



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, 2018

(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
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Short Hills, NJ 07078-2702

Independent Auditors' Report

The Board of Trustees
Rowan University:

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 year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

Adoption of New Accounting Pronouncements

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

As discussed in note 12 to the financial statements, as of July 1, 2017, the Rowan University Foundation adopted the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 12 and the schedules of employer contributions and schedules of proportionate share of net pension liability on pages 61 and 62, respectively, and the schedule of proportionate share of the total OPEB liability on page 63 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
March 29, 2019

ROWAN UNIVERSITY
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Management's Discussion and Analysis (Unaudited)
June 30, 2018

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, 2018 and 2017. 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 19,500 students an outstanding education at an exceptional value.

The University is comprised of seven academic colleges and five schools, including 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, along with an Honors College. Rowan's Division of Global Learning and 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 75 bachelor's degrees, 41 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 by the U.S. News and World Report as one of the top 100 public universities in the nation and its engineering school is ranked 23rd 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.

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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, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Current assets	\$ 207,069	213,536
Capital assets	930,463	935,876
Other noncurrent assets	<u>92,228</u>	<u>83,693</u>
Total assets	1,229,760	1,233,105
Deferred outflows of resources	<u>93,072</u>	<u>108,857</u>
Total assets and deferred outflows of resources	<u>1,322,832</u>	<u>1,341,962</u>
Current liabilities	95,970	90,244
Noncurrent liabilities	<u>947,915</u>	<u>1,012,297</u>
Total liabilities	1,043,885	1,102,541

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	2018	2017
	(In thousands)	
Deferred inflows of resources	\$ <u>181,165</u>	<u>146,617</u>
Total liabilities and deferred inflows of resources	<u>1,225,050</u>	<u>1,249,158</u>
Net position:		
Net investment in capital assets	218,156	217,306
Restricted expendable	22,223	21,109
Unrestricted	<u>(142,596)</u>	<u>(145,611)</u>
Total net position (deficit)	<u>\$ 97,783</u>	<u>92,804</u>

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 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 2018 Compared to 2017

The University's total assets and deferred outflows of resources decreased \$19.1 million from \$1,341.9 million at June 30, 2017 to \$1,322.8 million at June 30, 2018. Current assets decreased \$6.5 million, capital assets decreased \$5.4 million, other noncurrent assets increased \$8.5 million and deferred outflows of resources decreased \$15.8 million. Within current assets, cash and cash equivalents decreased \$19.3 million.

Net capital assets decreased approximately \$5.4 million primarily due to an increase of \$38.4 million in assets, offset by depreciation of \$49.0 million.

Other noncurrent assets increased \$8.5 million for the year ended June 30, 2018. The increase is primarily due to a \$20.7 million increase in investments, offset by a decrease of \$13.1 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 decreased \$15.8 million primarily due to the recognition of a \$16.5 million reduction of deferred outflows of resources in fiscal year 2018 related to pensions in accordance with GASB 68. Additionally the loss on bond refinancing increased \$0.7 million primarily due to series 2017 A and 2017 B bond issuance, which refunded and redeemed all of the 2007 B Bonds and pay the costs and expenses incurred in the issuance of the 2017A and 2017B bonds.

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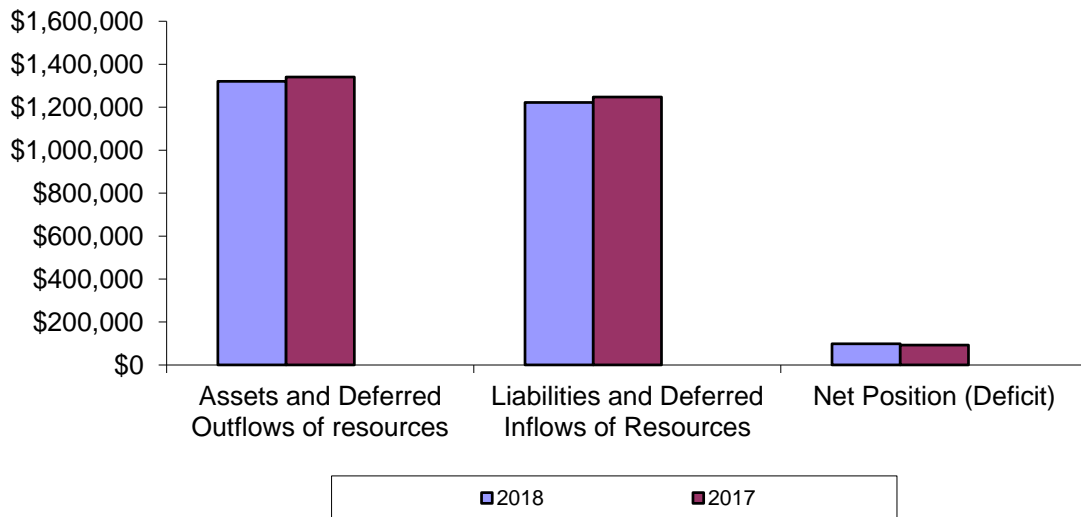
Current liabilities increased \$5.7 million. The increase is primarily attributed to the \$5.7 million increase in the current portion of long term debt, offset by \$0.3 million decrease in unearned revenue due to student revenues received in advance.

