 2014), ABP (using the experience of the TPAF-July 1, 2012 through June 30, 2015) and PFRS (July 1, 2010 through June 30, 2013).

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

(10) Commitments and Contingent Liabilities

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 position.

In December 2014, the University entered into a 20-year lease agreement in a building located at 147 Harborside Financial Center, Jersey City, NJ to house the University's School of Business. Rental expenses began in September 2015 and were approximately \$1.275 million for the year ended June 30, 2018. Future minimum annual rental commitments approximate the following in thousands:

Year ending June 30:		
2019	\$	1,847
2020		1,891
2021		1,936
2022		1,982
2023		2,029
Thereafter		28,802
Total	\$	38,487

(11) State of New Jersey Fringe Benefit Appropriations

The State, through separate appropriations, pays certain fringe benefits, primarily health benefits, a matching portion for the pension contributions of current employees and FICA taxes. For the years ended June 30, 2018 and 2017, such payments amounted to approximately \$24.2 million and \$24.2 million, respectively, and are included in appropriations revenue and operating expenses by function in the accompanying financial statements.

(12) Compensated Absences

The University recorded a liability for compensated absences in the amount of \$6.5 million as of June 30, 2018 and 2017, which included unused vacation, paid leave bank days and accrued compensation days, as well as an estimated vested amount for accrued sick leave.

The liability for accrued vacation time for nonfaculty employees was \$4.3 million as of June 30, 2018 and 2017. Employees may also accrue up to four complimentary days per year on days worked that fall on school holidays that are nonpublic holidays.

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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. The liability for sick leave balances was \$2.0 million and \$2.1 million as of June 30, 2018 and 2017, respectively, and is included in noncurrent liabilities in the accompanying statements of net position. The University paid \$141,000 and \$261,000 in sick-leave payments for employees who retired during the years ended June 30, 2018 and 2017, respectively.

(13) Student Financial Assistance Programs

The University's students receive support from Federal and State 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.

(14) New Jersey City University Foundation, Inc. and Affiliate

The Foundation is a separate tax-exempt corporation, which serves primarily as a fund-raising entity to supplement the resources available to the University in support of its programs. Since the resources and assets of the Foundation are used exclusively for the benefit of the University, it meets the criteria to be discretely reported as a component unit in the University's financial statements.

During 2015, the Foundation created West Campus Housing, LLC (WCH), a limited liability corporation of which the Foundation is the sole member, and the University entered into a ground lease agreement with WCH for land associated with two existing student residence halls and land located at its west campus site. The term of the ground lease is 40 years with no right to renew or extension option. The base annual rent is equal to the surplus cash flow generated by the operation of the student housing facilities and is paid annually upon WCH's certification that the annual debt service ratio has been met. The agreement also provides that WCH be deemed to be the owner of the two existing residence halls for the term of the ground lease. Therefore, the net book value of \$8.916 million related to the building and building improvements of the halls was transferred to WCH in 2016. Upon termination of the ground lease and full repayment of the related debt, all rights, title and interest in the West Campus Housing Facility shall revert to the University. There were no rental payments for the years ended June 30, 2018 and 2017.

In connection with the ground lease agreement, in March 2015 WCH issued \$50.6 million in revenue bonds through the New Jersey Economic Development Authority (NJEDA) to finance the construction of a new residence hall and renovation of the existing housing facilities. A new 425 bed residence hall opened in July 2016 on the west campus, while improvements to the existing housing facilities were completed in 2017. WCH is solely responsible for repayment of the bonds. The University has no obligation to pay debt service on the financing.

The University acts as WCH's agent in collecting student housing fees and related charges under the student housing agreements and deposits them with the bond trustee pursuant to the bond documents for

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payment of debt service and operating expenses. The University also provides administrative, resident life, security and other services to WCH's student housing facilities and pays for student housing utility costs, which are to be reimbursed by WCH as operating expenses. These costs totaled \$1.2 million and \$1.3 million during the years ended June 30, 2018 and 2017. In addition, the University contributed \$329,000 in contributed services to WCH in 2018.

During the years ended June 30, 2018 and 2017, the Foundation distributed \$412,000 and \$313,000, respectively, to the University in the form of scholarships and program support. The University contributed \$695,000 and \$1,009,000 in contributed services to the Foundation during the years ended June 30, 2018 and 2017, respectively. The University recognized expenses procured and disbursed for the Foundation totaling \$389,000 and \$334,000 in 2018 and 2017, respectively.

(15) University Development Programs

(a) University Place

In continued support of the University's Transforming Lives – Strategic Plan 2013-2015, the University is working to enhance the environment for teaching, learning, living and working. Developed in conjunction with the City of Jersey City (City), University Place is a master mixed-use redevelopment plan with seven components that is designed to transform the University's 22 acre west campus neighborhood into a university urban village that will include residential units, a performing arts center, restaurants and parking.

In July 2015, the University submitted three Public Private Partnership applications to the NJEDA for the development of University Place which also included development agreements and ground leases that were executed by the University with CRT Holdings, LLC (Crossroads Companies), HC West Campus I LLC and HC West Campus II LLC (collectively, Claremont) and KKF University Enterprises, LLC. (KKF). The University Place development plan includes the 425 bed WCH student housing facility (the first component previously discussed), a performing arts center and academic building, another 600 units of residential housing, 120,000 square feet of retail space and various surface and parking facilities to accommodate 1,300 vehicles. Simultaneously, the University sold general obligation bonds to finance and develop the Phase I of an infrastructure project, which consisted of streets, landscape, streetscape, water management systems and utilities and was completed in 2018. The University is now partnering with the City to develop Phase II of the University Place roads and infrastructure.

