KPMG

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Basic Financial Statements,
Management’s Discussion and Analysis
and Required Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors’ Report Thereon)

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

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KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditors' Report

The Board of Trustees
Rowan University:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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. 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 aggregate discretely presented component units of Rowan University as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

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Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 14 and the schedules of employer contributions and schedules of proportionate share of net pension liability on pages 68 and 69, 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.

KPMG LLP

Short Hills, New Jersey
October 27, 2017

Introduction

This section of Rowan University's (the University) financial statements presents our discussion and analysis of the University's financial performance for the fiscal year ended June 30, 2017 and 2016, with comparative information for the year ended June 30, 2015. Since this discussion and analysis is designed to focus on current activities, it should be read in conjunction with the University's basic financial statements, which follows this section. Management has prepared the financial statements and the related note disclosures, along with the discussion and analysis.

University Overview

Rowan University is a selective, public national research university located in Glassboro, Camden and Stratford, New Jersey. It is recognized for its nationally ranked academic and athletic programs, talented professors and high-tech facilities. Rowan prides itself on being able to provide its approximately 18,400 students an outstanding education at an exceptional value.

The University is comprised of seven colleges and five schools: the William G. Rohrer College of Business; the Henry M. Rowan College of Engineering; the Colleges of Communication and Creative Arts, Education, Humanities and Social Sciences, Performing Arts, and Science and Mathematics; the Cooper Medical School of Rowan University; the Rowan University School of Osteopathic Medicine; the Graduate School of Biomedical Sciences; the School of Health Professions; and the School of Earth and Environment. Rowan's Division of Global Learning & Partnerships offers flexible undergraduate and graduate programs on campus and off site – including at two area community colleges – and online. Within these colleges and schools the University offers 76 bachelor's degrees, 44 master's degrees, five doctoral degrees (Ed.D. and Ph.D.) and two professional degrees.

Rowan is one of two public universities in the country to offer M.D. and D.O. medical degree programs. The institution is also home to the South Jersey Technology Park, which fosters the translation of applied research into commercial products and processes. Rowan has been recognized as one of the top 100 public universities in the nation and its engineering school is ranked 19th for undergraduate education nationwide.

The State of New Jersey (the State) recognizes the University as a comprehensive research university and as a public institution of higher education. The New Jersey Legislature appropriates funds annually to support the University. However, the University operates autonomously from the State.

Financial Statements

The University's basic financial statements include three financial statements: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows, which have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). These statements focus on its assets, liabilities, deferred outflows and deferred inflows of resources, revenues, expenses, and cash flows on an entity-wide basis.

(Continued)

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of Rowan University. The Statement of Net Position presents end-of-the-year data concerning assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position.

Net position is one indicator of the current financial condition of the University while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position (assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources) and their availability for expenditure by the University.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant, and equipment owned by the institution. The next category is restricted net position, expendable. Restricted net position, expendable is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the University for any lawful purpose of the University.

A summary of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30, 2017, 2016, and 2015 follows:

		2017	2016	2015
			(In thousands)	
Current assets	$	213,536	208,670	162,246
Capital assets		927,726	768,824	686,070
Other noncurrent assets		81,976	107,326	109,830
Total assets		1,223,238	1,084,820	958,146
Deferred outflows of resources		108,857	49,313	30,565
Total assets and deferred outflows of resources		1,332,095	1,134,133	988,711
Current liabilities		89,573	105,757	83,420
Noncurrent liabilities		1,011,252	948,311	898,408
Total liabilities		1,100,825	1,054,068	981,828
Deferred inflows of resources		138,466	23,356	7,827
Total liabilities and deferred inflows of resources		1,239,291	1,077,424	989,655

(Continued)

		2017	2016	2015
			(In thousands)	
Net position:				
Net investment in capital assets	$	217,306	168,722	113,210
Restricted expendable		21,109	23,113	26,902
Unrestricted		(145,611)	(135,126)	(141,056)
Total net position (deficit)	$	92,804	56,709	(944)

Current assets consist of cash and cash equivalents, deposits held by trustees under bond agreements for current principal and interest payments, receivables, current portion of investments and other current assets. Noncurrent assets consist of deposits held by trustees under agreements for capital activities, investments, loans receivable and net capital assets. Deferred outflows of resources consist of those related to pensions and the loss on bond refinancing. Current liabilities consist of accounts payable and accrued expenses, unearned revenue and the current portion of bonds payable, other long-term debt and capital lease obligations. Noncurrent liabilities consists of student deposits, compensated absences, unearned revenue, other liabilities, deposits held in custody for others, bonds payable, net pension liability and other long-term debt. Deferred inflows of resources consist of those related to pensions, the gain on bond refinancing and service concession arrangement.

Fiscal Year 2017 Compared to 2016

The University's total assets and deferred outflows of resources increased $198.0 million from $1,134.1 million at June 30, 2016 to $1,332.1 million at June 30, 2017. Current assets increased $4.9 million, capital assets increased $158.9 million, other noncurrent assets decreased $25.3 million and deferred outflows of resources increased $59.5 million. Within current assets, cash and cash equivalents increased $17.7 million.

Net capital assets increased approximately $158.9 million primarily due to an increase of $118.6 million in capital assets related to the Holly Pointe Commons service concession arrangement, an increase of $3.2 million in purchases of capital assets and spending an additional $71.2 million on construction and renovation projects, which was partially offset by depreciation and amortization expense of $34.1 million.

Other noncurrent assets decreased $25.3 million for the year ended June 30, 2017. The decrease is primarily due to a decrease of $21.4 million in restricted deposits held by trustees which is driven by the drawdown of State of New Jersey capital project funds and other construction funds.

Deferred outflows of resources increased $59.5 million primarily due to the recognition of an additional $58.4 million of deferred outflows of resources in fiscal year 2017 related to pensions. The deferred outflows related to pensions are being amortized in accordance with the GASB 68 guidelines. Additionally the loss on bond refinancing increased $1.1 million primarily due to 2016 C bond issuance, which refunded and redeemed all of the 2006 G Bonds and defeased and redeemed all of the 2008 B Bond.

Current liabilities decreased $16.2 million. The decrease is primarily attributed to the $18.9 million decrease in accounts payable and accrued expenses, offset by $3.1 million increase in unearned revenue due to student revenues received in advance.

(Continued)

Noncurrent liabilities increased $62.9 million. This increase is due primarily to an increase in net pension liabilities of approximately $88.3 million, offset by a decrease in long- term debt of $19.4 million and a reduction in the repurchase liability of $9.2 million due to the partial recognition of the Inspira land sale.

Deferred inflows of resources increased $115.1 million due primarily to the increase of $120.9 million in deferred inflows of resources related to the Holly Pointe Commons service concession arrangement, offset by a decrease of $5.8 million in pensions related deferred inflows of resources.

Total net position increased by $36.1 million at June 30, 2017 which is primarily the result of a $48.6 million increase of net investment of capital assets, offset by a $10.5 million decrease of unrestricted net position.

Fiscal Year 2016 Compared to 2015

The University's total assets and deferred outflows of resources increased $145.4 million from $988.7 million at June 30, 2015 to $1,134.1 million at June 30, 2016. Current assets increased $46.4 million, capital assets increased $82.8 million, other noncurrent assets decreased $2.5 million and deferred outflows of resources increased $18.7 million. Within current assets, cash and cash equivalents increased $25.2 million.

Net capital assets increased $82.8 million primarily due to the University investing over $13.7 million in purchases of capital assets and spending an additional $103.5 million on construction and renovation projects, which was partially offset by depreciation and amortization expense of $34.4 million.

Other noncurrent assets decreased $2.5 million for the year ended June 30, 2016. Other noncurrent assets decreased primarily due to a $1.4 million decrease in restricted deposits held by trustees which is driven by the drawdown of State of New Jersey capital project funds and other construction funds and a $0.9 million decrease in investments.

Deferred outflows of resources increased $18.7 million primarily due to the recognition of an additional $20.4 million of deferred outflows of resources in fiscal year 2016 related to pensions offset by the recognition of $1.6 million in amortization of the loss on bond refinancing related to the 2015 B bond issuance. The deferred outflows related to pensions are being amortized in accordance with the GASB 68 guidelines. The 2015 B loss is being amortized annually over the life of the bonds.

Current liabilities increased $22.3 million. Approximately $16.2 million of this increase can be attributed to an increase in accounts payable related to capital projects of $11.4 million and accrued expenses of $2.9 million and $3.6 million can be attributed to an increase in unearned revenue.

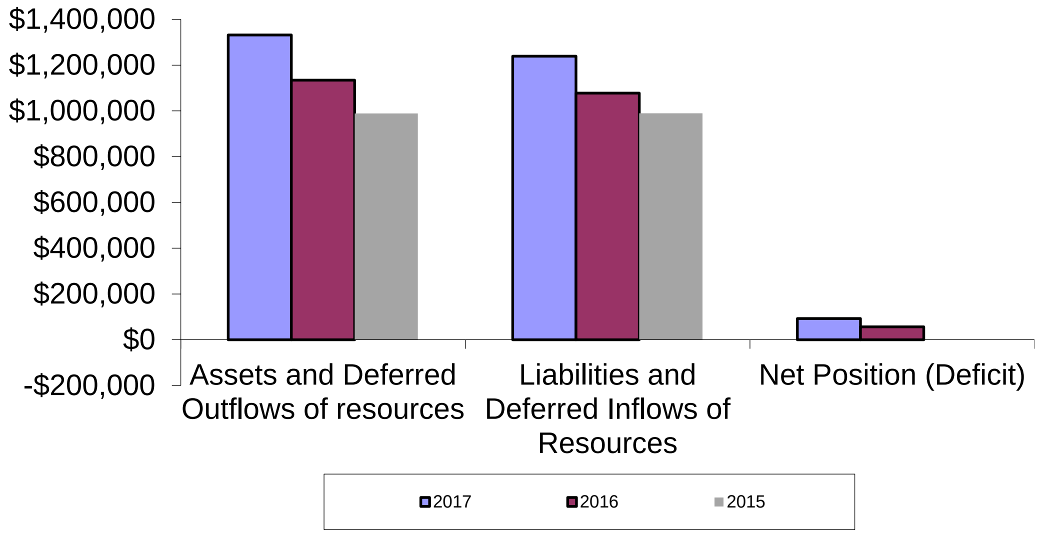
Noncurrent liabilities increased $49.9 million. This increase is due primarily to the 2015 C bond issuance as well as the recognition of a $14.7 million increase in net pension liability offset by a $9.5 million decrease in unearned revenue primarily related to the recognition of $8.1 million of revenue associated with the State of New Jersey capital projects funds as the associated expenditures were incurred.

Deferred inflows of resources increased $15.5 million due primarily to the recognition of an additional $15.6 million of deferred inflows of resources in fiscal year 2016 related to GASB 68. The deferred inflows related to pensions was amortized in accordance with the GASB 68 guidance.

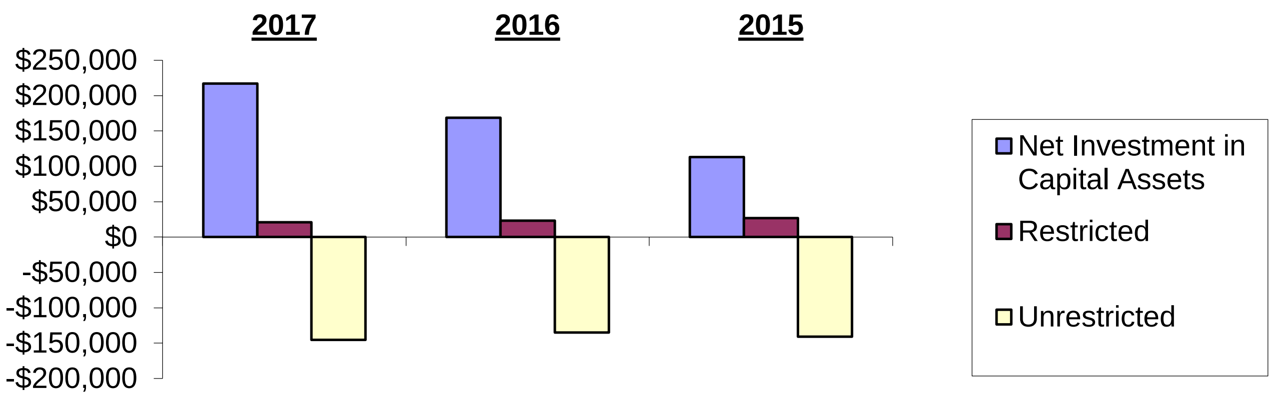
(Continued)

Total net position increased by $57.7 million at June 30, 2016 compared to June 30, 2015. The increase is primarily the result of a $55.5 million increase in net investment in capital assets.

Summary of Statement of Net Position
As of June 30
(In thousands)



Comparative Net Position (Deficit)
As of June 30
(In thousands)



Statement of Revenues, Expenses, and Changes in Net Position

The year to year changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the University.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the State to the University without the State directly receiving commensurate goods and services for those revenues.

The Statements of Revenues, Expenses, and Changes in Net Position present the University's results of operations. A summary of the University's revenues, expenses, and changes in net position for the years ended June 30, 2017, 2016, and 2015 follows:

		2017	2016	2015
			(In thousands)	
Operating revenues:				
Net student revenues	$	236,270	216,545	199,275
Grants		64,269	49,044	51,529
Professional services and contracts		54,815	56,044	59,288
Other		8,023	7,830	8,658
Total operating revenues		363,377	329,463	318,750
Operating expenses		506,576	470,304	452,236
Operating loss		(143,199)	(140,841)	(133,486)
Nonoperating revenues (expenses):				
State appropriations		157,313	156,624	146,436
Gifts		9,308	11,888	8,111
Investment income		1,562	1,206	277
Interest on capital asset related debt		(35,496)	(36,019)	(35,838)
Other nonoperating revenues (expenses), net		6,917	(807)	(364)
Net nonoperating revenues (expenses)		139,604	132,892	118,622
Loss before other revenues		(3,595)	(7,949)	(14,864)
Capital grants		39,689	65,602	15,753
Increase in net position		36,094	57,653	889
Net position (deficit) – beginning of year		56,709	(944)	234,861
Cumulative effect of change in accounting policy		—	—	(236,694)
Net position (deficit) – beginning of year, as restated		56,709	(944)	(1,833)
Net position (deficit) – end of year	$	92,803	56,709	(944)

Fiscal Year 2017 Compared to 2016

The University's net position increased $36.1 million in fiscal year 2017. This net amount represents the total revenue available to the University of $572.9 million compared to total expenses of $536.8 million.

Fiscal Year 2016 Compared to 2015

The University's net position increased $57.7 million in fiscal year 2016. This net amount represents the total revenue available to the University of $564.8 million compared to total expenses of $507.1 million.

Revenues

To fund its operations, the University receives revenues from a variety of operating and nonoperating sources including tuition and fees, auxiliary services, grants, professional services and contracts, State of New Jersey appropriations, gifts from the Rowan University Foundation and investment income. The University is continuing to seek additional funds from all possible sources to adequately fund operating activities. A summary of operating revenues for the years ended June 30, 2017, 2016 and 2015 follows:

	2017		2016		2015	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
			(Amounts in thousands)			
Operating revenues:						
Net student revenues	$ 236,270	65.0 %	$ 216,545	65.7 %	$ 199,275	62.5 %
Grants	64,269	17.7	49,044	14.9	51,529	16.2
Professional services and contracts	54,815	15.1	56,044	17.0	59,288	18.6
Other	8,023	2.2	7,830	2.4	8,658	2.7
Total operating revenues	$ 363,377	100.0 %	$ 329,463	100.0 %	$ 318,750	100.0 %

Operating Revenues

Fiscal Year 2017 Compared to 2016

Operating revenues for fiscal year ended June 30, 2017 increased $33.9 million over fiscal year 2016. The majority of this increase is due to an increase in net student revenues of $19.7 million and an increase of $15.2 million in grants, offset by a $1.2 million decrease in professional services and contracts. The increase in net student revenues is due to increases in enrollment and tuition and fee rates. The increase in grants is due to the University's efforts in increasing grant revenue from federal, state and private funding sources. The $1.2 million decrease in professional services and contracts is a net result of the greater increase in the administrative contractual arrangements than the increase in patient service revenue.