Noncurrent liabilities decreased \$64.4 million. This decrease is due primarily to a decrease in net pension liabilities of approximately \$42.0 million, a decrease in long-term debt of \$20.3 million, and a decrease in unearned revenue of \$2.8 million.

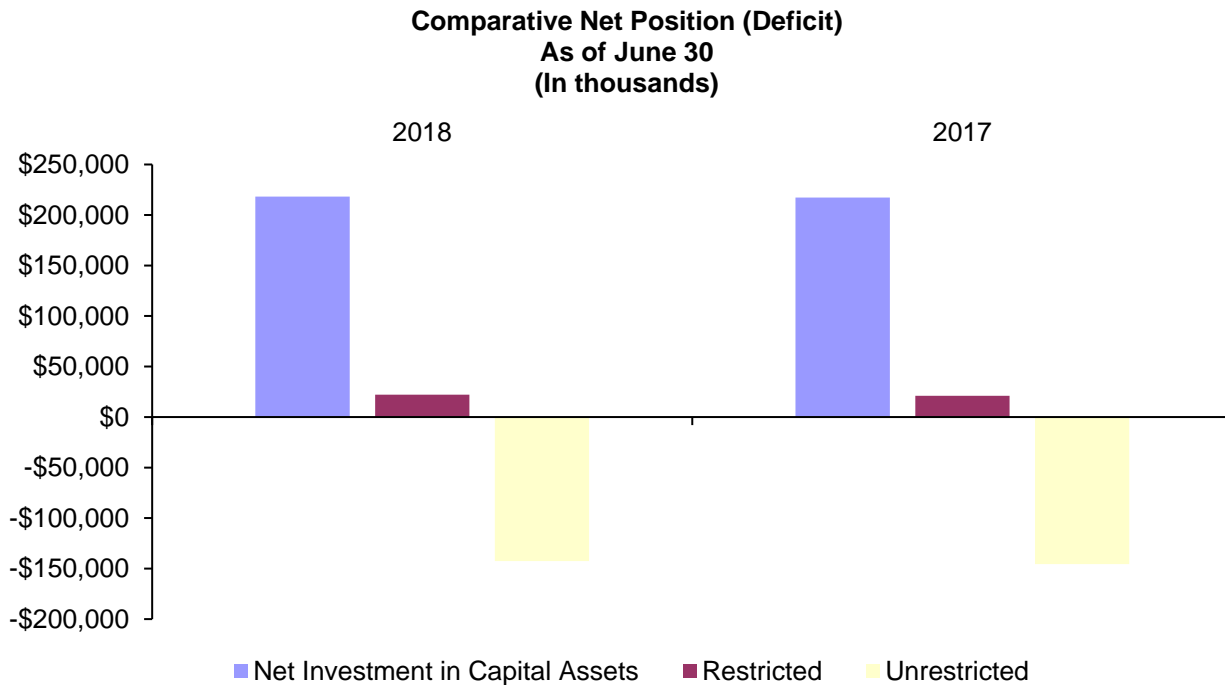
Deferred inflows of resources increased \$34.5 million due primarily to the increase of \$38.8 million in pension related deferred inflows of resources, offset by a \$2.6 million reduction the service concession arrangement.

Total net position increased by \$5.0 million at June 30, 2018 which is primarily the result of a \$3.0 million increase in unrestricted net position, a \$1.1 million increase the expendable restricted net position, and a \$0.9 million increase of net investment of capital assets.

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



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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.

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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, 2018 and 2017, as follows:

	2018	2017
	(In thousands)	
Operating revenues:		
Net student revenues	\$ 256,865	247,261
Grants	73,505	64,269
Professional services and contracts	54,094	54,815
Other	9,390	8,024
Total operating revenues	393,854	374,369
Operating expenses	559,968	517,567
Operating loss	(166,114)	(143,198)
Nonoperating revenues (expenses):		
State appropriations	185,707	157,313
Gifts	11,062	9,308
Investment income	2,216	1,562
Interest on capital asset related debt	(36,689)	(35,496)
Other nonoperating revenues (expenses), net	2,973	6,917
Net nonoperating revenues (expenses)	165,269	139,604
Loss before other revenues	(845)	(3,594)
Capital grants	5,824	39,689
Increase in net position	4,979	36,095
Net position – beginning of year	92,804	56,709
Net position – end of year	\$ 97,783	92,804

Fiscal Year 2018 Compared to 2017

The University's net position increased \$4.9 million in fiscal year 2018. This net amount represents the total revenue available to the University of \$601.6 million compared to total expenses of \$596.7 million.