(i) Pre-Payment of Ground Lease Income

Pursuant to the executed agreements mentioned above, each developer was required to remit prepaid ground lease rent payments to the University for the development of University Place, excluding the student housing facility and the University-developed infrastructure. These prepayments were calculated at 1% of the projected development cost of \$238 million. The total prepaid rent of \$2.4 million is included in other long term liabilities on the statement of net position as of June 30, 2018 and 2017. Of the total prepaid rent, \$0.4 million is recorded as ground lease rent receivables as of June 30, 2018. Since the various commercial real estate components of University Place will not be completed until fiscal years 2019 through 2023, the amounts received will effectively reduce the rents owed to the University from the various developers. The variability

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of prepaid rents is commensurate to the various development milestones achieved by each developer, which includes approvals from the City, County and the State.

(ii) Development Fee

In 2014, the University engaged Strategic Development Group (SDG) to advise the University and the Board of Trustees on various development matters related to the School of Business and University Place. Pursuant to the terms of the agreement, SDG is paid a 1% development fee (the fee is calculated on the estimated development cost of University Place) on the occurrence of one of the following three (3) events; 1) the execution of a development agreement, 2) the closing of a financing with a financial institution of government agency, and 3) in the case of relocation of the School of Business, the execution of a long-term lease for the capital-fit-out with a financial institution of government agency. Please see note 10 for treatment of the long-term operating lease related to the School of Business. In fiscal year 2018, the University incurred expenses of \$714,000 in monthly retainer fees, pertaining to real estate consulting services related to University Place.

(iii) Rivet Apartment Project

In August 2018, subsequent to year-end, Rivet, a 163 unit apartment and retail project developed by Claremont and the Hampshire Companies, was completed as the second component of University Place.

(iv) Performing Arts Center and other projects

The remaining components of University Place are in the planning stages and include a University Performing Arts Center and Center for Music, Dance and Theater that will include classrooms, restaurants and a 159 unit apartment complex, several other apartment buildings and a supermarket.

(b) West Campus Housing Project

(i) Ground Lease

On March 1, 2015, the University entered into a ground lease with WCH LLC for land associated with the two existing student residence halls (Vodra and Co-op Halls) and land located at 500 Route 440, Jersey City (the West Campus Site). The term of the ground lease is 40 years commencing on March 17, 2015 with no right to renew or extension option on the lease. The base annual rent is equal to the surplus cash flow generated by the operation of the Student Housing Facilities on the University's campus and is paid annually upon WCH LLC's certification that the annual debt service ratio has been met. In accordance with the ground lease agreement, after July 1, 2015, WCH LLC shall be deemed to be the owner of the two existing student resident halls buildings for the term of the ground lease. As such, the net book value of \$8,915,624 relating to the building and building improvements have been reflected as a transfer of net assets from the University to WCH LLC during the year ended June 30, 2016. Upon termination of the ground lease and full repayment of the related debt, all rights, title, and interest in the New Jersey City University Student Housing Project (the Project) shall revert to the University. There were no rental payments for the years ended June 30, 2018 and 2017.

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In connection with the ground lease agreement, on March 17, 2015, WCH LLC issued \$50,645,000 in Revenue Bonds through the NJEDA. The Bonds were issued to finance the Project. WCH LLC is solely responsible for the repayment of the Project financing including the cost of issuance. The University has no obligation to pay debt service on the Project financing.

Under the terms of the ground lease, the Student Housing Facilities are intended to be a part of the integrated New Jersey City University campus. As such, the University will be providing certain administrative, residence life, security, and other services to the Student Housing Facilities, including the collection of all student housing fees and rents under the Student Housing Agreements. The University will collect all student housing fees and related charges and remit them to the Bond Trustee. Under the terms of the Bond Trust Indenture, the Bond Trustee will accumulate these fees to pay the annual debt service of WCH LLC and reimburse the operating expenses of the Student Housing Facilities on a monthly basis. WCH LLC will reimburse operating expenses incurred by the University.

(ii) Project Development Agreement

WCH LLC (the Owner) and RISE (the Developer) entered into a project development agreement dated March 17, 2015 to build the West Campus Housing Facility on the West Campus of the University and to renovate the two existing student residence halls, for the benefit of the University. The term of the agreement is March 17, 2015 through the termination date. The termination date is the earlier of (i) 12 months after the final completion of the Project, (ii) abandonment of the Project by the University, or (iii) termination of the ground lease. The agreement is subject to a guaranteed maximum price for development costs of approximately \$43.2 million unless adjusted by change orders. If the development costs of the final completed project exceed the guaranteed maximum price, the Developer is solely responsible for and will pay any excess costs from its own funds. Per the agreement, the University is entitled to reimbursement of pre-development costs in connection with the Project up to \$250,000. The University was reimbursed \$171,144 for predevelopment costs during the year ended June 30, 2016. There were no predevelopment costs for the year ended June 30, 2018 and 2017.