Fiscal Year 2016 Compared to 2015

Operating revenues for fiscal year ended June 30, 2016 increased $10.7 million over fiscal year 2015. The majority of this increase is due to increases in net student revenues of $17.3 million offset by decreases of $2.5 million in grants, $3.3 million in professional services and contracts and $0.8 million in other revenues. The increase in net student revenues is due to increases in enrollment and tuition and fee rates. The decrease in professional services and contracts is due to a decrease in patient service revenue of $4.0 million, which is due to a decrease in the patients seen, offset slightly by increases of $0.8 million in other contract revenue.

Nonoperating Revenues (Net)

Fiscal Year 2017 Compared to 2016

Nonoperating revenues (net) for the years ended June 30, 2017 and 2016 totaled $139.6 million and $132.9 million, respectively, which is a $6.7 million increase. The primary sources of the increase were $5.2 million in amortization of deferred inflow of resources related to the Service concession arrangement and $2.5 million increase in other nonoperating revenues due mainly to the recognition of $0.9 million in contribution revenue from the donated land and $0.9 million gain related to the Inspira land sale, $0.7 million increase in the

State of New Jersey appropriations, $0.5 million decrease in interest on capital asset related debt, as well as $0.4 million increase in net investment income, offset by $2.6 million decrease in gifts from Rowan University Foundation. State of New Jersey appropriations include the University base appropriation as well as appropriations for the Cooper Medical School of Rowan University and the School of Osteopathic Medicine and the State paid fringe benefits. The University recorded $157.3 million and $156.6 million in State appropriations for fiscal year 2017 and 2016, respectively. With the State appropriations, the State paid fringe benefits increased $5.1 million due primarily to the fringe benefit rate increase of 6.7% from 2017 to 2016.

Capital grants decreased in fiscal year 2017 by $25.9 million primarily due to the completion of the Rohrer College of Business and the College of Engineering buildings. The revenue related to the expenditures incurred was previously recognized through the University's capital grants awarded through the New Jersey Higher Education Capital Financing Grant Program.

Fiscal Year 2016 Compared to 2015

Nonoperating revenues (net) for the years ended June 30, 2016 and 2015 totaled $132.9 million and $118.6 million, respectively, which is a $14.3 million increase. The primary sources of nonoperating revenues were State of New Jersey appropriations, which increased $10.2 million as the University recorded $156.6 million and $146.4 million for fiscal year 2016 and 2015, respectively, as well as gifts from the Rowan University Foundation, which increased $3.8 million as the University recorded $11.9 million and $8.1 million for fiscal year 2016 and 2015, respectively. State of New Jersey appropriations include the University base appropriation as well as appropriations for the Cooper Medical School of Rowan University and the School of Osteopathic Medicine and the State paid fringe benefits. The State paid fringe benefit rate increased 5.10% from 2015 to 2016. Interest payments on capital asset related debt increased $0.2 million from $35.8 million at June 30, 2015 to $36.0 million at June 30, 2016. Other nonoperating expenses, net were $0.8 million and $0.4 million, respectively for fiscal years 2016 and 2015.

Capital grants increased in fiscal year 2016 by $49.8 million primarily due to the recognition of revenue related to the expenditures incurred through the University's capital grants awarded through the New Jersey Higher Education Capital Financing Grant Program.

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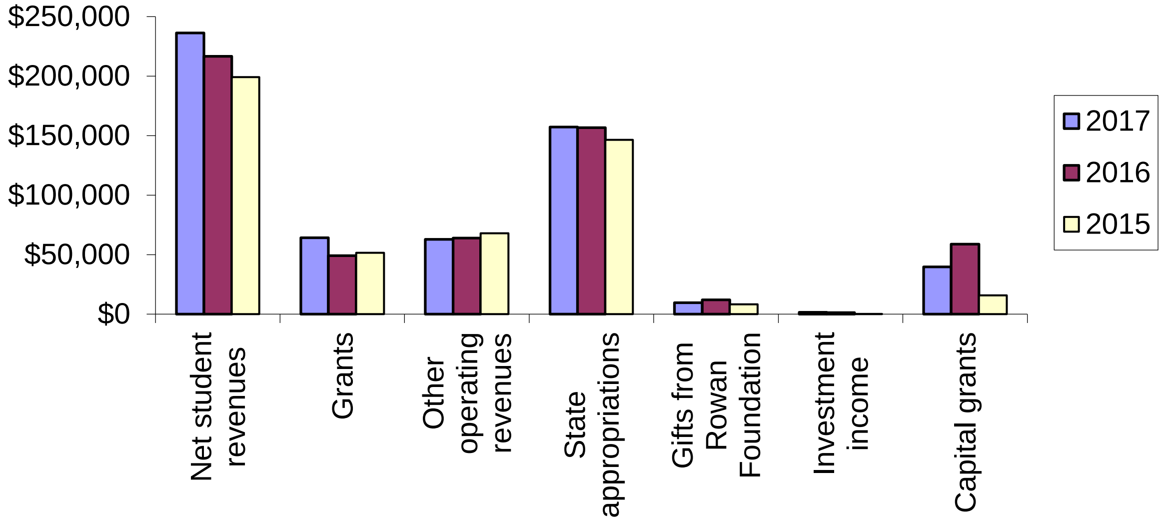
Revenue by Source
For the Years Ended June 30
(In thousands)



Operating Expenses

Operating expenses are defined as expenses paid by the University to acquire or produce goods and services used to carry out its mission, in return for operating revenues. For the years ended June 30, 2017 and 2016, the University incurred operating expenses totaling $506.6 million and $470.3 million, respectively. The increase of $36.3 million in operating expenses for fiscal year 2017 versus 2016 is a result of additional expenses attributed to: providing instruction and academic support and auxiliary services for the increased number of students, medical school expenses as the enrollment of the Cooper Medical School of Rowan University increases, as well as increases in research expenditures and an additional $13.9 million increase in in pension expense.

A summary of operating expenses for the years ended June 30, 2017, 2016 and 2015 follows:

	2017		2016		2015	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(Amounts in thousands)					
Instruction	$ 168,173	33.2 %	$ 157,552	33.5 %	$ 145,019	32.1 %
Research	13,512	2.7	9,736	2.1	6,940	1.5
Public service	8,867	1.8	8,516	1.8	8,714	1.9
Academic support	46,767	9.2	40,652	8.6	34,121	7.6
Student service	29,751	5.9	27,715	5.9	27,339	6.0
Institutional support	71,864	14.2	68,841	14.7	72,574	16.0
Operation and maintenance of plant	33,933	6.7	32,965	7.0	31,041	6.9
Student aid	2,730	0.5	2,434	0.5	2,131	0.5
Professional services and contracts	56,717	11.2	56,413	12.0	57,612	12.7
Auxiliary enterprises	34,959	6.9	31,055	6.6	32,132	7.1
Depreciation and amortization	39,302	7.7	34,425	7.3	34,613	7.7
Total operating expenses	$ 506,575	100.0 %	$ 470,304	100.0 %	$ 452,236	100.0 %

Capital Assets and Debt Activities

The University continues to manage its financial resources so as to ensure adequate financial flexibility to access the capital markets as needed. The University maintains debt ratings from Standard and Poor's and Moody's Investors Service of A and A2, respectively.

As of June 30, 2017 and 2016, the University had $217.3 million and $168.7 million, respectively in net investment in capital assets. Outstanding long-term debt as of June 30, 2017 is $653.2 million, compared to $672.9 million as of June 30, 2016.

Significant transactions related to capital assets and bonded debt that occurred during fiscal year 2017 were as follows:

In July 2016, the New Jersey Educational Facilities Authority (NJEFA) issued Rowan University Series 2016 C Bonds. The 2016 C revenue refunding bonds totaled $45.3 million with coupon rates ranging from 2.500% to 5.000% and maturing through 2031. The proceeds from this bond issuance will be used, along with other available funds, to refund and redeem all of NJEFA's Rowan University Series 2006 G Bonds, defease and redeem all of NJEFA's callable Rowan University 2008 B Bonds and pay the costs and expenses incurred in the issuance of the 2016 C Bonds.

During fiscal year 2017, the construction of Holly Pointe Commons was completed and the new student housing facility was placed in service. Under the ground lease service concession arrangement, the University recognized $118 6 million in capital assets as well as deferred inflows of resources. Additionally the University recognized $7.6 million in capital assets and deferred inflows of resources related to the dining facility sublease.

In May 2017, Inspira broke ground on the medical center project planned for the 1 00-acre parcel property purchased from the University. The first phase of the medical center is expected be approximately 467,000 square feet which will allow for additional development over time. The portion of the property currently under construction represents approximately 72% of the overall property cost. As a result, the University recognized the partial land sale of $8.3 million and reduced the repurchase liability to $3.2 million as of June 30, 2017.

Economic Outlook

State appropriations remain a vital source of funding for the University and the current budgetary issues with the State may have a negative impact on future funding. The University's unrestricted general operations appropriation from the State decreased $4.4 million from fiscal year 2016 to fiscal year 2017. As a result of the implementation of the New Jersey Medicaid Access to Physician Services (NJ MAPS) program within the New Jersey Medicaid program, general State appropriations were reduced by $5.7 million. The NJ MAPS program is entirely being funded by transfers of existing State Legislative appropriations, mostly from the parent universities of the medical schools. The reduction in appropriations due to NJ MAPS was offset by an increase of $1.3 million in special appropriations. The University expects to continue to experience uncertainty in its future level of State support. With increasing costs, particularly resulting from contractual obligations with faculty and staff and debt service, the University faces critical funding issues. Additionally, the University's desire to increase institutionally funded scholarships, continue building its academic program excellence and improve its capital assets will also impact the University's financial outlook. The University will continue to meet the goals of its mission by monitoring operating costs and capital expenditures while seeking additional revenue sources. The University will continue to monitor the situation and maintain a close watch over resources so as to provide the University with the ability to react to potential budgetary challenges that may occur.

Through the process of continuing strategic planning and self assessment, the University is committed in its efforts to continue to enrich the lives of those in the campus community and surrounding region.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Statement of Net Position

June 30, 2017

Assets	Rowan University	Rowan University Foundation	South Jersey Technology Park at Rowan University, Inc.	Total
Current assets:				
Cash and cash equivalents (notes 2 and 12)	$ 84,677,446	5,552,834	1,402,833	91,633,113
Restricted cash and cash equivalents (notes 2 and 12)	3,353,794	2,000,465	—	5,354,259
Receivables:				
Students, less allowance of $2,668,468	3,105,395	—	—	3,105,395
Contributions, net	—	38,238	—	38,238
Restricted contributions, net	—	427,493	—	427,493
Grants, less allowance of $1,610,112	26,271,533	—	—	26,271,533
State of New Jersey	8,992,325	—	—	8,992,325
Professional services and contracts receivable, less allowance of $2,853,050	8,631,741	—	—	8,631,741
Due from Rowan Foundation	—	—	—	—
Interest and other	1,826,242	—	11,905	1,838,147
Total receivables	48,827,236	465,731	11,905	49,304,872
Restricted deposits held by trustees (note 3)	26,882,337	—	—	26,882,337
Investments, at fair value (notes 2 and 12)	47,483,337	—	—	47,483,337
Other current assets	2,311,896	—	—	2,311,896
Total current assets	213,536,046	8,019,030	1,414,738	222,969,814
Noncurrent assets:				
Restricted deposits held by trustees (note 3)	40,661,941	—	—	40,661,941
Investments, at fair value (notes 2 and 12)	38,821,265	48,962,338	—	87,783,603
Restricted investments, at fair value (note 12)	—	18,413,656	—	18,413,656
Restricted nonexpendable investments, at fair value (note 12)	—	133,312,697	—	133,312,697
Loans receivable	2,492,662	—	—	2,492,662
Contributions receivable, net	—	6,670	—	6,670
Restricted contributions receivable, net	—	909,895	—	909,895
Capital assets, net (notes 4 and 11)	927,725,756	—	10,131,847	937,857,603
Total noncurrent assets	1,009,701,624	201,605,256	10,131,847	1,221,438,727
Total assets	1,223,237,670	209,624,286	11,546,585	1,444,408,541
Deferred Outflows of Resources				
Deferred outflows of resources:				
Pensions related (note 6)	89,141,444	—		89,141,444
Loss on bond refinancing	19,716,053	—	—	19,716,053
Total deferred outflows of resources	108,857,497	—	—	108,857,497
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses (note 7)	48,394,656	71,658	107,372	48,573,686
Unearned revenue	23,094,776	156,046	—	23,250,822
Annuities payable – current portion	—	37,630	—	37,630
Long-term debt – current portion (notes 8 and 9)	18,083,630	—	197,492	18,281,122
Total current liabilities	89,573,062	265,334	304,864	90,143,260
Noncurrent liabilities (note 9):				
Student deposits	670,893	—	—	670,893
Compensated absences – noncurrent portion (notes 9 and 11)	2,274,400	—	—	2,274,400
Unearned revenue	11,986,016	—	—	11,986,016
Other liabilities	658,556	—	—	658,556
Repurchase liability	3,220,000	—	—	3,220,000
Deposits held in custody for others	1,685,482	1,538,396	—	3,223,878
Annuities payable – noncurrent portion	—	281,944	—	281,944
Net pension liabilities	355,619,853	—	—	355,619,853
Long-term debt – noncurrent portion (notes 8 and 9)	635,136,694	—	4,757,317	639,894,011
Total noncurrent liabilities	1,011,251,894	1,820,340	4,757,317	1,017,829,551
Total liabilities	1,100,824,956	2,085,674	5,062,181	1,107,972,811
Deferred Inflows of Resources				
Deferred inflows of resources:				
Pensions related (note 6)	17,316,972	—	—	17,316,972
Gain on bond refinancing	192,051	—	—	192,051
Service concession arrangement (note 11)	120,957,012	—	—	120,957,012
Total deferred inflows of resources	138,466,035	—	—	138,466,035
Net Position				
Net investment in capital assets	217,306,030	—	5,177,038	222,483,068
Restricted:				
Nonexpendable (note 12)	—	133,312,697	—	133,312,697
Expendable:				
Debt service and reserve	17,755,000	—	—	17,755,000
Other scholarships	—	9,209,663	—	9,209,663
Other	3,353,794	11,984,621	—	15,338,415
Unrestricted	(145,610,649)	53,031,631	1,307,366	(91,271,652)
Total net position	$ 92,804,175	207,538,612	6,484,404	306,827,191

See accompanying notes to basic financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Statement of Net Position