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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, 2018 and 2017 as follows:

	2018		2017	
	Amount	Percentage of total	Amount	Percentage of total
	(Amounts in thousands)			
Operating revenues:				
Net student revenues	\$ 256,865	65.2 %	\$ 247,261	66.1 %
Grants	73,505	18.7	64,269	17.2
Professional services and contracts	54,094	13.7	54,815	14.6
Other	9,390	2.4	8,024	2.1
Total operating revenues	\$ 393,854	100.0 %	\$ 374,369	100.0 %

Operating Revenues

Fiscal Year 2018 Compared to 2017

Operating revenues for fiscal year ended June 30, 2018 increased \$19.5 million over fiscal year 2017. The majority of this increase is due to an increase in net student revenues of \$9.6 million and an increase of \$9.2 million in grants, offset by a \$0.7 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.

Nonoperating Revenues (Net)

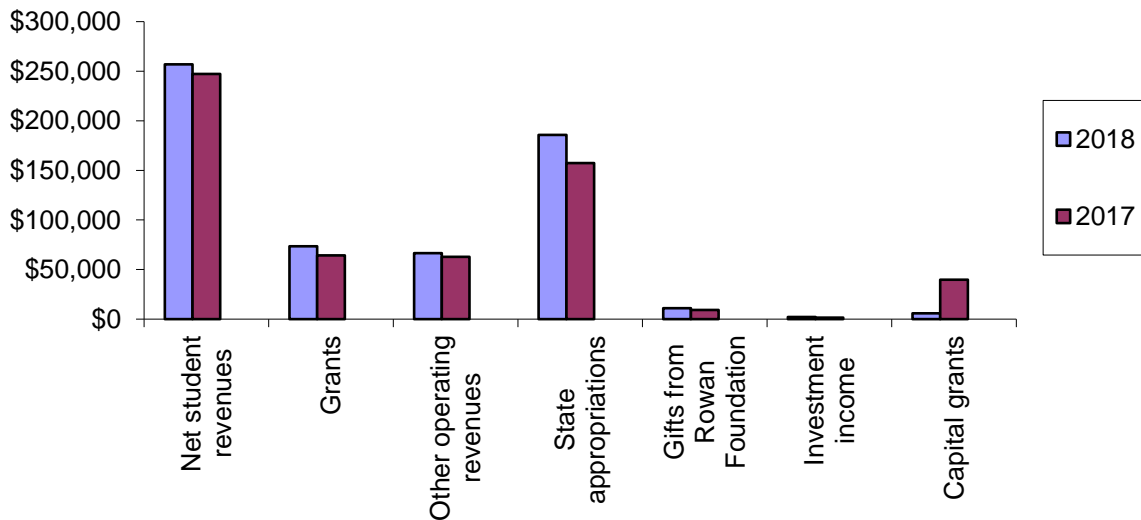
Fiscal Year 2018 Compared to 2017

Nonoperating revenues (net) for the years ended June 30, 2018 and 2017 totaled \$165.3 million and \$139.6 million, respectively, which is a \$25.7 million increase. The primary sources of the increase were \$28.4 million increase in the State of New Jersey appropriations, \$1.2 million decrease in interest on capital asset related debt, as well as \$3.9 million decrease in other nonoperating revenues and expenses. State of New Jersey appropriations include the University base appropriation as well as appropriations for the Cooper Medical School of Rowan University, the School of Osteopathic Medicine, OPEB revenues and the State paid fringe benefits. The University recorded \$185.7 million and \$157.3 million in State appropriations for fiscal year 2018 and 2017, respectively. For the year ended June 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) which resulted in the addition of State of New Jersey appropriations - OPEB nonoperating revenues of \$32.6 million.

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Capital grants decreased in fiscal year 2018 by \$33.9 million primarily due to the completion of the Rohrer College of Business and the College of Engineering buildings in fiscal year 2017 which was part of the University's capital grants awarded through the New Jersey Higher Education Capital Financing Grant Program.

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, 2018 and 2017, the University incurred operating expenses totaling \$560.0 million and \$517.6 million, respectively. The increase of \$42.4 million in operating expenses for fiscal year 2018 versus 2017 is an eight percent increase from the prior year. The increase is primarily driven by the adoption of GASB 75 and the recognition of OPEB expense of \$32.6 million.