(iii) Project Management Agreement

A triparty agreement was entered into on March 1, 2015 between the Owner, the Developer, and the University to appoint the Manager to operate, manage, and maintain the Student Housing Facilities for the benefit of the University. The term of the agreement was approximately fifteen years beginning on June 1, 2015 with respect to the two existing student residence halls and, July 1, 2016 with respect to the West Campus Student Housing Facility, and was scheduled to terminate on June 30, 2030. The agreement was terminated early on January 23, 2017 with management of the Student Housing Facilities fully transitioned back to WCH LLC.

The agreement required an annual management fee to be paid by the Owner to the Manager. The management fee amounted to \$121,355 for the year ended June 30, 2017, which was for six months of the term. The management fee is no longer in effect due to the contract termination with RISE.

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The University will act as the Owner's agent in collecting all student housing fees and related charges under the student housing agreements and will deposit the fees and charges in the Receipt Fund held by the Bond Trustee pursuant to the bond documents for the payment of all debt and operating expenses. The University will also provide resident life services and staffing, housing contract services, front desk operations, accounting support, security personnel, mail delivery, and other maintenance amenities all of which will be reimbursed as operating expenses of the Project, except for the portions noted as contributed services. The payment of student housing utility costs will also be advanced by the University and thereafter reimbursed. During the years ended June 30, 2018 and June 30, 2017, the University collected student housing fees of \$4,771,060 and \$4,534,274, respectively, which were transferred to WCH, LLC. Operating expenses in the amount of \$1,205,399 and \$1,264,834 have been incurred by the University during the years ended June 30, 2018 and 2017, respectively, and are to be reimbursed by WCH LLC. These costs are included in the student housing expenses on the accompanying statements of activities.

(c) Fort Monmouth Satellite Campus

A draft agreement has been reached between the State agency that is redeveloping the Fort Monmouth property in Monmouth County and KKF, which calls for KKF to purchase and renovate a building and then lease it to the University as a satellite campus for nursing, business and other programs for juniors and seniors who have completed two years at Brookdale Community College (Brookdale) and other students. The University currently offers programs to Brookdale students at Brookdale's Higher Education Center in Wall, New Jersey pursuant to an affiliation agreement. Programs on the Fort Monmouth campus are currently scheduled to begin in the fall of 2020.

(16) Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to students, faculty and staff; and natural disasters. The University purchased and funds property and casualty insurances through a joint insurance program with the nine State Public Colleges and Universities. The University's risk management program involves insurance for all property risk in the joint insurance program and all liability risk and employee benefit exposures are self-funded programs maintained and administered by the State (including tort liability, auto liability, trustees and officers' liability, workers' compensation, unemployment, temporary and long-term disability, unemployment liability, life insurance and employee retirement

Buildings, plants, and equipment and lost revenue are fully insured on an all risk replacement basis to the extent that losses exceed \$100,000 per occurrence with a per occurrence limit of \$1,500,000,000. Employee theft coverage provides for the actual loss in excess of \$75,000 with a per occurrence loss limit of \$5,000,000. The University also maintains a Fine Arts Insurance Policy that insures all permanent fine arts on campus, as well as temporary loan exhibitions that take place in the University art galleries to the extent that losses exceed \$1,000 for each separate occurrence of loss or damage or \$2,500 for outdoor sculptures with a per occurrence limit of \$500,000.

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As an instrumentality of the State, the liability of the University is subject to all of the provisions of the New Jersey Tort Claims Act (NJSA 59:1-1 et seq.), the New Jersey Contractual Liability Act (NJSA 59:13-1 et seq.), and the availability of appropriations. The Tort Claims Act also creates a fund and provides for payment of claims under the Act against the State or against 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 on an annual basis. All of the State self-funded programs are statutory with an annual appropriation provided by the legislature. There has been no decrease in insurance coverage during the current year.

(17) Subsequent Events

Management has reviewed and evaluated all events and transactions from June 30, 2018 through March 29, 2019, the date that the financial statements are available to be issued. The effects of those events and transactions that provide information about conditions that existed at June 30, 2018 have been recognized and disclosed in the accompanying financial statements.

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Required Supplementary Information (Unaudited)
Schedule of Employer Contributions
June 30, 2018 and 2017
(Dollars in thousands)

Public Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 3,769	2,780	2,218	1,295
Contributions in relation to the contractually required contributions	<u>3,769</u>	<u>2,780</u>	<u>2,218</u>	<u>1,295</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>
University employee covered-payroll (University year end)	\$ 23,781	25,182	24,987	25,432
Contributions as a percentage of employee covered payroll	15.85 %	11.04 %	8.88 %	5.09 %

Information provided for Required Supplementary Information will be provided for ten years, as the information becomes available.

See accompanying independent auditors' report.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Required Supplementary Information (Unaudited)

Schedules of Proportionate Share of the Net Pension Liability

June 30, 2018 and 2017

(Dollars in thousands)

Public Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
University proportion of the net pension liability – State Group	0.588 %	0.576 %	0.574 %	0.571 %
University proportion of the net pension liability – Total Plan	0.308	0.287	0.295	0.296
University proportionate share of the net pension liability	\$ 150,813	169,296	136,182	114,911
University employee covered-payroll (measurement date)	<u>25,182</u>	<u>24,987</u>	<u>25,432</u>	<u>26,170</u>
University proportionate share of the net pension liability as a percentage of the employee covered-payroll	<u>598.9 %</u>	<u>677.5 %</u>	<u>535.5 %</u>	<u>439.1 %</u>
Plan fiduciary net position as a percentage of the total pension liability	36.78 %	31.20 %	38.21 %	42.74 %

Notes

Changes in benefit terms – There were no significant changes in PERS benefits for the June 30, 2017 measurement date (actuarial valuation as of July 1, 2016).