June 30, 2016

Assets		Rowan University	Rowan University Foundation	South Jersey Technology Park at Rowan University, Inc.	Total
Current assets:					
Cash and cash equivalents (notes 2 and 12)	$	65,626,062	6,130,786	1,301,246	73,058,094
Restricted cash and cash equivalents (notes 2 and 12)		4,657,888	2,446,776	—	7,104,664
Receivables:					
Students, less allowance of $2,321,106		2,746,635	—	—	2,746,635
Contributions, net		—	83,361	—	83,361
Restricted contributions, net		—	224,854	—	224,854
Grants		40,651,112	—	—	40,651,112
State of New Jersey		3,152,791	—	—	3,152,791
Professional services and contracts receivable, less allowance of $2,117,426		7,722,218	—	—	7,722,218
Due from Rowan Foundation		1,491,795	(1,491,795)	—	—
Interest and other		2,524,046	—	125,178	2,649,224
Total receivables		58,288,597	(1,183,580)	125,178	57,230,195
Restricted deposits held by trustees (note 3)		32,073,884	—	—	32,073,884
Investments, at fair value (notes 2 and 12)		45,711,056	—	—	45,711,056
Other current assets		2,312,123	3,600	—	2,315,723
Total current assets		208,669,610	7,397,582	1,426,424	217,493,616
Noncurrent assets:					
Restricted deposits held by trustees (note 3)		62,064,851	—	—	62,064,851
Investments, at fair value (notes 2 and 12)		41,072,649	38,027,195	—	79,099,844
Restricted investments, at fair value (note 12)		—	15,705,939	—	15,705,939
Restricted nonexpendable investments, at fair value (note 12)		—	126,454,072	—	126,454,072
Loans receivable		4,188,348	—	—	4,188,348
Contributions receivable, net		—	18,149	—	18,149
Restricted contributions receivable, net		—	971,831	—	971,831
Capital assets, net (note 4)		768,824,338	—	10,499,283	779,323,621
Total noncurrent assets		876,150,186	181,177,186	10,499,283	1,067,826,655
Total assets		1,084,819,796	188,574,768	11,925,707	1,285,320,271
Deferred Outflows of Resources					
Deferred outflows of resources:					
Pensions related (note 6)		30,704,441	—	—	30,704,441
Loss on bond refinancing		18,608,866	—	—	18,608,866
Total deferred outflows of resources		49,313,307	—	—	49,313,307
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses (note 7)		67,313,251	179,671	32,780	67,525,702
Unearned revenue		20,029,395	676,659	—	20,706,054
Annuities payable – current portion		—	23,880	—	23,880
Long-term debt – current portion (notes 8 and 9)		18,414,053	—	190,713	18,604,766
Total current liabilities		105,756,699	880,210	223,493	106,860,402
Noncurrent liabilities (note 9):					
Student deposits		535,427	—	—	535,427
Compensated absences – noncurrent portion (notes 9 and 11)		2,374,177	—	—	2,374,177
Unearned revenue		7,225,664	—	—	7,225,664
Other liabilities		2,252,430	—	—	2,252,430
Repurchase liability		12,400,000	—	—	12,400,000
Deposits held in custody for others		1,663,790	1,533,237	—	3,197,027
Annuities payable – noncurrent portion		—	149,931	—	149,931
Net pension liabilities		267,337,449	—	—	267,337,449
Long-term debt – noncurrent portion (notes 8 and 9)		654,522,595	—	4,954,799	659,477,394
Total noncurrent liabilities		948,311,532	1,683,168	4,954,799	954,949,499
Total liabilities		1,054,068,231	2,563,378	5,178,292	1,061,809,901
Deferred Inflows of Resources					
Deferred inflows of resources:					
Pensions related (note 6)		23,139,790	—	—	23,139,790
Gain on bond refinancing		216,057	—	—	216,057
Total deferred inflows of resources		23,355,847	—	—	23,355,847
Net Position					
Net investment in capital assets		168,722,218	—	5,353,771	174,075,989
Restricted:					
Nonexpendable (note 12)		—	126,454,072	—	126,454,072
Expendable:					
Debt service and reserve		18,455,000	—	—	18,455,000
Inductotherm scholarships		—	199,034	—	199,034
Other scholarships		—	9,277,434	—	9,277,434
Other		4,657,888	7,651,550	—	12,309,438
Unrestricted		(135,126,081)	42,429,300	1,393,644	(91,303,137)
Total net position	$	56,709,025	186,011,390	6,747,415	249,467,830

See accompanying notes to basic financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2017

	Rowan University	Rowan University Foundation	South Jersey Technology Park at Rowan University, Inc.	Total
Operating revenues:				
Net student revenues:				
Tuition and fees	$ 242,874,103	—	—	242,874,103
Auxiliary enterprises	53,418,803	—	—	53,418,803
Less scholarship allowances	(60,022,825)	—	—	(60,022,825)
Net student revenues	236,270,081	—	—	236,270,081
Grants	64,269,368	—		64,269,368
Self-funded programs	5,348,008	—	—	5,348,008
Fundraising events	—	80,148	—	80,148
Contributions	—	6,033,985	—	6,033,985
Net professional services and contracts (note 10)	54,814,915	—	—	54,814,915
Rental income (note 13)	—	—	1,116,546	1,116,546
Other operating revenues	2,674,951	—	—	2,674,951
Total operating revenues	363,377,323	6,114,133	1,116,546	370,608,002
Operating expenses:				
Instruction	168,173,231		—	168,173,231
Research	13,512,231	—	—	13,512,231
Public service	8,867,252	—	—	8,867,252
Academic support	46,767,127	—	—	46,767,127
Student services	29,751,197	—	—	29,751,197
Institutional support	71,864,282	397,493	848,316	73,110,091
Operation and maintenance of plant	33,932,879	—	—	33,932,879
Student aid	2,730,250	—	—	2,730,250
Professional services and contracts	56,716,720	—	—	56,716,720
Auxiliary enterprises	34,959,066	—	—	34,959,066
Depreciation and amortization	39,301,803	—	367,436	39,669,239
Total operating expenses	506,576,038	397,493	1,215,752	508,189,283
Operating (loss) income	(143,198,715)	5,716,640	(99,206)	(137,581,281)
Nonoperating revenues (expenses):				
State of New Jersey appropriations	30,968,000	—	—	30,968,000
State of New Jersey appropriations – CMSRU	22,637,285	—	—	22,637,285
State of New Jersey appropriations – Rowan SOM	28,614,898	—	—	28,614,898
State of New Jersey fringe benefits (note 5)	75,093,016	—	—	75,093,016
Student scholarships	—	(2,974,590)	—	(2,974,590)
Gifts from Rowan University Foundation (note 12)	9,307,903	(9,307,903)	—	—
Other grants	—	(21,218)	—	(21,218)
Investment income, net	1,562,526	21,433,628	4,537	23,000,691
Interest on capital asset related debt	(35,496,065)	—	(176,418)	(35,672,483)
Other nonoperating revenues (expenses), net	6,917,098	(177,960)	8,076	6,747,214
Net nonoperating revenues (expenses)	139,604,661	8,951,957	(163,805)	148,392,813
Loss (income) before other revenues	(3,594,054)	14,668,597	(263,011)	10,811,532
Capital grants and gifts	39,689,204	—	—	39,689,204
Additions to permanent endowments	—	6,858,625	—	6,858,625
Increase (decrease) in net position	36,095,150	21,527,222	(263,011)	57,359,361
Net position as of beginning of year	56,709,025	186,011,390	6,747,415	249,467,830
Net position as of end of year	$ 92,804,175	207,538,612	6,484,404	306,827,191

See accompanying notes to basic financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2016

	Rowan University	Rowan University Foundation	South Jersey Technology Park at Rowan University, Inc.	Total
Operating revenues:				
Net student revenues:				
Tuition and fees	$ 221,493,105	—	—	221,493,105
Auxiliary enterprises	50,447,981	—	—	50,447,981
Less scholarship allowances	(55,396,590)	—	—	(55,396,590)
Net student revenues	216,544,496	—	—	216,544,496
Grants	49,044,264	—	—	49,044,264
Self-funded programs	4,820,358	—	—	4,820,358
Fundraising events	—	111,937	—	111,937
Contributions	—	6,686,654	—	6,686,654
Net professional services and contracts (note 10)	56,043,868	—	—	56,043,868
Rental income (note 13)	—	—	1,095,669	1,095,669
Other operating revenues	3,010,011	—	—	3,010,011
Total operating revenues	329,462,997	6,798,591	1,095,669	337,357,257
Operating expenses:				
Instruction	157,552,547	—	—	157,552,547
Research	9,735,746	—	—	9,735,746
Public service	8,516,596	—	—	8,516,596
Academic support	40,651,917	—	—	40,651,917
Student services	27,714,816	—	—	27,714,816
Institutional support	68,841,123	744,122	666,932	70,252,177
Operation and maintenance of plant	32,965,100	—	—	32,965,100
Student aid	2,433,615	—	—	2,433,615
Professional services and contracts	56,412,851	—	—	56,412,851
Auxiliary enterprises	31,054,757	—	—	31,054,757
Depreciation and amortization	34,424,619	—	367,436	34,792,055
Total operating expenses	470,303,687	744,122	1,034,368	472,082,177
Operating (loss) income	(140,840,690)	6,054,469	61,301	(134,724,920)
Nonoperating revenues (expenses):				
State of New Jersey appropriations	30,737,000	—	—	30,737,000
State of New Jersey appropriations – CMSRU	26,778,000	—	—	26,778,000
State of New Jersey appropriations – Rowan SOM	29,068,000	—	—	29,068,000
State of New Jersey fringe benefits (note 5)	70,041,274	—	—	70,041,274
Student scholarships	—	(2,413,046)	—	(2,413,046)
Gifts from Rowan University Foundation (note 12)	11,888,095	(11,888,095)	—	—
Other grants	—	(60,569)	—	(60,569)
Investment income (loss), net	1,205,453	(3,514,396)	3,081	(2,305,862)
Interest on capital asset related debt	(36,019,015)	—	(183,472)	(36,202,487)
Other nonoperating revenues (expenses), net	(806,595)	(55,848)	—	(862,443)
Net nonoperating revenues (expenses)	132,892,212	(17,931,954)	(180,391)	114,779,867
Loss before other revenues	(7,948,478)	(11,877,485)	(119,090)	(19,945,053)
Capital grants and gifts	65,601,539	—	—	65,601,539
Additions to permanent endowments	—	9,681,972	—	9,681,972
Increase (decrease) in net position	57,653,061	(2,195,513)	(119,090)	55,338,458
Net (deficit) position as of beginning of year	(944,036)	188,206,903	6,866,505	194,129,372
Net position as of end of year	$ 56,709,025	186,011,390	6,747,415	249,467,830

See accompanying notes to basic financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

(Business-Type Activities – Rowan University only)

Years ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Student revenues	$	239,638,032	217,381,022
Government and private grants		59,774,796	50,058,837
Professional services and contract		53,266,966	57,426,898
Payments to suppliers		(119,646,909)	(124,362,942)
Payments for employee salaries and benefits		(252,088,895)	(225,878,432)
Self-funded programs and other receipts		8,730,958	7,613,387
Net cash used by operating activities		(10,325,052)	(17,761,230)
Cash flows from noncapital financing activities:			
State of New Jersey appropriations		82,220,183	86,583,000
Gifts		11,067,534	10,340,008
Net cash provided by noncapital financing activities		93,287,717	96,923,008
Cash flows from capital and related financing activities:			
Proceeds from bond refunding		54,479,811	—
Proceeds from bond issuance		—	52,311,420
Drawdown of restricted deposits held by trustees		82,242,882	49,961,506
Capital grants		68,000,737	29,075,753
Deposit to acquisition fund		(55,648,426)	(47,450,663)
Deposit to capitalized interest fund		—	(4,076,727)
Costs of issuance		(610,415)	(784,031)
Purchases of capital assets		(96,792,058)	(94,167,948)
Bond defeasance		(55,648,425)	—
Proceeds from repurchase agreement		—	10,500,000
Principal paid on capital debt		(24,651,385)	(17,712,883)
Interest paid on capital debt		(36,184,759)	(36,948,966)
Net cash used by capital and related financing activities		(64,812,038)	(59,292,539)
Cash flows from investing activities:			
Purchase of investments		(111,801,180)	(71,838,169)
Sale of investments		109,471,220	75,502,215
Interest on investments		1,926,623	1,422,291
Net cash (used by) provided by investing activities		(403,337)	5,086,337
Net increase in cash and cash equivalents		17,747,290	24,955,576
Cash and cash equivalents as of beginning of the year		70,283,950	45,328,374
Cash and cash equivalents as of end of the year	$	88,031,240	70,283,950
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$	(143,198,715)	(140,840,690)
Adjustments to reconcile operating loss to net cash used by operating activities:			
State paid fringe benefits		75,093,016	70,041,274
Depreciation and amortization expense		39,301,803	34,424,619
Changes in assets and liabilities:			
Receivables		11,157,048	(91,853)
Other current assets		227	(405,756)
Accounts payable and accrued expenses		(18,229,901)	4,604,930
Unearned revenue		3,065,380	3,592,819
Student deposits		135,466	(84,618)
Other liabilities		(1,593,874)	277,582
Deposits held in custody for others		21,692	160,657
Compensated absences – noncurrent portion		(99,777)	690,903
Net pension liability, net of deferred amounts		24,022,583	9,868,903
Net cash used by operating activities	$	(10,325,052)	(17,761,230)
Noncash transaction:			
Noncash gifts	$	1,168,836	7,758,664
Unrealized loss on investments		(410,561)	(118,206)
Construction fund direct vendor payments		—	162,856

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Rowan University (the University), formerly Rowan College of New Jersey, was founded in 1923 and effective July 1, 1967, came under the general policy control of the New Jersey Board of Higher Education. Under the Higher Education Act of 1966, the University and all the other New Jersey State colleges became multipurpose institutions of higher education with an emphasis on the liberal arts and sciences and various professional areas including the science of education and the art of teaching. The operation and management of the University is vested in the University's board of trustees.

The University is recognized as a public institution by the State of New Jersey (the State). Under the law, the University is an instrumentality of the State with a high degree of autonomy. However, the University is considered a component unit of the State for financial reporting purposes. Accordingly, the financial statements of the University are included in the State's Comprehensive Annual Financial Report.

On August 22, 2012 Governor Christie signed the "New Jersey Medical and Health Sciences Education Restructuring Act" (the Law) into law. Effective July 1, 2013, the School of Osteopathic Medicine (SOM) in Stratford, NJ (formerly under the University of Medicine and Dentistry of New Jersey (UMDNJ)) was integrated with the University. The Law also establishes the University as a public research institution.

(b) Summary of Significant Accounting Policies

(i) Basis of Presentation

The accounting policies of the University conform to accounting principles generally accepted in the United States of America as applicable to public colleges and universities. The University reports are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements.

GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities – an amendment of GASB Statement No. 34* (GASB 35), establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories:

- *Net investment in capital assets*: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted:*

  Nonexpendable – Net position subject to externally imposed stipulations that must be maintained permanently by the University.

  Expendable – Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to the stipulations or that expire by the passage of time.

- *Unrestricted*: Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the board of trustees.

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 utilizing the economic resources measurement focus. The University reports as a business-type activity, as defined by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (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.

(iii) Cash and Cash Equivalents

The University classifies as cash equivalents, funds that are in short-term, highly liquid investments, and are readily convertible to known amounts of cash with a portfolio maturity of one year or less.

The University maintains portions of its cash with three custodians, two banks and the State of New Jersey Cash Management Fund (NJCMF). All are interest-bearing accounts from which the funds are available upon demand.

(iv) Investments

Investments are reflected at fair value. Purchases and sales of investments are accounted for on the trade-date basis. Investment income is recorded on an accrual basis. Realized and unrealized gains and losses are reported in investment income.

(v) Capital Assets

Capital assets include land, land improvements, buildings, and equipment. Such assets are recorded at historical cost. Land improvements and building improvements costing over $50,000, as well as equipment with a unit cost over $5,000 are capitalized. Donated capital assets, including artwork, are recorded at the acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add value to the asset are not capitalized. Major outlays for capital assets are capitalized as projects are constructed. Artwork is considered inexhaustible and

(Continued)

is not depreciated. Capital assets are depreciated using the straight-line method over the following useful lives:

	Useful lives
Land improvements	20 years
Buildings	20–40 years
Equipment	3–20 years

(vi) *Deposits Held in Custody for Others*

The University holds cash and cash equivalents as custodian primarily for the Student Government Association.