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A summary of operating expenses for the years ended June 30, 2018 and 2017 follows:

	2018		2017	
	Amount	Percentage of total	Amount	Percentage of total
	(Amounts in thousands)			
Instruction	\$ 161,630	28.9 %	\$ 168,173	32.5 %
Research	16,524	3.0 %	13,512	2.6 %
Public service	8,113	1.5 %	8,867	1.7 %
Academic support	45,698	8.1 %	46,767	9.0 %
Student service	31,067	5.6 %	29,751	5.7 %
Institutional support	76,742	13.7 %	71,864	13.9 %
Operation and maintenance of plant	36,968	6.6 %	33,933	6.6 %
Student aid	15,443	2.7 %	13,722	2.7 %
Professional services and contracts	53,960	9.6 %	56,717	11.0 %
Auxiliary enterprises	34,762	6.2 %	34,959	6.8 %
Other Postemployment Benefits (OPEB)	32,606	5.8 %	—	— %
Depreciation and amortization	46,455	8.3 %	39,302	7.5 %
Total operating expenses	<u>\$ 559,968</u>	<u>100.0 %</u>	<u>\$ 517,567</u>	<u>100.0 %</u>

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, 2018 and 2017, the University had \$218.2 million and \$217.3 million, respectively in net investment in capital assets. Outstanding long-term debt as of June 30, 2018 is \$638.6 million, compared to \$653.2 million as of June 30, 2017.

Significant transactions related to capital assets and bonded debt that occurred during fiscal year 2018 were as follows:

In July 2017, the Gloucester County Improvement Authority (GCIA) issued Rowan University 2017A and 2017B bonds. The 2017A tax exempt revenue refunding bonds totaled \$73.5 million with coupon rates ranging from 3.000% to 5.000% and maturing through 2033. The 2017B taxable revenue refunding bonds totaled \$4.2 million with coupon rates ranging from 1.850% to 2.100% and maturing through 2019. The proceeds from these bond issuances were 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.

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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 for academic classrooms and offices, and approximately 17,577 square feet for a fitness center.

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 \$11.1 million from fiscal year 2017 to fiscal year 2018 due to the effects of the New Jersey Medicaid Access to Physician Services (NJ MAPS) program within the New Jersey Medicaid program. 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 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.

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Statement of Net Position
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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)	\$ 67,291,615	8,707,774	1,375,684	77,375,073
Restricted cash and cash equivalents (notes 2 and 12)	1,430,414	3,897,815	—	5,328,229
Receivables:				
Students, less allowance of \$1,367,857	5,585,829	—	—	5,585,829
Contributions, net	—	12,561	—	12,561
Restricted contributions, net	—	274,948	—	274,948
Grants, less allowance of \$241,834	13,415,565	—	—	13,415,565
State of New Jersey	12,282,966	—	—	12,282,966
Professional services and contracts receivable, less allowance of \$2,145,660	10,971,556	—	—	10,971,556
Due from Rowan component unit	2,125,297	—	14,591	2,139,888
Interest and other	1,646,580	—	4,640	1,651,220
Total receivables	46,027,793	287,509	19,231	46,334,533
Restricted deposits held by trustees (note 3)	26,195,005	—	—	26,195,005
Investments, at fair value (notes 2 and 12)	63,490,887	—	—	63,490,887
Other current assets	2,633,214	—	—	2,633,214
Total current assets	207,068,928	12,893,098	1,394,915	221,356,941
Noncurrent assets:				
Restricted deposits held by trustees (note 3)	27,513,932	—	—	27,513,932
Investments, at fair value (notes 2 and 12)	59,546,572	50,191,293	—	109,737,865
Restricted investments, at fair value (note 12)	—	22,466,864	—	22,466,864
Restricted nonexpendable investments, at fair value (note 12)	—	143,283,589	—	143,283,589
Loans receivable	4,367,986	—	—	4,367,986
Other non current assets	800,000	—	—	800,000
Contributions receivable, net	—	7,898	—	7,898
Restricted contributions receivable, net	—	1,541,592	—	1,541,592
Capital assets, net (notes 4 and 11)	930,462,842	—	9,979,032	940,441,874
Total noncurrent assets	1,022,691,332	217,491,236	9,979,032	1,250,161,600
Total assets	\$ 1,229,760,260	230,384,334	11,373,947	1,471,518,541
Deferred Outflows of Resources				
Deferred outflows of resources:				
Pensions related (note 6)	\$ 72,616,180	—	—	72,616,180
Loss on bond refinancing	20,456,237	—	—	20,456,237
Total deferred outflows of resources	\$ 93,072,417	—	—	93,072,417
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses (note 7)	\$ 48,608,838	84,030	171,931	48,864,799
Due to University/ component units	14,591	2,125,297	—	2,139,888
Unearned revenue	22,799,693	44,239	—	22,843,932
Other current liabilities	780,050	—	—	780,050
Annuities payable – current portion	—	37,630	—	37,630
Long-term debt – current portion (notes 8 and 9)	23,766,267	—	204,511	23,970,778
Total current liabilities	95,969,439	2,291,196	376,442	98,637,077
Noncurrent liabilities (note 9):				
Compensated absences – noncurrent portion (notes 9 and 11)	2,353,564	—	—	2,353,564
Unearned revenue	9,151,102	—	—	9,151,102
Other liabilities	2,661,725	—	—	2,661,725
Repurchase liability	3,220,000	—	—	3,220,000
Deposits held in custody for others	2,134,428	—	—	2,134,428
Annuities payable – noncurrent portion	—	269,771	—	269,771
Net pension liabilities (note 6)	313,603,691	—	—	313,603,691
Long-term debt – noncurrent portion (notes 8 and 9)	614,790,811	—	4,552,814	619,343,625
Total noncurrent liabilities	947,915,321	269,771	4,552,814	952,737,906
Total liabilities	\$ 1,043,884,760	2,560,967	4,929,256	1,051,374,983
Deferred Inflows of Resources				
Deferred inflows of resources:				
Pensions related (note 6)	\$ 56,144,397	—	—	56,144,397
Gain on bond refinancing	168,044	—	—	168,044
Developer contribution	6,520,000	—	—	6,520,000
Service concession arrangement (note 11)	118,332,111	—	—	118,332,111
Split interest agreements	—	288,024	—	288,024
Total deferred inflows of resources	\$ 181,164,552	288,024	—	181,452,576
Net Position				
Net investment in capital assets				
Restricted:	\$ 218,155,779	—	5,221,707	223,377,486
Nonexpendable (note 12)	—	143,283,589	—	143,283,589
Expendable:	17,920,163	—	—	17,920,163
Debt service and reserve	—	11,950,958	—	11,950,958
Other scholarships	4,303,178	15,758,025	—	20,061,203
Other	(142,595,755)	56,542,771	1,222,984	(84,830,000)
Unrestricted	97,783,365	227,535,343	6,444,691	331,763,399
Total net position	\$ 97,783,365	227,535,343	6,444,691	331,763,399