Changes in assumptions – The following lists the significant changes in assumptions for PERS between the July 1, 2016 valuation and the July 1, 2013 valuation:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Experience study period	7/1/2011–6/30/2014	7/1/2011–6/30/2014	7/1/2008–6/30/2011	7/1/2008–6/30/2011
Inflation rate	2.25 %	3.08 %	3.04 %	3.01 %
Projected salary increases, 2017–2026 (based on age)	1.65%–4.15%	1.65%–4.15%	2.15%–4.40%	2.15%–4.40%
Projected salary increases, thereafter (based on age)	2.65%–5.15%	2.65%–5.15%	3.15%–5.40%	3.15%–5.40%
Investment rate of return	7.00 %	7.65 %	7.90 %	7.90 %
Discount rate	5.00 %	3.98 %	4.90 %	5.39 %

Teachers' Pension and Annuity Fund

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
University proportion of the net pension liability	— %	— %	— %	— %
University proportionate share of the net pension liability	\$ —	—	—	—
State's proportionate share of the net pension liability	<u>9,531</u>	<u>11,231</u>	<u>39,065</u>	<u>38,968</u>
Total net pension liability	9,531	11,231	39,065	38,968
University employee covered-payroll	<u>56</u>	<u>129</u>	<u>123</u>	<u>122</u>
University proportionate share of the net pension liability as a percentage of the employee covered-payroll	<u>— %</u>	<u>— %</u>	<u>— %</u>	<u>— %</u>
Plan fiduciary net position as a percentage of the total pension liability	25.41 %	22.33 %	28.71 %	33.64 %

Notes

Changes in benefit terms – There were no significant changes in TPAF benefits for the June 30, 2017 measurement date (actuarial valuation as of July 1, 2016).

Changes in assumptions – The following lists the significant changes in assumptions for TPAF between the July 1, 2016 valuation and the July 1, 2013 valuation:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Experience study period	7/1/2012–6/30/2015	7/1/2012–6/30/2015	7/1/2009–6/30/2012	7/1/2009–6/30/2012
Inflation rate	2.25 %	2.50 %	2.50 %	2.50 %
Projected salary increases, 2017–2026	Varies based on experience			
Projected salary increases, thereafter	Varies based on experience			
Investment rate of return	7.00 %	7.65 %	7.90 %	7.90 %
Discount rate	4.25 %	3.22 %	4.13 %	4.68 %

Information provided for Required Supplementary Information will be provided for ten years, as the information becomes available.

See accompanying independent auditors' report.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Total OPEB Liability
June 30, 2018
(Dollars in thousands)

State Health Benefit State Retired Employees Plan

	2018
University's proportion of the collective total OPEB liability	—%
University's proportionate share of the collective OPEB liability	\$ —
State's proportionate share of the collective OPEB liability associated with the University	225,294
Total proportionate share of the collective OPEB liability	\$ 225,294
University's covered-employee payroll (for the year ended as of the measurement date)	57,576
University's proportionate share of the collective OPEB liability as a percentage of the employee covered-payroll	—%

Notes:

1. Information provided for Required Supplementary Information will be provided for ten years as the information becomes available in subsequent years.
2. For the State Health Benefit State Retired Employees Plan, there are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*.