(vii) *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), the Police and Firemen's Retirement System (PFRS) and the Teachers' Pension and Annuity Fund (TPAF), and additions to/deductions from PERS's, PFRS's, and TPAF's fiduciary net position have been determined on the same basis as they are reported by PERS, PFRS 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, PFRS and TPAF, please refer to the State of New Jersey, Division of Pensions and Benefits' Comprehensive Annual Financial Report (CAFR), which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

(viii) *Financial Dependency*

One of the University's largest sources of revenue is appropriations from the State, which include state paid fringe benefits. The University is economically dependent on these appropriations to carry on its operations.

(ix) *Student Tuition and Fees*

Student tuition and fees are presented net of scholarships applied to student accounts, while other payments made directly to students are presented as student aid expenses and are recognized in the period incurred. Student tuition and fees collected in advance of the fiscal year are recorded as unearned revenue in the accompanying statements of net position.

(x) *Professional Services and Contract Revenues*

Professional services and contract revenues include the operations of SOM faculty practice plans and affiliated hospital billings. The professional services and contract revenues are recorded on an accrual basis and reported at the estimated net realizable amounts from patients, third party payers and others for services rendered. The house staff and affiliations revenues are recorded on an actual basis based on contracts with various affiliated hospitals for reimbursement of salary, fringe and malpractice charges incurred by SOM.

(xi) Grants and Contracts

All grants and contracts 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 and contracts for which eligibility requirements have not been met under the terms of the agreement, are recorded as unearned revenue in the accompanying statements of net position.

(xii) Classification of Revenue

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

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

In June 2015, the GASB issued 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. GASB 75 will be effective for periods beginning after June 15, 2017. The University is evaluating the impact of this new statement.

(xiv) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

(xv) Tax Status

The University is exempt from income taxes on related income pursuant to federal and state tax laws as an instrumentality of the State.

(Continued)

(xvi) Reclassifications

Certain reclassifications have been made to the 2016 financial statement amounts and disclosures in order to conform to the presentation of the current year's financial statement amounts and disclosures

(2) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of June 30, 2017 and 2016:

		2017	2016
Cash	$	85,316,021	69,283,830
State of New Jersey Cash Management Fund		618,169	614,766
Money market accounts		2,097,050	385,354
Total cash and cash equivalents	$	88,031,240	70,283,950

Cash and money market accounts were held at a depository and bank balances amounted to $89,279,273 and $71,681,830, respectively, as of June 30, 2017 and 2016. Of these amounts, $500,000 was FDIC insured, $1,497,036 and $97,408 was uninsured and uncollateralized and the excess is collateralized pursuant to Chapter 64 of Title 18A of New Jersey Statutes as of June 30, 2017 and 2016, respectively.

The University participates in NJCMF wherein amounts also contributed by other State entities are combined in a large-scale investment program. The University deposits in the NJCMF were $618,169 and $614,766 as of June 30, 2017 and 2016, respectively. These amounts are collateralized in accordance with New Jersey Statute 52:18-16-1, but not in the University's name.

The operations of the NJCMF are governed by statutes of the State and the provisions of the State Investment Council Regulations for the purpose of determining authorized investments. The fair value of the NJCMF is based on the number of shares held by the University and the market price of those shares as of June 30, 2017 and June 30, 2016. The NJCMF is unrated with an average portfolio maturity of less than one year.

(b) Investments

The University's investments consist of the following as of June 30, 2017 and 2016:

		2017	2016
U.S. government treasury securities	$	4,089,419	7,761,128
U.S. government agency securities		1,779,124	4,957,044
U.S. corporate bonds		72,598,451	64,546,519
Foreign corporate bonds		299,930	1,030,083
Mutual funds – equity		3,937,474	3,516,860
Common stock – equity		164,538	—
Asset-backed securities		1,311,681	2,588,764
Commercial mortgage-backed securities		684,360	959,566
Municipal bonds		1,022,195	1,098,190
Collateralized mortgage obligations		417,430	325,551
Total investments	$	86,304,602	86,783,705

The University has an investment policy, which establishes guidelines for permissible investments. Short-term investment options include, but are not limited to, the funds, municipal obligations, etc. that are deemed appropriate and within the risk parameters as determined by the University Board of Trustees and the University Executive Staff.

The University's long-term investment options include, but are not limited to, the purchase of U.S. Government agency obligations, U.S. government treasury securities, corporate bonds, and other investment vehicles (i.e. mutual funds, asset backed securities, etc.) that are deemed appropriate and within the University's investment policy.

The University's investments are subject to various risks. Among these risks are credit risk and interest rate risk. Each one of these risks is discussed in more detail below.

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) and Standard and Poors (S&P). The University's investment policy requires that fixed income securities are rated Baa3/BBB – or higher by at least one rating agency. At June 30, 2017 and 2016, the University does not have investments in a single issuer of more than 5% of its total investments and therefore does not have a concentration of credit risk.

The following tables summarize the agency ratings of the fixed income securities included in the University's investments as of June 30, 2017 and 2016:

	2017							
	S&P Rated				Moody's Rated			
	AAA	AA	A	BBB	Aaa	Aa	A	Total
U.S. government treasury securities	$ 567,018	3,522,401	—	—	—	—	—	4,089,419
U.S. government agency securities	—	1,779,124	—	—	—	—	—	1,779,124
U.S. corporate bonds	2,000,850	15,396,921	32,485,448	21,924,167	791,065	—	—	72,598,451
Foreign corporate bonds	—	199,866	100,064	—	—	—	—	299,930
Asset-backed securities	689,169	55,825	130,778	—	405,842	30,067	—	1,311,681
Commercial mortgage-backed securities	189,526	145,678	—	—	349,156	—	—	684,360
Municipal bonds	—	563,255	200,529	—	—	49,997	208,414	1,022,195
Collateralized mortgage obligations	—	417,430	—	—	—	—	—	417,430
Total	$ 3,446,563	22,080,500	32,916,819	21,924,167	1,546,063	80,064	208,414	82,202,590

	2016						
	S&P Rated				Moody's Rated		
	AAA	AA	A	BBB	Aaa	A2	Total
U.S. government treasury securities	$ 612,968	7,148,160	—	—	—	—	7,761,128
U.S. government agency securities	—	4,957,044	—	—	—	—	4,957,044
U.S. corporate bonds	2,027,680	19,960,093	28,239,738	14,101,185	217,823	—	64,546,519
Foreign corporate bonds	525,142	300,184	204,757	—	—	—	1,030,083
Asset-backed securities	1,220,447	30,135	182,119	—	1,156,063	—	2,588,764
Commercial mortgage-backed securities	101,706	437,290	—	—	420,570	—	959,566
Municipal bonds	70,568	688,724	293,492	—	—	45,406	1,098,190
Collateralized mortgage obligations	—	236,053	—	—	89,498	—	325,551
Total	$ 4,558,511	33,757,683	28,920,106	14,101,185	1,883,954	45,406	83,266,845

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The University's investment policy does not specifically address limitations in the maturities of investments. For the University, the following tables summarize the maturities of the fixed income security investments as of June 30, 2017 and 2016:

	2017				
		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
U.S. government treasury securities	$ 4,089,419	807,688	2,714,713	567,018	—
U.S. government agency securities	1,779,124	1,411,803	367,321	—	—
U.S. corporate bonds	72,598,451	44,905,620	27,692,831	—	—
Foreign corporate bonds	299,930	100,064	199,866	—	—
Asset-backed securities	1,311,681	—	1,211,366	71,031	29,284
Commercial mortgage-backed securities	684,360	48,302	—	—	636,058
Municipal bonds	1,022,195	209,860	812,335	—	—
Collateralized mortgage obligations	417,430	—	176,311	202,399	38,720
Total	$ 82,202,590	47,483,337	33,174,743	840,448	704,062

	2016				
		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
U.S. government treasury securities	$ 7,761,128	3,134,798	4,013,362	612,968	—
U.S. government agency securities	4,957,044	2,999,970	1,792,096	164,978	—
U.S. corporate bonds	64,546,519	38,553,400	25,993,119	—	—
Foreign corporate bonds	1,030,083	850,458	179,625	—	—
Asset-backed securities	2,588,764	—	2,457,384	45,000	86,380
Commercial mortgage-backed securities	959,566	—	217,407	—	742,159
Municipal bonds	1,098,190	60,128	1,038,062	—	—
Collateralized mortgage obligations	325,551	112,301	213,250	—	—
Total	$ 83,266,845	45,711,055	35,904,305	822,946	828,539

(c) 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 – quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.

(Continued)

- Level 3 – pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity or the investment.

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.

The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the University's perceived risk of that instrument.

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

- U. S. government treasury securities and agency securities – The fair value of government securities and agencies are based on institutional bond quotes and evaluations based on various market and industry inputs.
- U. S. and foreign corporate bonds – The fair value of corporate bonds are based on institutional bond quotes and evaluations based on various market and industry inputs.
- Common stocks and mutual funds – equity – The fair value of mutual funds are based on quoted market prices, when available, or market prices provided by recognized broker-dealers.
- Asset backed securities, mortgages, commercial mortgage-backed securities and collateralized mortgage obligations – The fair value of asset backed securities, mortgages, commercial mortgage-backed securities, and collateralized mortgage obligations are based on various market and industry inputs and quotes from market makers and other brokers recognized to be market participants.
- Municipal bonds – The fair value of municipal bonds are based on various market and industry inputs.

The University's financial instruments as of June 30, 2017 are summarized in the following table by their fair value hierarchy:

	Total	Level 1	Level 2	Level 3
Investments:				
U. S. government treasury securities	$ 4,089,419	—	4,089,419	—
U. S. government agency securities	1,779,124	—	1,779,124	—
U. S. corporate bonds	72,598,451	—	72,598,451	—
Foreign corporate bonds	299,930	—	299,930	—
Mutual funds – equity	3,937,474	3,937,474	—	—
Common stock – equity	164,538	164,538	—	—
Asset-backed securities	1,311,681	—	1,311,681	—
Commercial mortgage-backed securities	684,360	—	684,360	—
Municipal bonds	1,022,195	—	1,022,195	—
Collateralized mortgage obligations	417,430	—	417,430	—
Total investments	$ 86,304,602	4,102,012	82,202,590	—

The University's financial instruments at June 30, 2016 are summarized in the following table by their fair value hierarchy:

	Total	Level 1	Level 2	Level 3
Investments:				
U. S. government treasury securities	$ 7,761,128	—	7,761,128	—
U. S. government agency securities	4,957,044	—	4,957,044	—
U. S. corporate bonds	64,546,519	—	64,546,519	—
Foreign corporate bonds	1,030,083	—	1,030,083	—
Mutual funds – equity	3,516,860	3,516,860	—	—
Asset-backed securities	2,588,764	—	2,588,764	—
Commercial mortgage-backed securities	959,566	—	959,566	—
Municipal bonds	1,098,190	—	1,098,190	—
Collateralized mortgage obligations	325,551	—	325,551	—
Total investments	$ 86,783,705	3,516,860	83,266,845	—

(3) Restricted Deposits Held by Trustees

Restricted deposits held by trustees include restricted funds held by three Board approved trustees. Deposits held by trustees consist of cash and money market investments, which are measured at amortized cost. The money market investments were unrated. Restricted deposits held by trustees include funds for construction, debt service reserve, and debt service.

		2017	2016
Construction funds	$	40,661,941	62,064,851
Debt service and debt service reserve funds		26,882,337	32,073,884
		67,544,278	94,138,735
Less current portion		26,882,337	32,073,884
Noncurrent restricted deposits held by trustees	$	40,661,941	62,064,851

(4) Capital Assets

The detail of capital assets activity for the years ended June 30, 2017 and 2016 is as follows:

2017		Beginning balance	Additions/ Transfers	Deletions/ transfers	Ending balance
Nondepreciable assets:					
Land	$	57,809,570	208,704	(7,449,183)	50,569,091
Artwork		2,405,542	365,082	—	2,770,624
Construction in progress		134,586,299	71,196,922	(173,885,350)	31,897,871
Total nondepreciable assets		194,801,411	71,770,708	(181,334,533)	85,237,586
Depreciable assets:					
Land improvements		46,731,762	8,339,828	—	55,071,590
Buildings		863,703,507	282,587,141	(356,262)	1,145,934,386
Equipment		43,048,295	17,281,685	(36,513)	60,293,467
Total depreciable assets		953,483,564	308,208,654	(392,775)	1,261,299,443
Less accumulated depreciation:					
Land improvements		20,934,584	2,505,709	—	23,440,293
Buildings		329,678,471	31,946,101	(106,661)	361,517,911
Equipment		28,847,582	5,066,506	(61,019)	33,853,069
Total accumulated depreciation		379,460,637	39,518,316	(167,680)	418,811,273
Total capital assets, net	$	768,824,338	340,461,046	(181,559,628)	927,725,756

2016		Beginning balance	Additions/ Transfers	Deletions/ transfers	Ending balance
Nondepreciable assets:					
Land	$	50,445,158	7,681,347	(316,935)	57,809,570
Artwork		2,210,542	195,000	—	2,405,542
Construction in progress		70,069,246	106,473,065	(41,956,012)	134,586,299
Total nondepreciable assets		122,724,946	114,349,412	(42,272,947)	194,801,411
Depreciable assets:					
Land improvements		40,721,543	6,028,510	(18,291)	46,731,762
Buildings		835,198,510	38,194,373	(9,689,376)	863,703,507
Equipment		68,676,911	3,287,499	(28,916,115)	43,048,295
Total depreciable assets		944,596,964	47,510,382	(38,623,782)	953,483,564
Less accumulated depreciation:					
Land improvements		18,953,400	1,999,475	(18,291)	20,934,584
Buildings		310,180,140	27,547,399	(8,049,068)	329,678,471
Equipment		52,118,251	4,495,481	(27,766,150)	28,847,582
Total accumulated depreciation		381,251,791	34,042,355	(35,833,509)	379,460,637
Total capital assets, net	$	686,070,119	127,817,439	(45,063,220)	768,824,338

Depreciation expense for the years ending June 30, 2017 and 2016 is $39,518,316 and $34,042,355, respectively. During 2017 and 2016, the University had capitalized interest, net of related interest income, of $2,499,003 and $3,007,293, respectively. The estimated cost to complete capital projects included in construction in progress as of June 30, 2017 approximates $80,784,000. Anticipated financing for these projects is approximately $24,104,000 in grant funds, $13,053,000 in bond funding and $43,627,000 in University funds.

(5) State of New Jersey Fringe Benefits

The State, through separate appropriations, pays certain fringe benefits, principally health benefits and FICA taxes, on behalf of University employees and retirees. The costs of these benefits, $75,093,016 and $70,041,274, respectively, for fiscal years 2017 and 2016, were paid directly by the State on behalf of the University and are included in the accompanying financial statements as State of New Jersey fringe benefits revenue and as expenses.

(6) Retirement Plans

The University participates in several retirement plans, administered by the State of New Jersey, Division of Pensions and Benefits (the Division), covering its employees – the Public Employees' Retirement System, the Police and Firemen's Retirement System, the Teachers' Pension and Annuity Fund, the Alternate

Benefit Program (ABP), and the Defined Contribution Retirement Program (DCRP). PERS, PFRS and TPAF are cost-sharing, multiple-employer defined benefit retirement plans, while ABP and DCRP are defined contribution retirement plans. Generally all employees, except certain part-time employees, participate in one of these plans. The University is charged for pension costs through a fringe benefit charge assessed by the State which is included with the State of New Jersey fringe benefits in the accompanying financial statements (see note 5).

A publicly available CAFR of the State of New Jersey, Division of Pensions and Benefits, which includes financial statements, required supplementary information, and detailed information about the PERS's, PFRS's, and TPAF's fiduciary net position, can be obtained at www.state.nj.us/treasury/pensions/ annrprts.shtml or by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

(a) Defined Benefit Pension Plans

General Information

(i) Public Employees' Retirement System

Plan description – PERS was established under the provisions of N.J.S.A. 43:15A to provide retirement, death and disability benefits to substantially all full-time employees of the State or any county, municipality, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state pension fund or local jurisdiction's pension fund.

Benefits provided – 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

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.