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, 2018

	<u>Rowan University</u>	<u>Rowan University Foundation</u>	<u>South Jersey Technology Park at Rowan University, Inc.</u>	<u>Total</u>
Operating revenues:				
Net student revenues:				
Tuition and fees	\$ 259,530,951	—	—	259,530,951
Auxiliary enterprises	52,125,844	—	—	52,125,844
Less scholarship allowances	(54,791,624)	—	—	(54,791,624)
Net student revenues	256,865,171	—	—	256,865,171
Grants	73,505,223	—	—	73,505,223
Self-funded programs	6,030,330	—	—	6,030,330
Fundraising events	—	27,475	—	27,475
Contributions	—	9,177,708	—	9,177,708
Net professional services and contracts (note 10)	54,093,950	—	—	54,093,950
Rental income (note 13)	—	—	1,135,604	1,135,604
Other operating revenues	2,945,327	35,720	—	2,981,047
Other auxiliary	414,291	—	—	414,291
Total operating revenues	393,854,292	9,240,903	1,135,604	404,230,799
Operating expenses:				
Instruction	161,629,856	—	—	161,629,856
Research	16,524,323	—	—	16,524,323
Public service	8,112,835	—	—	8,112,835
Academic support	45,697,963	—	—	45,697,963
Student services	31,066,714	—	—	31,066,714
Institutional support	76,742,340	491,782	627,124	77,861,246
Operation and maintenance of plant	36,967,678	—	—	36,967,678
Student aid	15,443,483	—	—	15,443,483
Professional services and contracts	53,960,481	—	—	53,960,481
Auxiliary enterprises	34,761,848	—	—	34,761,848
Other Postemployment Benefits (OPEB) (note 6)	32,605,585	—	—	32,605,585
Depreciation and amortization	46,455,109	—	386,432	46,841,541
Total operating expenses	559,968,215	491,782	1,013,556	561,473,553
Operating (loss) income	(166,113,923)	8,749,121	122,048	(157,242,754)
Nonoperating revenues (expenses):				
State of New Jersey appropriations	29,807,000	—	—	29,807,000
State of New Jersey appropriations – CMSRU	12,448,763	—	—	12,448,763
State of New Jersey appropriations – Rowan SOM	29,192,743	—	—	29,192,743
State of New Jersey appropriations – OPEB (note 6)	32,605,585	—	—	32,605,585
State of New Jersey fringe benefits (note 5)	81,652,278	—	—	81,652,278
Student scholarships	—	(2,693,154)	—	(2,693,154)
Gifts from Rowan University Foundation (note 12)	11,061,684	(11,061,684)	—	—
Other grants	—	(12,179)	—	(12,179)
Investment income, net	2,216,325	14,317,734	7,153	16,541,212
Interest on capital asset related debt	(36,688,784)	—	(169,619)	(36,858,403)
Other nonoperating revenues (expenses), net	2,973,410	1,555,843	705	4,529,958
Net nonoperating revenues (expenses)	165,269,004	2,106,560	(161,761)	167,213,803
(Loss) income before other revenues	(844,919)	10,855,681	(39,713)	9,971,049
Capital grants and gifts	5,824,109	—	—	5,824,109
Additions to permanent endowments	—	9,427,806	—	9,427,806
Increase (decrease) in net position	4,979,190	20,283,487	(39,713)	25,222,964
Net position as of beginning of year (note 12)	92,804,175	207,251,856	6,484,404	306,540,435
Net position as of end of year	\$ 97,783,365	227,535,343	6,444,691	331,763,399