See accompanying independent auditors' report.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>Federal CFDA/ grant number</u>	<u>Pass-through entity identifying grant number</u>	<u>Total federal expenditures</u>
U.S. Department of Education:			
Student Financial Assistance cluster:			
Federal Supplemental Education Opportunity Grants	84.007		\$ 337,772
Federal Work Study Program	84.033		485,844
Federal Perkins Loan Program (note 3)	84.038		1,666,556
Federal Pell Grant Program	84.063		18,929,341
Federal Direct Student Loans (note 3)	84.268		<u>35,641,512</u>
Total Student Financial Assistance cluster			<u>57,061,025</u>
TRIO cluster:			
Student Support Services	84.042		<u>271,711</u>
Total TRIO cluster			<u>271,711</u>
Passed through State of New Jersey Department of Education:			
Gaining Early Awareness and Readiness for Undergraduate Program	84.334	P334S110034	194,061
Higher Education Institutional Aid:			
Opening the Gate: Improving Mathematics Success for STEM Careers (Endowment Corpus) (note 4)	84.031C	P031C110003	2,124,647
Closing the Completion Gap for HIS Community-College Graduate at a Public Hispanic-Serving Baccalaureate Institution (Endowment Corpus) (note 4)	84.031C	P031C110067	1,010,495
Picking Up the Pace: Ensuring Hispanic Degree Completion	84.031S	P031S130019	245,830
Picking Up the Pace: Ensuring Hispanic Degree Completion (Endowment Corpus) (note 4)	84.031S	P031S130019	553,963
Projecto STEM: Evidence-Based Approaches to STEM Enrollment, Retention and Graduation At an Urban Public Hispanic-Serving Institution	84.031C	P031C160155	963,203
Projecto STEM: Evidence-Based Approaches to STEM Enrollment, Retention and Graduation At an Urban Public Hispanic-Serving Institution (Endowment Corpus) (note 4)	84.031C	P031C160155	<u>208,293</u>
Total Higher Education Institutional Aid			<u>5,106,431</u>
Total U.S. Department of Education			<u>62,633,228</u>
Research and Development Cluster:			
U.S. Department of Education:			
The Scientific Undergraduate Research Institute (SURI):			
A model for Enhancement of STEM Education	84.120A		280,826
National Science Foundation:			
Education and Human Resource Grants:			
Passed through Rutgers, The State University of New Jersey:			
Louis Stoke Alliance for Minority Participation	47.076	HRD-1400780	7,175
Recruiting and Preparing STEM Majors as Secondary Teachers for High-Need School Districts in New Jersey	47.076		66,849
Improving the Undergraduate Learning and Teaching Experience Through Innovative Course Clustering	47.076		54,095
51st Spring Topology and Dynamics Systems Conference	47.049		<u>3,501</u>
Total National Science Foundation Grants			<u>131,620</u>
Total Research and Development Cluster			<u>412,446</u>
U.S. Department of Transportation:			
Passed through State of New Jersey Department of Law and Public Safety, Division of Highway Traffic Safety:			
Highway Safety Cluster:			
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.616	AL-17-45-06-01	<u>25,692</u>
Total U.S. Department of Transportation			<u>25,692</u>
U.S. Small Business Administration:			
Passed through Rutgers, The State University of New Jersey:			
Small Business Development Centers	59.064	SBAHQ-17-B-0039	<u>166,616</u>
Total U.S. Small Business Administration			<u>166,616</u>
U.S. Department of Health and Human Services:			
Health Resources and Services Administration:			
Nursing Workforce Diversity	93.178		35,212
Behavioral Health Workforce Education and Training	93.243		154,556
Behavioral Health Workforce Education and Training	93.732		<u>81,114</u>
Total U.S. Department of Health and Human Services			<u>270,882</u>
Total expenditures of federal awards			<u>\$ 63,508,864</u>

See accompanying notes to schedules of expenditures of Federal and State of New Jersey awards.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Schedule of Expenditures of State of New Jersey Awards
Year ended June 30, 2018

State of New Jersey grantor/ pass-through grantor/program or cluster title	Grant/account number	Grant award	Grant period	Total expenditures
Student Financial Assistance cluster:				
N.J. Department of State:				
Higher Education Student Assistance Authority:				
Tuition Aid Grant Program	18-100-074-2405-007	\$ 15,785,021	Jul. 1, 2017 to Jun. 30, 2018	\$ 15,785,021
Governor's Urban Scholarship	18-100-074-2405-329	25,500	Jul. 1, 2017 to Jun. 30, 2018	25,500
New Jersey Student Tuition Assistance Reward Scholarship	18-100-074-2405-313	32,112	Jul. 1, 2017 to Jun. 30, 2018	32,112
Office of the Secretary of Higher Education:				
Educational Opportunity Fund – Article III – Academic Year (FY18)	18-100-074-2401-001	680,028	Jul. 1, 2017 to Jun. 30, 2018	673,141
Educational Opportunity Fund – Article III – Summer (FY17)	18-100-074-2401-001	315,369	Jul. 1, 2016 to Aug. 31, 2017	294,265
Educational Opportunity Fund – Article III – Summer (FY18)	18-100-074-2401-001	<u>320,888</u>	Jul. 1, 2017 to Aug. 31, 2018	<u>97,211</u>
Total Student Financial Assistant cluster		17,158,918		16,907,250
N.J. Department of Education:				
Youth Corps	AJMY18N	545,000	Jul. 1, 2017 to Jun. 30, 2018	478,199
N.J. Department of Law and Public Safety:				
Passed through from Governor's Council on Alcoholism and Drug Abuse:				
Peers Educating Peers	02-213-40-960-312	35,000	Jul. 1, 2017 to Jun. 30, 2018	35,000
N.J. Department of State:				
Office of the Secretary of Higher Education:				
College Bound	800930-0004	226,949	Jul. 1, 2017 to Jun. 30, 2018	226,949
Educational Opportunity Fund – Article IV – Academic Year (FY18)	18-100-074-2401-002	<u>472,076</u>	Jul. 1, 2017 to Jun. 30, 2018	<u>472,076</u>
Total N.J. Department of State		699,025		699,025
N.J. Department of the Treasury:				
Higher Education Administration:				
Grants-In-Aid Appropriations to Senior Public Colleges and Universities	18-100-074-2403-001	24,154,000	Jul. 1, 2017 to Jun. 30, 2018	24,154,000
Fringe Benefits Other than FICA for Senior Public Colleges and Universities	18-000-000-0000-002	18,082,029	Jul. 1, 2017 to Jun. 30, 2018	18,082,029
FICA (Social Security Tax) for Senior Public Colleges and Universities	18-000-000-0000-003	<u>6,022,648</u>	Jul. 1, 2017 to Jun. 30, 2018	<u>6,022,648</u>
Total N.J. Department of Treasury		48,258,677		48,258,677
N.J. Economic Development Authority:				
New Jersey Commerce and Economic Growth Commission:				
Passed through Rutgers, The State University of New Jersey:				
Small Business Private Industry Grant	18BACT001ARU	28,700	Jul. 1, 2017 to Jun. 30, 2018	28,700
N.J. Educational Facilities Authority:				
Higher Education Capital Improvement Fund	134-01	5,522,725	Jul. 1, 2017 to Jun. 30, 2018	269,878
Higher Education Facilities Trust Fund	034-03	<u>32,000,000</u>	Sep. 1, 2017 to Jun. 30, 2018	<u>3,757,280</u>
Total N.J. Educational Facilities Authority		<u>37,522,725</u>		<u>4,027,158</u>
Total expenditures of State of New Jersey awards		<u>\$ 104,248,045</u>		<u>\$ 70,434,009</u>