Contributions – The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. The member contribution rate at June 30, 2017 and 2016 was 7.20% and 7.06% respectively of pensionable wages. The State contributes the employer's share 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. The University's contributions to PERS (amounts paid by the State on behalf of the University) for the fiscal year ended June 30, 2017 and 2016 were $5,331,193 and $3,690,074, respectively.

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

Plan description – PFRS was established under the provisions of N.J.S.A 43:16A to provide retirement, death and disability benefits to substantially all full time county and municipal police or firemen and state firemen or officer employees with police powers appointed after June 30, 1944.

Benefits provided – All benefits vest after ten years of service, except disability benefits, which vest after four years of service.

The following represents the membership tiers for PFRS:

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

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

Contributions – The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. The State contributes the employer's share on behalf of the University. The State's contribution amount is based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. The member contribution rate at June 30, 2017 and 2016 was 10% of pensionable wages. The University's contributions to PFRS (amounts paid by the State on behalf of the University) for the fiscal years ended June 30, 2017 and 2016 were $805,419 and $545,161, respectively.

(iii) *Teachers' Pension and Annuity Fund*

Plan description – TPAF was established under the provisions of N.J.S.A. 18A:66 to provide retirement, death and disability benefits to substantially all teachers or members of the professional staff certified by the State Board of Examiners and employees of the State of New Jersey, Department of Education, who have titles that are unclassified, professional, and certified. Certain faculty members of the University participate in the TPAF. Under the provisions of N.J.S.A. 18A:66-33, the State is legally obligated to make contributions on behalf of all participating employers to the plan, therefore TPAF meets the definition of a special funding situation as defined in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Benefits provided – The vesting and benefit provisions are set by N.J.S.A. 18A:66. 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 before age 62 with 25 or more years of service credit, and tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions – The contribution policy is set by N.J.S.A. 18A:66 and requires contributions by active members and contributing employers. The full normal employee contribution rates as of July 1, 2016 and 2015 was 7.20% and 7.06% respectively. 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.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The University's respective net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense related to PERS and PFRS are calculated by the Division. At June 30, 2017, the University reported a liability of $337,030,671 and $18,589,182 for PERS and PFRS, respectively, for its proportionate share of the respective PERS and PFRS net pension liabilities. At June 30, 2016, the University reported a liability of $251,080,946 and $16,256,503 for PERS and PFRS, respectively, for its proportionate share of the respective PERS and PFRS net pension liabilities. As the State is legally obligated to fund TPAF on behalf of the University, the University's proportionate share of net pension liability at June 30, 2017 and 2016 of $1,744,239 and $6,423,696, respectively, is recognized by the State. The total pension liabilities used to calculate the net pension liabilities, which were recorded in the statement of net position as of June 30, 2017, were determined by actuarial valuations as of July 1, 2015 and rolled forward to the measurement date of June 30, 2016. The total pension liabilities used to calculate the net pension liabilities, which were recorded in the statement of net position as of June 30, 2016, were determined by actuarial valuations as of July 1, 2014 and rolled forward to the measurement date of June 30, 2015. For PERS and PFRS, the University's proportionate share of the respective net pension liabilities for the fiscal year was based on the actual contributions made by the State on behalf of the University relative to the total contributions of participating employers of the State Group for each plan for fiscal years 2016 and 2015. For TPAF, the University's proportionate share of the respective net pension liability for the fiscal year was based on the actual contributions made by the State on behalf of the University relative to the total contributions made by the State for fiscal years 2016 and 2015. The University's allocation percentages and pension expense for each plan are as follows:

		2016		
		PERS	**PFRS**	**TPAF**
2016 Allocation percentage – State Group/Nonemployer Group[1]		1.147 %	0.395 %	0.002 %
2016 Allocation percentage – Total Plan[2]		0.571 %	0.073 %	0.002 %
Pension expense for the year ended June 30, 2016	$	28,901,474	1,766,047	131,055

	2015		
	PERS	**PFRS**	**TPAF**
2015 Allocation percentage – State Group/Nonemployer Group[1]	1.184 %	0.406 %	0.012 %
2015 Allocation percentage – Total Plan[2]	0.613 %	0.083 %	0.012 %
Pension expense for the year ended June 30, 2015	$ 13,232,195	1,312,500	392,224

[1] – Allocation percentage for PERS and PFRS based on total State Group. Allocation percentage for TPAF based on total Nonemployer Group.
[2] – Allocation percentage calculated as the University's respective net pension liability as a percentage of the total plan's net pension liability.

As TPAF is a special funding situation, the University recognized revenue related to the support provided by the State as of June 30, 2017 and 2016 of $131,055 and $392,224 respectively in the State of New Jersey fringe benefits amount on the statements of revenue, expenses and changes in net position.

The University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of June 30, 2017 and 2016:

	2017		
	PERS	**PFRS**	**Total**
Deferred outflows of resources:			
Changes of assumptions	$ 50,376,237	1,447,631	51,823,868
Changes in proportionate share	17,148,996	710,857	17,859,853
Differences between expected and actual experience	7,173,198	—	7,173,198
Net differences between projected and actual investment earnings on pension plan investments	5,568,262	579,651	6,147,913
Contributions subsequent to the measurement date	5,331,193	805,419	6,136,612
Total	$ 85,597,886	3,543,558	89,141,444
Deferred inflows of resources:			
Changes in proportionate share	$ 16,530,465	625,665	17,156,130
Differences between expected and actual experience	—	160,842	160,842
Total	$ 16,530,465	786,507	17,316,972

		2016		
		PERS	**PFRS**	**Total**
Deferred outflow of resources:				
Changes of assumptions	$	19,139,635	1,667,181	20,806,816
Changes in proportionate share		1,843,315	265,921	2,109,236
Differences between expected and actual experience		3,509,306	—	3,509,306
Net differences between projected and actual investment earnings on pension plan investments		—	43,848	43,848
Contributions subsequent to the measurement date		3,690,074	545,161	4,235,235
Total	$	28,182,330	2,522,111	30,704,441
Deferred inflow of resources:				
Changes in proportionate share	$	20,974,102	802,907	21,777,009
Differences between expected and actual experience		—	123,253	123,253
Net differences between projected and actual investment earnings on pension plan investments		1,239,528	—	1,239,528
Total	$	22,213,630	926,160	23,139,790

As the State is legally obligated to fund TPAF on behalf of the University, the University's proportionate share of deferred outflows of resources and deferred inflows of resources are recognized by the State.

At June 30, 2017, $6,136,612 was reported as deferred outflows of resources related to pensions resulting from contributions made on behalf of the University by the State subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

		PERS	**PFRS**	**Total**
Years ending:				
2018	$	13,799,860	486,038	14,285,898
2019		13,799,860	486,038	14,285,898
2020		15,551,078	572,645	16,123,723
2021		13,851,934	337,776	14,189,710
2022		6,733,495	69,135	58,885,229
	$	63,736,227	1,951,632	65,687,859

Actuarial Assumptions

The total pension liabilities measured as of June 30, 2016 based on the July 1, 2015 actuarial valuations for PERS, PFRS and TPAF were determined using the following actuarial assumptions:

	2016		
	PERS	**PFRS**	**TPAF**
Inflation rate	3.08%	3.08%	2.50%
Salary increases:			
Through 2026	1.65–4.15% based on age	2.10–8.98% based on age	Varies based on experience
Thereafter	2.65–5.15% based on age	3.10–9.98% based on age	Varies based on experience
Investment rate of return	7.65%	7.65%	7.65%

The total pension liabilities measured as of June 30, 2015 based on the July 1, 2014 actuarial valuations for PERS, PFRS and TPAF were determined using the following actuarial assumptions:

	2015		
	PERS	**PFRS**	**TPAF**
Inflation rate	3.04%	3.04%	2.50%
Salary increases:			
Through 2021	2.15–4.40% based on age	2.60–9.48% based on age	Varies based on experience
Thereafter	3.15–5.40% based on age	3.60–10.48% based on age	Varies based on experience
Investment rate of return	7.90%	7.90%	7.90%

2016

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

2015

For PERS, mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) were used to value disabled retirees.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience studies for the periods July 1, 2008 to June 30, 2011.

2016

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

2015

For PFRS, mortality rates were based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and one year using Projection Scale BB for male service retirements with adjustments for mortality improvements from the base year based on Projection Scale BB for males and projected fourteen years using Projection Scale BB for female service retirements and beneficiaries with adjustments for mortality improvements from the base year of 2014 based on Projection Scale BB.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience studies for the periods July 1, 2007 to June 30, 2010.

(Continued)

2016

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

2015

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

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

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% and 7.90% at June 30, 2016 and 2015, respectively) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of the arithmetic real rates of return for each major asset class included in PERS's, PFRS's and TPAF's target asset allocations as of June 30, 2016 are summarized in the following table:

	PERS and PFRS		TPAF	
Asset class	**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	1.50	1.74	N/A	N/A
U.S. government bonds	N/A	N/A	1.50%	1.28%
Investment grade credit	8.00	1.79	N/A	N/A
U.S. credit bonds	N/A	N/A	13.00%	2.76%
Mortgages	2.00	1.67	2.00	2.38
High yield bonds	2.00	4.56	2.00	4.70
U.S. equity market	N/A	N/A	26.00%	5.14%
Foreign developed equity	N/A	N/A	13.25%	5.91%
Inflation-indexed bonds	1.50	3.44	1.50	1.41
Broad U.S. equities	26.00	8.53	N/A	N/A
Developed foreign equities	13.25	6.83	N/A	N/A
Emerging market equities	6.50	9.95	6.50	8.16
Private real estate property	N/A	N/A	5.25%	3.64%
Private equity	9.00	12.40	9.00	8.97
Hedge funds/Absolute return	12.50	4.68	12.50	11.91
Real estate (property)	2.00	6.91	N/A	N/A
Timber	N/A	N/A	1.00	3.86
Farmland	N/A	N/A	1.00	4.39
Commodities	0.50	5.45	0.50	2.87
Global debt ex U.S.	5.00	-0.25	N/A	N/A
REIT	5.25	5.63	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%

Best estimates of the arithmetic real rates of return for each major asset class included in PERS's, PFRS's and TPAF's target asset allocations as of June 30, 2015 are summarized in the following table:

	PERS and PFRS		TPAF	
Asset class	**Target allocation**	**Long-term expected real rate of return**	**Target allocation**	**Long-term expected real rate of return**
Cash	5.00%	1.04%	5.00%	0.53%
U.S. treasuries	1.75	1.64	N/A	N/A
U.S. government bonds	N/A	N/A	1.75%	1.39%
Investment grade credit	10.00	1.79	N/A	N/A
U.S. credit bonds	N/A	N/A	13.50%	2.72%
Mortgages	2.10	1.62	2.10	2.54
High yield bonds	2.00	4.03	2.00	4.57
U.S. equity market	N/A	N/A	27.25%	5.63%
Foreign developed equity	N/A	N/A	12.00%	6.22%
Inflation-indexed bonds	1.50	3.25	1.50	1.47
Broad U.S. equities	27.25	8.52	N/A	N/A
Developed foreign equities	12.00	6.88	N/A	N/A
Emerging market equities	6.40	10.00	6.40	8.46
Private real estate property	N/A	N/A	4.25%	3.97%
Private equity	9.25	12.41	9.25	9.15
Hedge funds/absolute return	12.00	4.72	N/A	N/A
Real estate (property)	2.00	6.83	N/A	N/A
Commodities	1.00	5.32	1.00	3.58
Global debt ex. U.S.	3.50	(0.40)	N/A	N/A
Real estate (REITS)	4.25	5.12	N/A	N/A
Hedge funds – multi-strategy	N/A	N/A	4.00	4.59
Hedge funds – equity hedge	N/A	N/A	4.00	5.68
Hedge funds – distressed	N/A	N/A	4.00	4.30
Timber	N/A	N/A	1.00%	4.09%
Farmland	N/A	N/A	1.00%	4.61%

Discount Rate

The discount rates used to measure the total pension liabilities were 3.98%, 5.55% and 3.22% for PERS, PFRS, and TPAF, respectively, as of June 30, 2016. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.65% and a municipal bond rate of 2.85% as of June 30, 2016, 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 discount rates used to measure the total pension liabilities were 4.90%, 5.79% and 4.13% for PERS, PFRS, and TPAF, respectively, as of June 30, 2015. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.90% and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer GO 20-Bond Municipal

Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions for PERS, PFRS and TPAF and the local employers contributed 100% of their actuarially determined contributions for PERS and PFRS. Based on those assumptions, the plan's fiduciary net position as of June 30, 2016 was projected to be available to make projected future benefit payments of current plan members through 2034 for PERS, 2050 for PFRS and 2029 for TPAF. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 for PERS, 2050 for PFRS and 2029 for TPAF and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the collective net pension liability of the University as of June 30, 2016 and 2015 respectively, calculated using the discount rates as disclosed above as well as the collective net pension liability if it was calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	2016		
Plan (rates)	**At 1% decrease**	**At current discount rate**	**At 1% increase**
PERS(2.98%, 3.98%, 4.98%)	394,735,827	337,030,671	289,509,065
PFRS(4.55%, 5.55%, 6.55%)	22,146,933	18,589,182	15,696,961

	2015		
Plan (rates)	**At 1% decrease**	**At current discount rate**	**At 1% increase**
PERS(3.90%, 4.90%, 5.90%)	294,264,541	251,080,946	215,016,534
PFRS(4.79%, 5.79%, 6.79%)	19,572,666	16,256,503	13,561,285

(b) Defined Contribution Retirement Plans

Alternative Benefit Program

ABP provides retirement and death benefits for or on behalf of those full-time professional employees and faculty members electing to participate in this optional retirement program. Participation eligibility as well as contributory and noncontributory requirements is established by the State of New Jersey Retirement and Social Security Law. Contributions can be invested with up to six investment carriers available under the plan. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code. The University assumes no liability for ABP members other than payment of contributions.

Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits vest after the completion of one year of service. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting. Participating University employees contribute 5% of salary and may contribute a voluntary additional contribution up to the maximum Federal statutory limit, on a pre-tax basis. Employer contributions are 8%. During the year ended June 30, 2017 and 2016 respectively, ABP investment carriers received employer and employee contributions as follows:

		2017	2016
Employer contributions	$	10,447,954	9,465,502
Employee contributions		13,181,636	12,438,083
Basis for contributions:			
Participating employee salaries	$	130,599,431	118,318,771

Employer contributions to ABP are paid by the State and are reflected in the accompanying financial statements as State of New Jersey fringe benefit revenue and as expenses.

Effective July 1, 2010, Governor Christie signed Chapter 31, P.L. 2010 into law, which only allowed employer contributions to ABP for salaries up to $141,000.

Defined Contribution Retirement Plan

DCRP was established under the provisions of Chapter 92, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit along with life insurance and disability coverage. DCRP enrollment eligibility criteria includes employees who: (1) earn below a minimum base salary, or (2) do not work a minimum number of hours per week, or (3) are enrolled in PERS and make in excess of the established “maximum contribution” limits. Participating eligibility, as well as contributory and noncontributory requirements, is established by the State of New Jersey Retirement and Social Security Law.

DCRP has one investment carrier, Prudential, which jointly administers the DCRP investments with the Division of Pensions and Benefits. The University assumes no liability for DCRP members other than payment of contributions. Benefits are determined by the amount of individual accumulations and the retirement option selected. All benefits vest immediately for employees who are enrolled in PERS or after one year for employees not in PERS. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting.