See accompanying notes to basic financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Statement of Cash Flows
(Business-Type Activities – Rowan University only)
Year ended June 30, 2018

	2018
Cash flows from operating activities:	
Student revenues	\$ 254,198,810
Government and private grants	86,361,191
Professional services and contract	51,754,136
Payments to suppliers	(98,832,023)
Payments for employee salaries and benefits	(283,250,611)
Self-funded programs and other receipts	6,030,330
	<u>16,261,833</u>
Net cash provided by operating activities	
Cash flows from noncapital financing activities:	
State of New Jersey appropriations	71,448,506
Gifts	11,061,684
Receipts for other noncapital assets	(3,290,641)
Payments made for other nonoperating expenses	2,973,410
	<u>82,192,959</u>
Net cash provided by noncapital financing activities	
Cash flows from capital and related financing activities:	
Proceeds from bond issuance	89,372,120
Payment on refunding of bond	(88,406,774)
Drawdown of restricted deposits held by trustees	13,835,341
Capital grants	2,989,195
Costs of issuance	(965,346)
Purchases of capital assets	(46,370,528)
Principal paid on capital debt	(14,354,007)
Interest paid on capital debt	(38,926,380)
	<u>(82,826,379)</u>
Net cash used by capital and related financing activities	
Cash flows from investing activities:	
Purchase of investments	171,507,046
Sale of investments	(208,239,903)
Interest on investments	1,795,233
	<u>(34,937,624)</u>
Net cash used by investing activities	
Net decrease in cash and cash equivalents	(19,309,211)
Cash and cash equivalents as of beginning of the year	88,031,240
Cash and cash equivalents as of end of the year	<u>\$ 68,722,029</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (166,113,923)
Adjustments to reconcile operating loss to net cash used by operating activities:	
State paid fringe benefits	81,652,278
State paid postemployment benefits	32,605,585
Depreciation and amortization expense	46,455,109
Changes in assets and liabilities:	
Receivables	5,552,576
Other current assets	478,682
Note receivable	(800,000)
Accounts payable and accrued expenses	2,466,369
Unearned revenue	(295,083)
Student deposits	109,157
Other liabilities	286,444
Deposits held in custody for others	448,946
Compensated absences – noncurrent portion	79,164
Net pension liability, net of deferred amounts	13,336,529
	<u>\$ 16,261,833</u>
Net cash provided by operating activities	
Noncash transaction:	
Noncash gifts	\$ 1,055,573
Unrealized loss on investments	(148,610)

See accompanying notes to basic financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018

(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.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018

- *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.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018

(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 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.

ROWAN UNIVERSITY
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Notes to Basic Financial Statements
June 30, 2018

(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) *New Accounting Standard Adopted*

In fiscal year 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. This Statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, GASB 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The effect of adoption of GASB 75 resulted in the addition of OPEB operating expense and State of New Jersey appropriations - OPEB nonoperating revenues of \$32.6 million.

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

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement requires a government entity to recognize an asset retirement obligation when the liability is incurred and reasonably estimable. The government entity would measure the obligation based on its best estimate of the current value of outlays expected to be incurred. The requirements of this Statement are effective for reporting period beginning after June 15, 2018 (fiscal year 2019). The University is evaluating the impact of this new standard.

ROWAN UNIVERSITY
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June 30, 2018

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (fiscal year 2020). The University is evaluating the impact of this new standard.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement improves accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for periods beginning after December 15, 2019 (fiscal year 2021). The University is evaluating the impact of this new statement.

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

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

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (fiscal year 2020). The University is evaluating the impact of this new standard.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018

(xv) *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.

(xvi) *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.

(2) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of June 30, 2018:

Cash	\$	67,178,361
State of New Jersey Cash Management Fund		626,309
Money market accounts		<u>917,359</u>
Total cash and cash equivalents	\$	<u><u>68,722,029</u></u>

Cash and money market accounts were held at a depository and bank balances amounted to \$74,861,255 as of June 30, 2018. Of these amounts, \$500,000 was FDIC insured, \$2,975,806 was uninsured and uncollateralized and the excess is collateralized pursuant to Chapter 64 of Title 18A of New Jersey Statutes as of June 30, 2018.