See accompanying notes to schedules of expenditures of Federal and State of New Jersey awards.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Schedules of Expenditures of Federal and
State of New Jersey Awards
June 30, 2018

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the SEFA) includes the federal grant activity of New Jersey City University (the University) and its discreetly presented component unit, New Jersey City University Foundation (the Foundation) and is presented on the accrual basis of accounting. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The accompanying schedule of expenditures of State of New Jersey awards (the SESA) includes the State of New Jersey grant activity of the University and is presented on the accrual basis of accounting. The information in the SESA is presented in accordance with the requirements of New Jersey Office of Management and Budget Circular 15-08, *Single Audit Policy* (NJOMB 15-08). The Foundation has not been awarded any State of New Jersey awards.

The SEFA and the SESA are collectively referred to as, the Schedules.

Because the Schedules present only a selected portion of the operations of the University, they are not intended to and do not present the financial position, changes in net position, or cash flows of the University.

(2) Indirect Cost Rate

The University has elected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

(3) Federal Student Loan Programs

The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Student Loan Program. Accordingly, these loans are not included in the University's basic financial statements. It is not practical to determine the balance of loans outstanding to students of the University under this program as of June 30, 2018.

The University administers and accounts for certain aspects of the Federal Perkins Loan Program. The University's basic financial statements include the program's net position and transactions. Loans outstanding at the beginning of the year and loans made during the year were \$1,527,083 and \$139,473, respectively, and are included in the SEFA. The balance of loans outstanding under the Federal Perkins Loan Program as of June 30, 2018 was \$1,521,023.

(4) Endowment Corpus

Over the past several years, the University has received several Higher Education Institutional Aid endowment grants through the State of New Jersey, Department of Education.

The University received Opening the Gate: Improving Mathematics Success for Science, Technology, Engineering, and Mathematics Careers (Opening the Gate) and Closing the Completion Gap for HIS Community College Graduate at a Public Hispanic Serving Baccalaureate Institution (Closing the Gap) during fiscal year 2013.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Schedules of Expenditures of Federal and
State of New Jersey Awards
June 30, 2018

The University also received Picking Up the Pace: Ensuring Hispanic Degree Completion (Picking Up the Pace) during fiscal year 2014. In 2018, the University received an additional endowment grant entitled, Proyecto STEM: Evidence Based Approaches to STEM Enrollment, Retention and Graduation at an Urban Public Hispanic-Serving Institution.

The University passed through the endowment portion of these programs to the Foundation. According to the grant award agreements, the endowment portion is restricted for a period of 20 years and required to be recorded in accordance with accounting standards applicable to temporarily restricted net assets. For a period of 20 years from the date the grant was received, the endowment corpus cannot be spent or withdrawn. At the end of the 20-year period, the endowment corpus can be used for educational purposes. During the grant period, 50% of the total aggregate income earned on the endowment corpus can be spent or withdrawn and the remaining 50% is required to be added to the corpus.

The total income earned on the endowment corpus for the fiscal year ended June 30, 2018 was \$154,030, of which 50% has been spent by the University and 50% has been added to the endowment corpus. The following represents the activity of the endowment corpus for the fiscal year ended June 30, 2018.

<u>Endowment corpus activity</u>	<u>Opening the Gate</u>	<u>Closing the Gap</u>	<u>Picking Up the Pace</u>	<u>Proyecto Stem</u>
Beginning balance	\$ 2,019,513	964,340	430,295	—
Endowment corpus activity:				
Grant funds received	—	—	50,000	100,000
Matching funds	—	—	50,000	100,000
Realized and unrealized gains	60,281	25,898	14,144	5,912
50% of income earned	44,853	20,257	9,524	2,381
Total endowment	\$ <u>2,124,647</u>	<u>1,010,495</u>	<u>553,963</u>	<u>208,293</u>

(5) Amounts Passed through to Subrecipients

The University did not pass Federal awards or State of New Jersey awards to subrecipients during the year ended June 30, 2018.



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

The Board of Trustees
New Jersey City University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of New Jersey City University (the University), a component unit of the State of New Jersey, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 29, 2019, which contained an emphasis paragraph regarding the University's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of



our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

University's Response to Finding

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

Purpose of This Report

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

KPMG LLP

March 29, 2019



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Independent Auditors' Report on Compliance for Each Major Federal and State of New Jersey Program; Report on Internal Control over Compliance; and Report on Schedules of Expenditures of Federal Awards and State of New Jersey Awards Required by the Uniform Guidance and New Jersey OMB Circular 15-08

The Board of Trustees
New Jersey City University:

Report on Compliance for Each Major Federal and State of New Jersey Program

We have audited New Jersey City University's (the University), a component unit of the State of New Jersey, compliance with the types of compliance requirements described in the Federal *OMB Compliance Supplement* and the New Jersey Office of Management and Budget (New Jersey OMB) *State Grant Compliance Supplement* (the Compliance Supplements) that could have a direct and material effect on each of the University's major Federal and State of New Jersey programs for the year ended June 30, 2018. The University's major Federal and State of New Jersey programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal and State of New Jersey statutes, regulations, and the terms and conditions of its Federal and State of New Jersey awards applicable to its Federal and State of New Jersey programs.