Participating University employees contribute 5.5% of their eligible wages. Employer contributions are 3%. During the year ended June 30, 2017 and 2016 respectively, Prudential received employer and employee contributions as follows:

		2017	2016
Employer contributions	$	29,297	24,260
Employee contributions		53,711	45,565
Basis for contributions:			
Participating employee salaries	$	976,545	815,340

(c) Post-Employment Benefits Other than Pensions

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for the University's retired employees. Full health coverage is provided to eligible employees retiring with 25 years of service credited on or before June 30, 1997 in one of the State of New Jersey's mandatory pension plans. Employees retiring with 25 years of service credit after June 30, 1997 may share in the cost of health care provided under the State Plan according to the terms specified in the appropriate bargaining unit agreement in effect at the time the employee reaches 25 years of credited service. The rules governing the contribution rate are the same as that for active employees. Since the costs of these programs are the responsibility of the State and the retired employees, the amounts are not available to the University and no expenses or liabilities for benefits are reflected in the University's financial statements.

(7) Accounts Payable and Accrued Expenses

The components of accounts payable and accrued expenses as of June 30, 2017 and 2016 are as follows:

		2017	2016
Vendors and other	$	15,170,732	29,644,583
Salaries and benefits		10,290,963	15,920,533
Due to State of New Jersey		4,262,941	3,178,286
Compensated absences – current portion		8,166,557	7,377,692
Accrued interest payable		10,503,463	11,192,157
Total accounts payable and accrued expenses	$	48,394,656	67,313,251

(8) Long-term Debt

(a) Bonds Payable

Capital assets are financed through revenue bonds of the New Jersey Educational Facilities Authority (NJEFA), the Camden County Improvement Authority (CCIA) and the Gloucester County Improvement Authority (GCIA). The following obligations were outstanding as of June 30, 2017 and 2016:

	Interest rate	2017	2016
NJEFA Series 2005 D Revenue Refunding Bonds, due serially to 2030	3.250%–5.250%	$ —	2,120,000
NJEFA Series 2006 G Revenue Bonds, due serially to 2031	4.000%–4.500%	—	19,670,000
NJEFA Series 2007 B Revenue Refunding Bonds, due serially to 2034	3.000%–5.500%	96,705,000	109,585,000
NJEFA Series 2008 B Revenue Refunding Bonds, due serially to 2027	4.000%–5.000%	—	34,975,000
CCIA Series 2010 A Build America Bonds, due serially to 2035	5.055%–7.847%	93,885,000	93,885,000
CCIA Series 2010 B Revenue Bonds, due serially to 2016	1.500%–5.000%	—	3,140,000
NJEFA Series 2011 C Revenue Refunding Bonds, due serially to 2025	3.000%–5.000%	19,930,000	22,190,000
CCIA Series 2013 A Rowan SOM Revenue Refunding Bonds, due serially to 2032	3.000%–5.000%	24,740,000	25,550,000
CCIA Series 2013 B Rowan SOM Revenue Refunding Bonds due serially to 2032	0.890%–5.160%	23,785,000	25,305,000
GCIA Series 2015 A Revenue Bonds, due serially to 2036	3.250%–5.000%	34,745,000	34,745,000
GCIA Series 2015 B Revenue Refunding Bonds, due serially to 2031	1.500%–5.000%	69,140,000	69,140,000
GCIA Series 2015 C Revenue Bonds, due serially to 2044	4.000%–5.000%	51,550,000	51,550,000
NJEFA Series 2016 C Revenue Refunding serially to 2031	2.500%–5.000%	45,300,000	—
		459,780,000	491,855,000
Plus:			
Bond premium		21,414,304	14,511,277
Total bonds payable		$ 481,194,304	506,366,277

Future annual debt service requirements approximate the following:

		Principal amount	Interest amount	Total amount
Year ending June 30:				
2018	$	17,755,000	22,101,170	39,856,170
2019		19,150,000	21,178,125	40,328,125
2020		20,160,000	20,194,631	40,354,631
2021		21,010,000	19,186,724	40,196,724
2022		21,935,000	18,091,609	40,026,609
2023-2027		120,975,000	72,796,612	193,771,612
2028-2032		121,015,000	42,464,065	163,479,065
2033-2037		66,230,000	17,800,356	84,030,356
2038-2042		30,260,000	7,498,550	37,758,550
2043-2047		21,290,000	1,096,000	22,386,000
	$	459,780,000	242,407,842	702,187,842

In July 2016, the NJEFA issued Rowan University Series 2016 C Bonds. The 2016 C revenue refunding bonds totaled $45,300,000 with coupon rates ranging from 2.500% to 5.000% and maturing through 2031. The proceeds from this bond issuance will be used, along with other available funds, to refund and redeem all of NJEFA's Rowan University Series 2006 G Bonds, defease and redeem all of NJEFA's callable Rowan University 2008 B Bonds and pay the costs and expenses incurred in the issuance of the 2016 C Bonds. On a net present value basis, savings were $6,962,589 or 13.21% of the par amount of bonds refunded. The refunding resulted in gross debt service cash-flow savings of $9,834,067.

In August 2015, the GCIA issued Series 2015 C Bonds. The 2015 C bonds totaled $51,550,000 with coupon rates ranging from 4.000% to 5.000% and maturing through 2044. The proceeds from this bond issuance will be used, along with other available University funds, to finance business and engineering school building projects, fund capitalized interest on the 2015 C issue through July 1, 2017 and pay the costs of issuance.

Funds are on deposit with escrow agents to provide for the payment of principal, interest, and call premiums, when due, on Series 2006 G, Series 2007 B, Series 2008 B and Series 2009 B Bonds. Accordingly, these bonds are legally outstanding obligations of the University as of June 30, 2017 and 2016, however are defeased for financial reporting, therefore, they are not reflected in the accompanying financial statements. The principal amounts of these bonds were $70,489,398 and $65,977,002, respectively, as of June 30, 2017 and 2016.

(b) Capital Lease Obligation

In 2008, the University entered into a lease agreement with SORA Housing LLC (SORA). SORA constructed two four story student housing facilities with a total of 242 units, consisting of 884 total beds, on a leasehold interest in land that was conveyed to SORA by the Borough of Glassboro. SORA agreed to lease the land, the facilities and the facilities equipment together with the fixtures, improvements and equipment to the University. Rental payments are due in semiannual installments on September 1 and February 1, each year. The University has a capital lease payable as of June 30, 2017 and 2016 in the amount of $71,147,747 and $70,207,336, respectively.

In 2008, the University entered into a lease agreement with SORA RETAIL LLC (SORA). SORA constructed an approximately thirty six thousand square foot two story building for use as a university bookstore and other uses compatible with a university bookstore. The bookstore, which also contains a coffee shop, is being sub-leased to Barnes & Noble College Booksellers, Inc. Rental payments are due in monthly installments. The University has a capital lease payable as of June 30, 2017 and 2016 in the amount of $11,603,133 and $11,431,075, respectively.

In 2011, the University entered into a lease agreement with SORA A-1 Housing Urban Renewal Entity, LLC (SORA). SORA constructed a mixed-use building on land it owns in Glassboro, New Jersey. The building consists of a five-story, mid-rise apartment building with ground floor retail. Within this building, on the second through fifth floor, SORA constructed apartment units, classrooms, offices and other administrative spaces. The administrative space, in addition to classrooms and offices, includes lounges, study rooms, recreational rooms together with all common elements, including elevators, laundry facilities, recreational and fitness facilities and other amenities. The University's lease pertains to the apartment units and administrative areas only. The apartment units are being occupied by University honor students and consist of 280 beds. Rental payments are due in semi-annual installments on September 1 and February 1, each year. The University has a capital lease payable as of June 30, 2017 and 2016 in the amount of $33,919,388 and $33,560,202, respectively.

In 2012, the University entered into a Master Lease Agreement to restructure the three leases above into a single lease. The Master Lease will be for a thirty-year term through 2042. The University has the option to purchase all, but not less than all, of the Premises at any time during the Term of the Lease in accordance with terms listed in the Agreement. If no election to purchase the Premises occurs during the term, upon the payment in full of all rent and other charges due under the Lease, the Premises shall be conveyed to the University at the conclusion of the term without additional consideration. The University received a landlord contribution of $8,150,000 to help defray the costs of implementation of the property to its intended use.

In April 2012, the University entered into a lease agreement with Nexus Holdings, LLC (Nexus). Nexus constructed a multi-level parking garage consisting of approximately 1,200 parking spaces. The construction started in July 2012 and was completed for the Fall 2013 semester. The University's lease pertains to the use of 900 parking spaces as well as the use of all common areas of the parking garage. The term of the lease shall be for a period of thirty years and started on the date when the facility became ready for occupancy. At the completion of the lease term, the University will have the option of extending the lease for an additional four terms of ten years each. The University will have the option to purchase 900 spaces in the garage at fair market value at any time within the first five years after the expiration of the initial term of the lease. The University has a capital lease payable as of June 30, 2017 and 2016 in the amount of $21,475,887 and $21,457,699, respectively.

In April 2012, the University entered into a second lease agreement with Nexus to construct a five-story retail, classroom and office building. The construction started in July 2012 and was completed for the

(Continued)

Fall 2013 semester. The University's lease pertains to the second through fifth floors, which will contain classrooms and office space, as well as the central lobby of the building and the lobby and stairwells connecting the building to an adjacent parking garage. The first floor of the building will be for retail operations. The term of the lease will be for a period of twenty years and started on the date when the facility became ready for occupancy. The University will have the option to purchase the leased portion of the property, at the end of the term, for $1.00 consideration. The University has a capital lease payable as of June 30, 2017 and 2016 in the amount of $15,500,766 and $15,919,839, respectively.

Future minimum lease payments under the capital leases are as follows:

		Principal amount	Interest amount	Total amount
Year ending June 30:				
2018	$	(899,807)	14,626,248	13,726,441
2019		(611,006)	14,707,956	14,096,950
2020		(359,977)	14,762,768	14,402,791
2021		(125,746)	14,795,419	14,669,673
2022		157,100	14,805,217	14,962,317
2023-2027		6,889,582	73,008,690	79,898,272
2028-2032		22,574,860	66,886,411	89,461,271
2033-2037		42,732,687	52,133,062	94,865,749
2038-2042		80,352,985	24,191,459	104,544,444
2043-2045		2,936,243	188,052	3,124,295
	$	153,646,921	290,105,282	443,752,203

(c) Other Long-Term Debt

Other long-term debt consists of the following:

(A) The Higher Educational Capital Improvement Fund Act was established to finance capital improvements and related costs at public and private institutions of higher education within the State. Funding was provided from bonds issued by the New Jersey Educational Facilities Authority (Authority). The total University allocation for this program was $23,887,250. The University is required to pay 1/3 of the debt service on its allocation of the bond proceeds, plus administrative fees of the trustees and the Authority. The outstanding balance as of June 30, 2017 and 2016 is $4,043,228 and $4,326,491, respectively, with maturities through August 15, 2022.

(B) As a result of the New Jersey Medical and Health Sciences Education Restructuring Act, Higher Educational Capital Improvement Fund Act outstanding debt of UMDNJ, related to SOM, was transferred to the University on July 1, 2013. The outstanding balance on this debt, as of June 30, 2017 and 2016, is $1,324,434 and $1,564,245, respectively.

(Continued)

(C) In July 2013, the University received notification of an institutional grant award from the New Jersey Higher Education Capital Facilities Grant Program. The University was awarded $26.6 million from the Higher Educational Capital Improvement Fund Act. The University is required to pay 1/3 of the debt service on its allocation of the bond proceeds plus administrative fees of the Trustees and the Authority. The outstanding balance as of June 30, 2017 and 2016 is $7,679,012 and $7,968,469, respectively, with maturities through August 15, 2033.

(D) In July 2013, the University received notification of an institutional grant award from the New Jersey Higher Education Capital Facilities Grant Program. The University was awarded $0.75 million from the Higher Education Equipment Leasing Fund. The University is required to pay 1/4 of the debt service on its allocation of the bond proceeds plus administrative fees of the Trustees and the Authority. The outstanding balance as of June 30, 2017 and 2016 is $118,427 and $135,015, respectively.

(E) In July 2016, the University was notified by the State that it was awarded a $16 million dollar grant under the Higher Education Capital Improvement Fund Act. Funding was provided from bonds issued by the New Jersey Educational Facilities Authority. The grant is to be used to fund two projects: (1) Facilities Adaptive Reuse Program for Academic Space Expansions and (2) Joint Health Sciences Center Expansion. The University is required to pay 1/3 of the debt service on its allocation of the bond proceeds. The outstanding balance as of June 30, 2017 is $5,213,998, with maturities through August 15, 2036.

Principal and interest payments for these obligations are as follows:

		Principal amount	Interest amount	Total amount
Year ending June 30:				
2018	$	1,228,437	789,308	2,017,745
2019		1,356,643	701,218	2,057,861
2020		1,404,956	656,315	2,061,271
2021		1,452,148	606,208	2,058,356
2022		1,526,455	551,892	2,078,347
2023-2027		4,235,570	2,096,062	6,331,632
2028-2032		4,042,143	1,271,091	5,313,234
2033-2037		3,132,747	308,983	3,441,730
	$	18,379,099	6,981,077	25,360,176

(Continued)

(9) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended June 30, 2017 and 2016 was as follows:

	2017				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Student deposits	$ 535,427	135,466	—	670,893	—
Compensated absences	9,751,869	8,066,780	7,377,692	10,440,957	8,166,557
Unearned revenue	27,255,059	27,855,128	20,029,395	35,080,792	23,094,776
Other liabilities	2,252,430	—	1,593,874	658,556	—
Repurchase liability	12,400,000	—	9,180,000	3,220,000	—
Deposits held in custody for others	1,663,790	2,645,009	2,623,317	1,685,482	—
Net pension liability	267,337,449	93,242,915	4,960,511	355,619,853	—
Bonds payable	506,366,277	60,104,812	85,276,785	481,194,304	17,755,000
Other long-term debt	13,994,220	11,253,400	6,868,521	18,379,099	1,228,437
Capital lease obligation	152,576,151	—	(1,070,770)	153,646,921	(899,807)
Total noncurrent liabilities	$ 994,132,672	203,303,510	136,839,325	1,060,596,857	49,344,963

	2016				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Student deposits	$ 620,045	—	84,618	535,427	—
Compensated absences	9,633,368	6,686,789	6,568,288	9,751,869	7,377,692
Unearned revenue	33,195,867	20,357,436	26,298,244	27,255,059	20,029,395
Other liabilities	1,974,848	277,582	—	2,252,430	—
Repurchase liability	—	12,400,000	—	12,400,000	—
Deposits held in custody for others	1,503,133	2,597,759	2,437,102	1,663,790	—
Net pension liability	252,667,144	32,878,383	18,208,078	267,337,449	—
Bonds payable	473,084,319	52,311,420	19,029,462	506,366,277	18,455,000
Other long-term debt	15,099,692	—	1,105,472	13,994,220	1,029,823
Capital lease obligation	151,353,563	—	(1,222,588)	152,576,151	(1,070,770)
Total noncurrent liabilities	$ 939,131,979	127,509,369	72,508,676	994,132,672	45,821,140

(10) Professional Services and Contract Revenues

The SOM Faculty Practice Plan revenues primarily consist of fee for service payments, inclusive of quality incentives and capitation payment, from the Centers for Medicare & Medicaid Services (CMS) and other third party insurance providers for inpatient and outpatient services provided by the SOM faculty. In addition, significant contract payments for medical directorships and other contracted service agreements, such as behavioral health and hospitalist services, account for approximately one-third of the revenues.