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 \$626,309 as of June 30, 2018. 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, 2018. The NJCMF is unrated with an average portfolio maturity of less than one year.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018

(b) Investments

The University's investments consist of the following as of June 30, 2018:

U.S. government treasury securities	\$	14,868,533
U.S. government agency securities		999,830
U.S. corporate bonds		88,871,928
Foreign corporate bonds		752,786
Mutual funds – equity		4,273,693
Common stock – equity		174,500
Asset-backed securities		7,720,589
Commercial mortgage-backed securities		2,248,649
Municipal bonds		2,307,137
Collateralized mortgage obligations		<u>819,814</u>
Total investments	\$	<u><u>123,037,459</u></u>

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, 2018, 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.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018

The following tables summarize the agency ratings of the fixed income securities included in the University's investments as of June 30, 2018:

	2018							Total
	S&P Rated				Moody's Rated			
	AAA	AA	A	BBB	Aaa	Aa	A	
U.S. government treasury securities	\$ —	14,868,533	—	—	—	—	—	14,868,533
U.S. government agency securities	—	999,830	—	—	—	—	—	999,830
U.S. corporate bonds	1,992,890	20,627,369	48,131,534	15,857,764	2,262,371	—	—	88,871,928
Foreign corporate bonds	675,574	—	—	77,212	—	—	—	752,786
Asset-backed securities	5,014,280	380,162	—	—	2,326,147	—	—	7,720,589
Commercial mortgage-backed securities	232,498	410,389	—	—	1,605,762	—	—	2,248,649
Municipal bonds	—	565,733	629,819	—	900,000	172,581	39,004	2,307,137
Collateralized mortgage obligations	—	819,814	—	—	—	—	—	819,814
Total	<u>\$ 7,915,242</u>	<u>38,671,830</u>	<u>48,761,353</u>	<u>15,934,976</u>	<u>7,094,280</u>	<u>172,581</u>	<u>39,004</u>	<u>118,589,266</u>

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, 2018:

Investment type	Investment maturities (in years)				
	Fair value	Less than 1	1-5	6-10	More than 10
U.S. government treasury securities	\$ 14,868,533	10,927,083	3,941,450	—	—
U.S. government agency securities	999,830	999,830	—	—	—
U.S. corporate bonds	88,871,928	45,017,887	42,870,341	—	983,700
Foreign corporate bonds	752,786	675,574	77,212	—	—
Asset-backed securities	7,720,589	159,243	6,367,130	856,817	337,399
Commercial mortgage-backed securities	2,248,649	687,889	410,388	—	1,150,372
Municipal bonds	2,307,137	514,832	492,305	200,000	1,100,000
Collateralized mortgage obligations	819,814	60,356	393,073	230,434	135,951
Total	<u>\$ 118,589,266</u>	<u>59,042,694</u>	<u>54,551,899</u>	<u>1,287,251</u>	<u>3,707,422</u>

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018

(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.
- 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.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Notes to Basic Financial Statements
June 30, 2018

The University's financial instruments as of June 30, 2018 are summarized in the following table by their fair value hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
U. S. government treasury securities	\$ 14,868,533	—	14,868,533	—
U. S. government agency securities	999,830	—	999,830	—
U. S. corporate bonds	88,871,928	—	88,871,928	—
Foreign corporate bonds	752,786	—	752,786	—
Mutual funds – equity	4,273,693	4,273,693	—	—
Common stock – equity	174,500	174,500	—	—
Asset-backed securities	7,720,589	—	7,720,589	—
Commercial mortgage-backed securities	2,248,649	—	2,248,649	—
Municipal bonds	2,307,137	—	2,307,137	—
Collateralized mortgage obligations	819,814	—	819,814	—
Total investments	<u>\$ 123,037,459</u>	<u>4,448,193</u>	<u>118,589,266</u>	<u>—</u>

(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 and consist of the following as of June 30, 2018:

Construction funds	\$ 27,513,932
Debt service and debt service reserve funds	<u>26,195,005</u>
	53,708,937
Less current portion	<u>26,195,005</u>
Noncurrent restricted deposits held by trustees	<u>\$ 27,513,932</u>

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(4) Capital Assets

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

<u>2018</u>	<u>Beginning balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ transfers</u>	<u>Ending balance</u>
Nondepreciable assets:				
Land	\$ 50,569,091	164,470	—	50,733,561
Artwork	2,770,624	393,866	—	3,164,490
Construction in progress	<u>31,897,871</u>	<u>29,641,709</u>	<u>(48,104,613)</u>	<u>13,434,967</u>
Total nondepreciable assets	<u>85,237,586</u>	<u>30,200,045</u>	<u>(48,104,613)</u>	<u>67,333,018</u>
Depreciable assets:				
Land improvements	55,071,590	2,554,044	—	57,625,634
Buildings	1,154,084,386	48,015,664	(1,239,280)	1,200,860,770
Equipment	<u>60,293,467</u>	<u>11,409,782</u>	<u>(4,474,608)</u>	<u>67,228,641</u>
Total depreciable assets	<u>1,269,449,443</u>	<u>61,979,490</u>	<u>(5,713,888)</u>	<u>1,325,715,045</u>
Less accumulated depreciation:				
Land improvements	23,440,293	2,927,418	—	26,367,711
Buildings	361,517,911	38,873,946	(1,016,167)	399,375,690
Equipment	<u>33,853,069</u>	<u>7,172,407</u>	<u>(4,183,656)</u>	<u>36,841,820</u>
Total accumulated depreciation	<u>418,811,273</u>	<u>48,973,771</u>	<u>(5,199,823)</u>	<u>462,585,221</u>
Total capital assets, net	<u>\$ 935,875,756</u>	<u>43,205,764</u>	<u>(48,618,678)</u>	<u>930,462,842</u>