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal and State of New Jersey program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal and State of New Jersey Program

In our opinion, the University, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal and State of New Jersey programs for the year ended June 30, 2018.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on each major federal program is not modified with respect to this matter.

The results of our auditing procedures also disclosed an instance of noncompliance, which is required to be reported in accordance with the New Jersey OMB Circular 15-08 and which is described in the accompanying schedule of findings and questioned costs as item 2018-003. Our opinion on each major State of New Jersey program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003, that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to



the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Report on Schedule of Expenditures of State of New Jersey Awards Required by New Jersey OMB Circular 15-08

We have audited the financial statements of the business-type activities and the discretely presented component unit of the University as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon date March 29, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of Federal awards for the year ended June 30, 2018 is presented for purposes of additional analysis as required by the Uniform Guidance and the accompanying schedule of expenditures of State of New Jersey awards for the year ended June 30, 2018 is presented for purposes of additional analysis as required by New Jersey OMB Circular 15-08 and are not a required part of the 2018 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2018 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2018 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2018 financial statements or to the 2018 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditure of Federal and State of New Jersey awards are fairly stated in all material respects in relation to the 2018 financial statements as a whole.

KPMG LLP

March 29, 2019

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
- Material weaknesses: **No**
 - Significant deficiencies: **Yes (Foundation)**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major Federal and State of New Jersey programs disclosed by the audit:
- Material weaknesses: Federal – **No**; State of New Jersey – **No**
 - Significant deficiencies: Federal – **Yes**; State of New Jersey – **Yes**
- (e) Type of report issued on compliance for major Federal and State of New Jersey programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a) or New Jersey OMB Circular 15-08: Federal – **Yes (2018-002)**; State of New Jersey – **Yes (2018-003)**
- (g) Major programs:
- Federal*
- Student Financial Assistance Cluster – various CFDA numbers
- State of New Jersey*
- Student Financial Assistance Cluster – various grant numbers
 - Grants-In-Aid Appropriations to Senior Public Colleges and Universities – 18-100-074-2403-001
 - Higher Education Facilities Trust Fund – 034-03
- (h) Dollar threshold used to distinguish between Type A and Type B programs Federal: **\$750,000** and State of New Jersey awards: **\$2,111,065**
- (i) Auditee qualified as a low-risk auditee for Federal and State of New Jersey awards: **Yes**

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(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

2018-001 – *Significant Deficiency Over Financial Reporting – New Jersey City University Foundation*

Condition and Cause

During the financial statement audit of the New Jersey City University Foundation (the Foundation), we noted certain control deficiencies, that when considered in the aggregate, were considered to be a significant deficiency in internal control over financial reporting.

The matters noted included: (1) Interim financial statements were not prepared periodically throughout the year in accordance with U.S. generally accepted accounting principles (GAAP); (2) An analysis and/or reconciliation of donor restricted accounts was not performed periodically during the year; (3) Certain temporarily restricted accounts had negative balances; (4) Documentation related to the preparation of certain other account analysis necessary to complete the audit should be restructured to provide an adequate trail so that it can be re-performed efficiently; and (5) Management was not properly considering the changes in the life expectancy of donors whose pledges were payable at time of death on an annual basis.

The cause of the deficiencies was primarily due to turnover of key personnel throughout the year, which did not allow for an adequate level of supervision and review throughout the year.

Recommendation

We recommend that management enhance its policies and procedures to include the preparation for fully GAAP financial statements on an interim basis (at least quarterly). Management should perform an analysis of its donor restricted accounts more frequently during the year (i.e. monthly). Management should enhance its documentation surrounding the account analysis and reconciliations required to be completed in connection with the audit so that the process can be re-performed efficiently each year, even in periods of high turnover. In addition, management should ensure that each analysis is properly reviewed by someone other than the preparer.

View of Responsible Official

Management concurs with the recommendations and has begun addressing the issues. The University has hired a Foundation Associate Controller and a Director of Advancement Services in order to facilitate preparation of interim financial statements and separation of duties. Management is also in the process of updating policies and procedures.

(3) Findings and Questioned Costs Relating to Federal Awards

2018-002 – *Special Tests – Return of Title IV Funds*

Federal Award Program: Federal Pell Grant Program

Federal Award Grant Number: CFDA 84.063

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Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample.

Prior Year Finding: No

Finding Type: **Significant Deficiency, Non-Compliance**

Criteria

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 CFR sections 668.22(a)(1) through (a)(5)).

If an institution is not required to take attendance, the withdrawal date is (1) the date, as determined by the institution, that the student began the withdrawal process prescribed by the school; (2) the date, as determined by the institution, that the student otherwise provided official notification to the school, in writing or orally, of his or her intent to withdraw; (3) if the student ceases attendance without providing official notification to the institution of his or her withdrawal, the midpoint of the payment period or, if applicable, the period of enrollment; (4) if the institution determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss or other circumstances beyond the student's control, the date the institution determines is related to that circumstance; (5) if a student does not return from an approved leave of absence, the date that the institution determines the student began the leave of absence; or (6) if the student takes an unapproved leave of absence, the date that the student began the leave of absence. Notwithstanding the above, an institution that is not required to take attendance may use as the withdrawal date, the last date of attendance at an academically related activity as documented by the institution (34 CFR sections 668.22(c) and (d)).