The components of professional services and contract revenues are as follows:

		2017	2016
Faculty practice revenues:			
Gross charges	$	68,150,232	58,002,269
Contractual and other allowances		(34,999,850)	(24,217,280)
Provision for bad debts		(1,660,991)	(1,692,061)
Bad debt recovery		212,388	308,599
Total faculty practice		31,701,779	32,401,527
House staff and affiliation revenues:			
House staff billings		20,514,894	21,049,773
Affiliation billings		2,598,242	2,592,568
Total house staff and affiliation		23,113,136	23,642,341
Total professional services and contract revenue	$	54,814,915	56,043,868

Gross charges pertain to the following payers:

	2017	2016
Medicare	32 %	32 %
Medicaid and Medicaid HMO	19	18
Contracts	19	19
Other third party payors	28	29
Uninsured, charity care and self pays	2	2
	100 %	100 %

Faculty practice gross accounts receivable pertain to the following payers:

	2017	2016
Medicare	27 %	20 %
Medicaid and Medicaid HMO	15	15
Contracts	29	34
Other third party payors	23	22
Self pays	6	9
	100 %	100 %

(Continued)

(11) Commitments and Contingencies

(a) Operating Leases

The University leases certain space and equipment used in general operations. Rental expense was approximately $1,784,000 and $1,757,000 during fiscal years 2017 and 2016, respectively. Future minimum annual rental commitments approximate the following (see note 14 for further information):

		Amount
Year ending June 30:		
2018	$	2,382,456
2019		2,210,799
2020		1,703,513
2021		1,583,829
2022		1,511,818
2023 and thereafter		10,604,684
	$	19,997,099

(b) Compensated Absences

The University recorded a liability for accumulated vacation time in the amount of approximately $8,167,000 and $7,378,000 as of June 30, 2017 and 2016, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of net position. The liability is calculated based upon employees' accrued vacation leave as of the statements of net position date.

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. Accordingly, the University recorded a liability for accumulated sick leave balances in the amount of approximately $1,889,000 and $1,968,000 as of June 30, 2017 and 2016, respectively, which is included in compensated absences in the accompanying statements of net position.

During fiscal year 2010, bargaining unit employees were required to take seven unpaid furlough days. Three of these days were banked for either future use or pay out upon separation. A liability for the accumulated leave bank in the amount of approximately $385,000 and $406,000 as of June 30, 2017 and 2016, respectively, is recorded in compensated absences in the accompanying statements of net position.

(c) Risk Management

The University is exposed to various risks of loss. As an instrumentality of the State of New Jersey, the liability of the University is subject to all of the provisions of the New Jersey Tort Claims Act (N.J.S.A. 59:1 1 et seq.), the New Jersey Contractual Liability Act (N.J.S.A. 59:13 1 et seq.), and the availability of appropriations. The Tort Claims Act also creates a Tort Claims Fund and provides for payment of eligible claims filed against the University or against its employees, whom the State is obligated to indemnify against tort claims which arise out of the performance of their duties. Therefore, the University's liability and employee benefit exposures are self-funded programs maintained and administered by the State (including tort liability, employment liability, medical professional liability, auto liability, trustee's and officer's liability, workers' compensation, unemployment, temporary and long-term disability, unemployment liability, life insurance and employee retirement programs). An annual appropriation is provided by the legislature for all statutory self-funded programs.

The University purchases and maintains a commercial property insurance policy through a joint insurance program with the New Jersey Association of State Colleges and Universities (NJASCU a/k/a the Consortium). University buildings, contents, plant operations, boiler & machinery, business interruption, and lost revenue are insured on an all risk replacement cost basis with a per occurrence limit of $2.0 billion, subject to a $100,000 per occurrence deductible. A $500,000 combined per occurrence deductible applies to five University buildings due to flood exposure; the University's per occurrence policy deductible is capped at the $500,000.

In addition to the property insurance policy maintained through the consortium, the University maintains several policies of insurance to ensure a comprehensive approach to managing the risk of loss from exposures that are or may be ineligible for Tort Claims Protection. The following policies are maintained and these policies also extend coverage to the University's separately incorporated 501 (c) (3) auxiliary organizations: Crime insurance policy (moneys and securities coverage) in the amount of $2,000,000 with a per loss deductible of $25,000; Information Security & Privacy Liability in the amount of $10,000,000 with a per loss deductible of $100,000; and Pollution Legal Liability in the amount of $10,000,000 with a per loss deductible of $100,000. The University also maintains a Student Professional Liability policy in the amount of $1,000,000 per occurrence with a $3,000,000 annual aggregate and a per loss deductible of $10,000 to cover students participating in professional internships (excludes medical students since they are provided protection through the Tort Claims Act).

The following policies of insurance are maintained for the University's separately incorporated 501 (c)(3) auxiliary organizations (New Jersey Statutes Title 18A Education provides each auxiliary organization with the power to "sue and be sued" (N.J.S.A. 18A:64 30) and directs them to procure their own legal representation because they will not be represented by the State of New Jersey Office of Attorney General (N.J.S.A. 18A:64 35), thereby exempting them from protection under the New Jersey Tort Claims Act): Director's and Officer's Liability in the amount of $5,000,000 with a per occurrence deductible of $25,000; General Liability in the amount of $1,000,000 per occurrence with a $3,000,000 annual aggregate and a per occurrence deductible of $75,000, which also extends coverage to Rowan student educational programs and activities; and excess liability in the amount of $20,000,000 which responds above the General Liability policy, and the University's Student Professional Liability policy referenced above, and also provides difference in conditions coverage to the University to cover any gaps in Tort Claims liability protection.

All commercial insurance policies are renewed on an annual basis. There has been no decrease in insurance coverage during the current year. There have been no settlements in excess of insurance coverage in the past three years.

(d) Medical Malpractice Self-Insurance Fund

The University participates in a fund administered by the State known as the Medical Malpractice Self-Insurance Fund (the Fund), which is used to pay malpractice claims and related insurance premiums. The University and the State approve the payment of claims and the University is required to make contributions to the Fund from the SOM Faculty Practice Plan and the Graduate Medical Education (GME) programs. Monies in the Fund, commercial excess liability insurance coverage, and coverage provided by the New Jersey Tort Claims Act are used to meet the cost of claims against SOM. The State has the ultimate liability for any claims in excess of the Fund's assets.

Payment of claims (indemnity and expenses) from the Fund totaled $4,021,831 and $3,840,816 in fiscal years 2017 and 2016, respectively, for SOM. Included in accounts payable and accrued expenses is approximately $3,250,000 as of June 30, 2017 and 2016, respectively, which represents the University's contribution to the Fund for the same years ended.

(e) Voluntary Compliance Plan

UMDNJ had operated under a five year Corporate Integrity Agreement (CIA) with the Department of Health and Human Services Offices of the Inspector General (DHHS OIG) since September 2009. This agreement was assignable to successor organizations. Upon the integration of SOM into Rowan University, the Board of Trustees of Rowan University adopted a healthcare compliance program consistent with relevant laws and practices, and to fulfill the requirements of the CIA and the 15 remaining months of the agreement. The CIA requirements expired September 2014, but the compliance measures that have been developed and implemented will be continued. A Voluntary Compliance Program was implemented on September 26, 2014 and remains in place.

(f) Other Contingencies

The University is involved in several claims and lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the University.

(g) Service Concession Arrangement for the Student Housing Facility

(i) Ground Lease

On April 30, 2015, the University entered into a ground lease with Provident Group – Rowan Properties LLC (Provident) to develop, construct and operate a student housing facility (the Project), consisting of an approximately 1,415 bed student housing facility including a shell for a residential dining facility, with all buildings, improvements, fixtures, furnishing, equipment and amenities necessary for the operation thereof on certain real property located on the campus (the Land), along with associated site infrastructure and various related amenities, utilities and improvements within and outside the Land. The term of the ground lease is 37 years and commenced on April 30, 2015 with no option to renew or extend by Provident. Upon termination of the ground lease, all rights, title and interest to the Project shall automatically and immediately vest in the University. The base annual rent is equal to the net surplus cash flow for the immediately preceding period.

In connection with the ground lease, the New Jersey Economic Development Authority issued Revenue Bonds (the Bonds) and lent the proceeds to Provident in order to fulfill their obligations under the ground lease. The University has no obligation to pay debt service on the Bonds.

During the term of the ground lease, Provident shall use and operate the Land for the sole and exclusive purpose of developing and constructing the Project, operating the Project as a student housing facility only for residents, with a sublease of the Dining Facility with the University under the Dining Facility Sublease for use by the residents, the University, students and staff of the University and their visitors and authorized representatives. The University will act as an agent for Provident, entering into Residence License Agreements with students to reside in the student housing facility, collecting all amounts due and remitting them to the Bond Trustee and enforcing compliance with the Residence License Agreements in accordance with the management agreement. Under the terms of the Bond Trustee Indenture, the Bond Trustee will accumulate these fees to pay the annual debt service of Provident and reimburse the operating expenses of the student housing facilities on a monthly basis.

(ii) Project Development Agreement

On April 30, 2015 (the Effective Date), University Student Living, LLC (the Developer) and Provident entered into a project development agreement to design and construct the student housing facility, as defined as the Project, for the benefit of and furtherance of the educational mission of Rowan University. The term of the agreement begins with the Effective Date and will terminate upon Developer's fulfillment of the services and obligations under the agreement, which was deemed substantially complete as of July 22, 2016. The agreement is subject to a guaranteed maximum price for development costs of $92.0 million, subject to approved 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. All fees due to the Developer are the responsibility of Provident. Per the agreement the University was entitled to reimbursement of pre-development costs in connection with the Project up to $0.5 million during fiscal year 2016.

(iii) Management Agreement

On April 30, 2015, the University entered into a management agreement with Provident and University Student Living Management, LLC (the Manager) (collectively, the Management Agreement) to engage the Manager to manage, operate and maintain the student housing facility. The term of the Management Agreement five years with extensions for two successive five year periods commencing with the expiration of the original five year engagement, unless either party provides notice of nonextension at least 120 days prior to such expiration. The original five year engagement began after the date of substantial completion of the student housing facility in which revenues are deposited to the Bond Trustee.

All fees due to the Manager are the responsibility of Provident. The University is responsible for the billing and collection of student housing fees, deposits, charges and other amounts under residence license agreements and remitting the funds to the Bond Trustee. The University will provide resident life services and staffing; marketing of the student housing facility; and cable, telephone and internet services, all of which will be reimbursed as operating expenses of the Project.

(iv) Dining Facility Sublease

On April 30, 2015, the University entered into a Dining Facility Sublease with Provident for the operation and management of a dining facility that was constructed under the project development agreement. The term began on the date that the Project is substantially completed and the University accepts possession of the dining facility. The end of the lease is concurrent with the ground lease with automatic renewal to the extent that the ground lease is extended or renewed. The base annual rent is $1.00.

(v) Recognition

During fiscal year 2017, the construction of the student housing facility was completed and the new facility – Holly Pointe Commons– was placed into service. Under the grant lease service concession arrangement, the University recognized $114.8 million in net capital assets as well as net deferred inflows of resources. Additionally, the University recognized $6.1 million in net capital assets and net deferred inflows of resources related to the dining facility sublease, as well as $2.3 million of operating auxiliary enterprises revenue as outlined in the Management Agreement.

(vi) Nature and Extent of Rights

During the term of the ground lease, Provident shall use and operate the Property for the sole and exclusive purpose of developing and constructing the Project, operating the Project as a student housing facility only for residents, with a sublease of the Dining Facility with the University under the Dining Facility Sublease for use by the residents, the University, students and staff of the University and their visitors and authorized representatives. The building shall be named as determined by the University in its sole and absolute discretion. The Manager shall manage, operate, and maintain the Student Housing Facility, with the advice and consultation of a project operations committee established by Provident under the Operating Agreement, pursuant to the Ground Lease, which shall at all times be composed of five (5) members, three (3) of whom shall be appointed by the University, one (1) of whom shall be appointed by the Manager, one (1) of whom shall be appointed by Provident. Under the ground lease, the University also have the right and option at any time after ten (10) years either (a) to purchase Provident's right, title, and interest in and to the Property, or (b) to terminate the Ground Lease, or (c) to acquire all the rights, titles and interests of Provident under the Loan Agreement and the other Bond Documents and any and all disbursements to be made. Upon the termination or expiration of the Ground Lease from any cause, all rights and interests of Provident shall immediately cease and terminate, and all of the Project and Property, including all buildings, structures, improvements, equipment, engines, machinery, dynamos, generators, boilers, furnaces, elevators, fire escapes, and all lifting, lighting, heating, cooling, refrigerating, air conditioning, ventilating, gas, electric and plumbing apparatus, appliances and fixtures, as well as other fixtures attached to or within the Property, and all personalty and any other personal property located thereon, shall thence forward constitute and belong to and be the absolute property of the University or the University's successors and assigns.

(h) Camden Housing Project

In April 2014, the University entered into an agreement regarding Development of Housing and Related Guaranty of Rental Payment with Broadway Housing Partners LLC (the Developer) to purchase and redevelop the properties in the immediate vicinity of the Cooper Medical School of Rowan University. These properties contain approximately fifty-six residential rental units, which the Developer intends to lease to University students as fair market rental housing, and, with regard to any units that are not leased to University students, to any other qualified renters, so as to maximize occupancy of the units in the project. As the University directly benefits from the redevelopment of the properties, the University warrants to pay the Developer on an annual basis the difference between ninety-five percent of aggregate standard rent and the aggregate rent collected. There is no cap of these shortfall payments during the initial term (years 1–10). During the second term (years 11–20), as the rent increases, in year 11 the shortfall payment shall not exceed $300,000; and in each calendar year thereafter the cap shall be increased by a percentage equal to the percentage increase in the CPI index. The University's shortfall payments will not exceed the aggregate amount of $2,500,000 over the course of the second term. The University shall have no obligation to pay any amounts to the Developer for the periods after the expiration of the second term. The first rental year began on August 1, 2015. The University made $404,779 and $78,238 shortfall payments during fiscal year 2017 and 2016, respectively.

(i) Inspira Health Network

The University entered into a Purchase and Sale Agreement with Inspira Health Network (Inspira) for certain property owned by the University for $11.5 million during fiscal year 2016. In conjunction with the transaction, the University and Inspira also entered into a Repurchase and Right of First Refusal Agreement, whereas the University has the option to repurchase the property if Inspira has not commenced efforts to develop the land by the fourth anniversary of the closing and further, the University has the option to repurchase undeveloped portions of the property after 20 years from the date of the closing. On May 24, 2017, Inspira broke ground on the medical center project planned for the 100-acre parcel property purchased from the University. The first phase of the medical center is expected be approximately 467,000 square feet which will allow for additional development over time. The portion of the property currently under construction represents approximately 72% of the overall property cost. As a result, the University recognized the partial land sale of $8,280,000, a gain of $830,817, as well as $900,000 in contribution revenue for the appraised market value of the donated land from Harrison Township and reduced the original repurchase liability from $12,400,000 as of June 30, 2016 to $3,220,000 as of June 30, 2017.

(12) Rowan University Foundation

(a) Component Unit

Rowan University Foundation (the Foundation) is a legally separate, tax exempt component unit of the University with a fiscal year end of June 30. The Foundation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation acts primarily as a fundraising entity to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the Foundation's assets are used exclusively for the benefit, support, and promotion of the University and its educational activities. Because these resources held by the Foundation can only be used by, or are for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented as part of the University's financial statements. The University provides accounting, accounts payable, and payroll services for the Foundation.

On August 14, 2014, the Rowan Innovation Venture Fund (the Fund) was formed as a legally separate, single member limited liability corporation whose sole member is the Foundation. The Fund is managed by or under the direction of the Fund's Board of Managers as appointed by the Foundation. Further, the Foundation is able to impose its will on the Fund by influencing its activities and is legally entitled to or can otherwise access the Fund's resources. Because the Foundation is financially accountable for the Fund, the Fund is considered a component unit of the Foundation. The primary purpose of the Fund is establishing, developing, owning, managing, operating and administering a seed and early stage venture capital fund to support and leverage the innovation talents and ideas of the members of the Rowan University community and to accelerate the impact of the University on the economic development of Southern New Jersey. As the Fund is organized as a not-for-profit corporation for which the Foundation is the sole member, its activities are blended into the totals of the Foundation. The Fund is treated as a disregarded entity by the Foundation under Treasury Regulations Sections 301.7701-1 through 301.7701-3 as it is a limited liability corporation with a single owner. Accordingly, the Fund is recognized as a tax exempt entity as described in Section 501(c)(3).

During the years ended June 30, 2017 and 2016, the University received $9,307,903 and $11,888,095, respectively, from the Foundation. Complete financial statements of the Foundation can be obtained from the Office of the Chief Financial Officer, Rowan University, Glassboro, New Jersey.

(b) Cash, Cash Equivalents, Restricted Nonexpendable Investments and Investments

As of June 30, 2017 and 2016, the Foundation's cash, cash equivalents and investments are reported on the statements of net position as follows:

		2017	2016
Cash and cash equivalents	$	5,552,834	6,130,786
Restricted cash and cash equivalents		2,000,465	2,446,776
	$	7,553,299	8,577,562
Investments	$	48,962,338	38,027,195
Restricted investments		18,413,656	15,705,939
Restricted nonexpendable investments		133,312,697	126,454,072
	$	200,688,691	180,187,206

Cash, cash equivalents, restricted nonexpendable investments and investments consist of the following as of June 30, 2017 and 2016:

		2017	2016
Cash and cash equivalents:			
Cash	$	5,496,058	7,033,835
State of New Jersey Cash Management Fund		—	163,375
Money market funds		2,057,241	1,380,352
	$	7,553,299	8,577,562
Investments:			
Bond mutual funds (domestic)	$	25,697,231	14,547,659
Common stock mutual funds (domestic)		70,532,206	68,985,432
Common stock mutual funds (international)		44,653,448	35,871,251
Venture capital investments		1,380,050	386,200
Alternative investments		58,425,756	60,396,664
	$	200,688,691	180,187,206

For the years ended June 30, 2017 and 2016, the increase (decrease) in fair value on investments was $18,870,236 and ($6,093,407), respectively and the net realized gain on investments for June 30, 2017 and 2016 was $8,739,613 and $2,079,843, respectively. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year.

The Foundation has an investment policy, which establishes guidelines for permissible investments. The Foundation may invest in domestic equity securities, international equity securities, fixed income securities, real estate investments and venture capital investments. The Foundation's cash and cash equivalents and investments are subject to various risks. Among these risks are custodial credit risk, credit risk and interest rate risk. Each one of these risks is discussed below.

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. Cash and money market accounts were held at a depository and bank balances amounted to $8,275,115 and $9,209,762, as of June 30, 2017 and 2016 respectively. Of these amounts, $250,000 was FDIC insured, leaving uninsured and uncollateralized balances of $8,025,115 and $8,959,762.

During fiscal year 2017 the Foundation terminated the account with the State of New Jersey Cash Management Fund (NJCMF) wherein amounts also contributed by other State entities are combined in a large-scale investment program. The Foundation deposits in the NJCMF were $163,375 as of June 30, 2016. The June 30, 2016 amounts were collateralized in accordance with New Jersey

Statutes 52:18-16-1, but not in the Foundation's name. The NJCMF is unrated with an average portfolio maturity of less than one year.

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 Standard and Poors (S&P) and Moody's. The Foundation's investment policy requires fixed income securities to replicate the Barclays Capital Aggregate characteristics with regard to maturity, structure, duration, credit quality, sector distribution, etc. As of June 30, 2017 and 2016, the bond mutual funds (domestic) were unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The Foundation's investment policy does not specifically address limitations in the maturities of investments.

The Foundation's investments' average effective duration for June 30, 2017 and 2016 are as follows:

2017

Investment type		Fair value	Average effective duration
Bond mutual funds (domestic)	$	6,912,720	5.49 years
Bond mutual funds (domestic)		6,854,107	5.67 years
Bond mutual funds (domestic)		3,963,636	0.04 years
Bond mutual funds (domestic)		156,807	5.97 years
Bond mutual funds (domestic)		7,809,961	5.62 years
Total	$	25,697,231	

2016

Investment type		Fair value	Average effective duration
Bond mutual funds (domestic)	$	5,650,896	5.43 years
Bond mutual funds (domestic)		5,643,497	4.67 years
Bond mutual funds (domestic)		3,172,187	0.19 years
Bond mutual funds (domestic)		81,079	7.71 years
Total	$	14,547,659	

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 that a government can access at the measurement date.
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.
- Level 3 – pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity or the investment.

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.

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

- Bond and common stock mutual funds – The fair value of bond and common stock mutual funds are based on quotations obtained from national securities exchanges or the published price as of the measurement date.
- State of New Jersey Cash Management Fund – The fair value of the State of New Jersey Cash Management Fund is based on the quoted market price on an inactive market as of the measurement date.
- Venture capital investments – The fair value of the venture capital investments is based off of the initial cost of investments that are entered into during the current fiscal year and cost was determined to approximate fair value. Venture capital investments made in prior years are analyzed to determine if any adjustments to the cost basis of such investments is necessary.
- Alternative investments (including absolute return, private equity and realty investments) – The fair value is based off of the net asset value (NAV), which is provided by the investment managers and reviewed by the management for reasonableness.

While the Foundation 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 Foundation's financial instruments at June 30, 2017 are summarized in the following table by their fair value hierarchy:

	Total	Level 1	Level 2	Level 3
Investments measured at fair value:				
Common stock mutual funds (domestic)	$ 70,532,206	70,532,206	—	—
Common stock mutual funds (international)	44,653,448	44,653,448	—	—
Bond mutual funds (domestic)	25,697,231	25,697,231	—	—
Venture capital investments	1,380,050	—	—	1,380,050
Subtotal	142,262,935	$ 140,882,885	—	1,380,050
Investments measured at net asset value:				
Absolute return	32,940,990			
Private equity	17,824,444			
Realty investments	7,660,322			
Subtotal	58,425,756			
Total cash equivalents and investments	$ 200,688,691			

The Foundation's financial instruments at June 30, 2016 are summarized in the following table by their fair value hierarchy:

	Total	Level 1	Level 2	Level 3
Investments measured at fair value:				
Common stock mutual funds (domestic)	$ 68,985,432	68,985,432	—	—
Common stock mutual funds (international)	35,871,251	35,871,251	—	—
Bond mutual funds (domestic)	14,547,659	14,547,659	—	—
Venture capital investments	386,200	—	—	386,200
Subtotal	119,790,542	$ 119,404,342	—	386,200
Investments measured at net asset value:				
Absolute return	38,187,359			
Private equity	17,928,718			
Realty investments	4,280,587			
Subtotal	60,396,664			
Total cash equivalents and investments	$ 180,187,206			

Investments Measured at NAV

The following table represents the unfunded commitments and redemption terms by investment type as of June 30, 2017:

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Absolute return[(a)]	$ 32,940,990	None	Quarterly	65–100 days
Private equity[(b)]	17,824,444	15,383,000	Illiquid	Not applicable
Realty investments[(c)]	7,660,322	8,559,000	Illiquid	Not applicable
	$ 58,425,756			

The following table represents the unfunded commitments and redemption terms by investment type as of June 30, 2016:

		Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Absolute return[(a)]	$	38,187,359	2,000,000	Quarterly	65–100 days
Private equity[(b)]		17,928,718	11,847,685	Illiquid	Not applicable
Realty investments[(c)]		4,280,587	1,666,818	Illiquid	Not applicable
	$	60,396,664			

(a) Absolute return includes 3 hedge funds that seek to achieve capital appreciations through various strategies, including long/short equity, long/short credit, relative value and other market neutral strategies. For one of the investments valued at $19.8 million, redemptions are restricted due to lockup provisions through March 31, 2019, whereas the remaining 75% of the investment will be released from restriction equally at the end of each quarter end. The remaining investments are redeemable as disclosed above.

(b) Private equity includes 11 funds that seek to invest in nonpublicly traded investments that will eventually be sold at a return in excess of public markets. This strategy is implemented through illiquid vehicles and cannot be redeemed. The remaining life of these funds is 1 to 11 years with possible extensions for nine funds. Capital is distributed to investors as the funds' investments are liquidated over that time period.

(c) Realty investments include a total of 7 funds. One of the investments is an open-end fund that has quarterly liquidity with 90 days' notice. 6 funds seek to purchase real estate that can be improved and later sold to provide a return that is in excess of public real estate markets. This strategy is implemented through illiquid vehicles and cannot be redeemed. The remaining life of these funds is 2 to 6 years with possible extensions for three funds. Capital is distributed to investors as the funds' investments are liquidated over that time period.

(c) Restricted Nonexpendable Net Position

Restricted nonexpendable net position as of June 30, 2017 and 2016 consist of the following:

	2017	2016
Henry and Betty Rowan for general operations	$ 97,000,118	97,000,118
William G. Rohrer Professorial Chair in the College of Business	1,000,000	1,000,000
Lawrence & Rita Salva Medical School	1,010,250	1,000,000
King Family Professorial Chair	1,000,000	1,000,000
Thomas N. Bantivoglio Honors Program for scholarships	1,293,207	1,243,082
Rohrer Scholars for scholarships	1,080,932	1,080,932
John B. Campbell Professorial Chair	1,176,282	1,176,282
Keith and Shirley Campbell Endowment to support library operations	1,641,896	1,641,896
Rohrer College of Business	2,596,705	2,072,330
Henry M. Rowan College of Engineering Endowment	9,000,000	5,000,000
CMSRU Student Loan Assistance Program	1,000,000	1,000,000
Henry M. Rowan Endowment for Engineering Scholarship	1,000,000	1,000,000
Inspira Health Network Endowed Fund	1,000,000	1,000,000
Jean & Rick Edelman Fossil Park Endowment	1,006,407	—
Other endowment funds	12,506,900	11,239,432
	$ 133,312,697	126,454,072

(13) South Jersey Technology Park at Rowan University, Inc.

Component Unit

South Jersey Technology Park at Rowan University, Inc. (SJTP) was established and is being maintained as part of the economic outreach vision of the University, its initial sole member. SJTP hopes to create jobs and job training and provide new and varied “hands-on” educational experiences for the University students as well as combat community deterioration. The goal of SJTP is to create job opportunities and job training for the under-employed and unemployed of the South Jersey region. SJTP is an organization described under Section 501(c) (3) of the Internal Revenue Code and therefore exempt from Federal income taxes under Section 501(a) of the Code. SJTP’s assets are used exclusively for the benefit, support, and promotion of the University and its educational activities. Because the members of the SJTP Board of Directors are appointed by the Board of Trustees of the University, SJTP is considered a component unit of the University and is discretely presented as part of the University’s financial statements.

(a) Related Party Transactions

Lease Agreements

In fiscal year 2008, the University Board of Trustees approved a long-term lease agreement for the SJTP to use a parcel of land owned by the University. The lease commenced on January 1, 2008 and is for 50 years with a renewal term of 20 years. Under the lease agreement, SJTP is to pay $1,000 each year. The rental payment of $1,000 is included in professional and other services expenses in the accompanying statements of revenues, expenses, and changes in net position for fiscal years 2017 and 2016.

The University Board of Trustees approved a lease agreement by and between the University and the SJTP to lease the first floor of the Samuel H. Jones Innovation Center to support its educational mission. Beginning July 16, 2016, the University also assumed the lease for the second floor of the Innovation Center and intends to conduct renovations to increase wet lab space for the University. For the years ended June 30, 2017 and 2016, SJTP recognized $1,091,300 and $515,660, respectively, in rental income related to this lease agreement. The University also reimbursed SJTP $130,629 and $59,276 for utility charges associated with this lease for fiscal years 2017 and 2016, respectively.

Business Operating Agreement

SJTP and the University entered into a business operating agreement for the University to provide certain services and functions to SJTP. SJTP pays the University for these services and functions which include salaries and benefits of employees who perform functions for SJTP, accounting services, custodial services, repairs and maintenance, and other indirect charges. The charges amounted to $369,236 and $366,981 for fiscal years 2017 and 2016, respectively and are reflected in professional and other services expenses in the accompanying statements of revenues, expenses, and changes in net position.

(14) Subsequent Events

In July 2017, the Gloucester County Improvement Authority (GCIA) issued Rowan University Series 2017A and 2017B Bonds. The 2017A tax exempt revenue refunding bonds totaled $73,475,000 with coupon rates ranging from 3.000% to 5.000% and maturing through 2033. The 2017B taxable revenue refunding bonds totaled $4,155,000 with coupon rates ranging from 1.850% to 2.100% and maturing through 2019. The proceeds from these bond issuance will be used to refund and redeem all of NJEFA's Rowan University Series 2007B Bonds and pay the costs and expenses incurred in the issuance of the 2017A and 2017B Bonds.

In August 2017, Glassboro A-3 Urban Renewal, LLC (the Developer) opened the A3 building situated at Victoria Street and Mick Drive in the Borough of Glassboro. The University commenced two operating lease agreements with the Developer for an initial lease term of 15 years to lease approximately 29,570 square feet spaces for academic classrooms and offices and approximately 17,577 square feet for a fitness center. There were no lease payments to the Developer during fiscal year 2017. Future lease payments are included in the future minimum annual rental commitments disclosed under operating leases in note 11(a).

ROWAN UNIVERSITY

(A Component Unit of the State of New Jersey)

Required Supplementary Information (Unaudited)

Schedules of Employer Contributions

June 30, 2017

Public Employees' Retirement System		2017	2016	2015
Contractually required contribution	$	5,331,193	3,690,074	2,386,805
Contributions in relation to the contractually required contribution		5,331,193	3,690,074	2,386,805
Contribution deficiency (excess)	$	—	—	—
University employee covered-payroll	$	52,135,711	50,275,748	51,495,300
Contributions as a percentage of employee covered payroll		10.23 %	7.34 %	4.63 %

Police and Firemen's Retirement System		2017	2016	2015
Contractually required contribution	$	805,419	545,161	268,537
Contributions in relation to the contractually required contribution		805,419	545,161	268,537
Contribution deficiency (excess)	$	—	—	—
University employee covered-payroll	$	1,960,579	1,918,325	2,066,181
Contributions as a percentage of employee covered payroll		41.08 %	28.42 %	13.00 %

See accompanying independent auditors' report.

Information provided for Required Supplementary Information will be provided for ten (10) years, as the information becomes available in subsequent years.

ROWAN 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, 2017

Public Employees' Retirement System		2017	2016	2015
University proportion of the net pension liability – State Group		1.147 %	1.058 %	1.184 %
University proportion of the net pension liability – Total Plan		0.571	0.544	0.613
University proportionate share of the net pension liability	$	337,030,671	251,080,946	238,238,870
University employee covered-payroll		50,275,748	51,495,300	50,121,737
University proportionate share of the net pension liability as a percentage of the employee covered-payroll		670.4 %	487.6 %	475.3 %
Plan fiduciary net position as a percentage of the total pension liability		31.20 %	38.21 %	42.74 %

Police and Firemen's Retirement System		2017	2016	2015
University proportion of the net pension liability – State Group		0.395 %	0.379 %	0.406 %
University proportion of the net pension liability – Total Plan		0.073	0.073	0.083
University proportionate share of the net pension liability	$	18,589,182	16,256,503	14,428,274
University employee covered-payroll		1,918,325	2,066,181	1,985,629
University proportionate share of the net pension liability as a percentage of the employee covered-payroll		969.0 %	786.8 %	726.6 %
Plan fiduciary net position as a percentage of the total pension liability		48.55 %	52.84 %	58.86 %

Teachers' Pension and Annuity Fund		2017	2016	2015
University proportion of the net pension liability		0.002 %	0.010 %	0.012 %
University proportionate share of the net pension liability	$	—	—	—
State's proportionate share of the net pension liability associated with the College		1,744,239	6,423,696	6,406,231
Total net pension liability		1,744,239	6,423,696	6,406,231
University employee covered-payroll		—	7,656	7,656
University proportionate share of the net pension liability as a percentage of the employee covered-payroll		— %	— %	— %
Plan fiduciary net position as a percentage of the total pension liability		22.33 %	28.71 %	33.64 %

See accompanying independent auditors' report.

Information provided for Required Supplementary Information will be provided for ten (10) years, as the information becomes available in subsequent years.