Additionally, in accordance with federal requirements, the University shall maintain internal controls over federal programs designed to provide reasonable assurance that transactions are executed in compliance with federal statutes, regulations, and the terms and conditions of the federal award that could have a direct and material effect on a federal program.

Condition and Context

We selected a sample of forty students who received Title IV aid and earned zero credits. For each of the forty students, we tested whether the University was required to perform a Title IV refund calculation and whether the calculation was performed in accordance with the requirements.

We noted that for one of the 40 students selected for testing, the University calculated the return using the midpoint of the semester (50%) as the student was considered an unofficial withdrawal. However, based on

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review of the supporting documentation the student's withdrawal date should have been very soon after the start of the semester (9% complete). The University could not substantiate that the student attended classes after the first few weeks of classes. The student in question only received Pell grant awards in the amount of \$2,960.

The University's internal controls to ensure compliance with the above requirements were not operating effectively to ensure that the University is properly monitoring and calculating all returns of Title IV funding.

Cause

The student received all failing grades for the Fall 2017 semester. As the University is not required to take attendance, the University considered the student to be an unofficial withdrawal. However during follow up with faculty members, one faculty member responded the student withdrew from class early in the semester (9% complete). Other faculty members did not respond, so the University did not revise the Title IV refund calculation. The University did not adequately determine whether the student attended classes after the first few weeks of classes.

Effect

The University returned \$1,480 of Title IV aid, however, should have returned \$2,708.

Questioned Costs

The University under returned \$1,228 of Title IV aid.

Recommendation

We recommend that the University enhance its current policies and procedures to determine whether students that are determined to be unofficial withdrawals, actually attended classes for a reasonable period of time before defaulting to the midpoint of the semester when calculating the refund.

View of Responsible Official

Prior to the completion of this Audit Review, there have been discussions regarding the current attendance policy at NJCU. It's been proposed that NJCU begins to take regular attendance on a weekly basis so we can better determine if students are in class throughout the academic term. The Office of Financial Aid (OFA) would be in favor of this proposal as we'll be able to return funds earlier during the semester for students who have unofficially withdrawn from the University. This change may begin for the Fall 2019 term but no final determinations have been made at this point. If this change occurs, the OFA will work with the Registrar Office as we review the new attendance policy and PeopleSoft procedures to ensure we capture the unofficial date of withdrawal, based upon attendance reporting. In regards to current procedure, the OFA will review our current processes and change our policy to have Return of Title IV calculated on the date reported by the Professor. If no dates are reported, we'll then use the 50% mark. This will only occur if all attempts are unresponsive from professors.

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2018-003 – Reporting

State of New Jersey Program: Higher Education Facilities Trust Fund – N.J. Educational Facilities Authority

State of New Jersey Grant Number: Grant No: 034-03

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample.

Prior Year Finding: No

Finding Type: Significant Deficiency, Non-Compliance

Criteria

By not later than March 31 of each year, commencing in calendar year 2015 and continuing until the completion of the Project: the Institution shall provide to the N.J. Education Facilities Authority (the Authority) a report that sets forth (i) all expenditures of the Grant Amount for the preceding calendar year (including amounts and purposes of the expenditures); (ii) the status and progress of the Project; (iii) an estimate of the timing and amounts that will be spent on the Project during the current calendar year; and (iv) a statement that the Institution has correctly and properly used its Grant Amount for Project costs as of the date of the report, including a list and explanation of any exceptions and costs that do not comply with this Grant Agreement. The Institution agrees to permit inspection of the Project and books and records pertaining thereto by the Authority and the Secretary on written request during normal business hours. (Section 2.4(b) of the Grant Agreement).

Additionally, in accordance with federal requirements, the University shall maintain internal controls over federal programs designed to provide reasonable assurance that transactions are executed in compliance with federal statutes, regulations, and the terms and conditions of the federal award that could have a direct and material effect on a federal program.

Condition and Context

The University has not submitted the required report. However, the University has provided the Authority with detail of expenditures throughout the project period in connection with the University's requests for reimbursement. In addition, the requests for reimbursement do contain a certification from the University that the funds were spend on allowable and necessary costs and in accordance with the agreement.

The University has indicated that the Authority has not requested the University submit such an annual report, nor have they been notified that that they are deficient in submitting any required reports. The University has received an extension for the 2018 report, due March 31, 2019, as a result of the New Jersey Educational Facility Association consolidating the grant reporting dates for all grantees.

The University's internal controls to ensure compliance with the above requirements were not operating effectively to ensure that the University is properly submitting all required reports.

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Cause

The University has had significant turnover over the past few years. The current policies and procedures were not adequate to timely and accurately submit the required reports.

Effect

The University is not in compliance with the reporting requirements of the grant.

Questioned Costs

None.

Recommendation

We recommend that the University review and strengthen its current policies and procedures over the timely and accurate completion of all reports required under the State grants.

View of Responsible Official

The University notes as per the grant documents an annual filing is required. The University will file an annual compliance report for the 2019 reporting period. Although the University has had significant turnover, it recognizes the importance of timely filing in order to remain in compliance with grant requirements, therefore has added additional staff to the grant reporting distribution.