Depreciation expense for the year ending June 30, 2018 is \$48,973,771. The estimated cost to complete capital projects included in construction in progress as of June 30, 2018 approximates \$55,727,000. Anticipated financing for these projects is approximately \$13,622,000 in grant funds, \$10,910,000 in bond funding and \$31,195,000 in University funds.

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(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 was \$81,652,278 for fiscal year 2018, 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/annrpts.shtml or by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, 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.

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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, 2018 was 7.34% 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, 2018 was \$7,325,414.

(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.

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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, 2018 was 10% of pensionable wages. The University’s contributions to PFRS (amounts paid by the State on behalf of the University) for the fiscal year ended June 30, 2018 was \$1,069,699.

(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*.

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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, 2018 was 7.34%. 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.

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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, 2018, the University reported a liability of \$295,481,815 and \$18,121,876 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, 2018 of \$1,479,732 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, 2018, were determined by actuarial valuations as of July 1, 2016 and rolled forward to the measurement date of June 30, 2017. 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 year 2017. 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 year 2017. The University's allocation percentages and pension expense for each plan are as follows:

	<u>PERS</u>	<u>PFRS</u>	<u>TPAF</u>
2017 Allocation percentage – State Group/Nonemployer Group ¹	1.152 %	0.412 %	0.002 %
2017 Allocation percentage – Total Plan ²	0.604 %	0.084 %	0.002 %
Pension expense for the year ended June 30, 2017	\$ 20,668,447	1,625,442	102,508

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, 2018 of \$102,508 in the State of New Jersey fringe benefits amount on the statements of revenue, expenses and changes in net position.

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The University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of June 30, 2018:

	<u>PERS</u>	<u>PFRS</u>	<u>Total</u>
Deferred outflows of resources:			
Changes of assumptions	\$ 38,650,908	1,084,709	39,735,617
Changes in proportionate share	14,357,377	1,150,081	15,507,458
Differences between expected and actual experience	6,769,706	—	6,769,706
Net differences between projected and actual investment earnings on pension plan investments	1,876,738	331,548	2,208,286
Contributions subsequent to the measurement date	7,325,414	1,069,699	8,395,113
Total	<u>\$ 68,980,143</u>	<u>3,636,037</u>	<u>72,616,180</u>
Deferred inflows of resources:			
Changes in proportionate share	\$ 12,086,791	448,423	12,535,214
Differences between expected and actual experience	—	234,936	234,936
Changes of assumptions	41,832,600	1,541,647	43,374,247
Total	<u>\$ 53,919,391</u>	<u>2,225,006</u>	<u>56,144,397</u>

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, 2018, \$8,395,113 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>PERS</u>	<u>PFRS</u>	<u>Total</u>
Years ending:			
2019	\$ 4,317,554	244,764	4,562,318
2020	6,077,090	335,244	6,412,334
2021	4,365,071	88,514	4,453,585
2022	(2,794,481)	(193,770)	(2,988,251)
2023	(4,229,896)	(133,420)	(4,363,316)
	<u>\$ 7,735,338</u>	<u>341,332</u>	<u>8,076,670</u>

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Actuarial Assumptions

The total pension liabilities measured as of June 30, 2017 based on the July 1, 2016 actuarial valuations for PERS, PFRS and TPAF were determined using the following actuarial assumptions:

	<u>PERS</u>	<u>PFRS</u>	<u>TPAF</u>
Inflation rate	2.25%	2.25%	2.25%
Salary increases:			
Through 2026	1.65 – 4.15%	2.10 – 8.98%	Varies based on experience
Thereafter	2.65 – 5.15%	3.10 – 9.98%	Varies based on experience
Investment rate of return	7.00%	7.00%	7.00%

2017

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).

2017

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.

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2017

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.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% and 7.65% at June 30, 2017 and 2016, 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, 2017 are summarized in the following table:

<u>Asset class</u>	<u>PERS PFRS TPAF</u>	
	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Absolute return/risk mitigation	5.00 %	5.51 %
Cash equivalents	5.50	1.00
U.S. Treasuries	3.00	1.87
Investment grade credit	10.00	3.78
Public high yield	2.50	6.82
Global diversified credit	5.00	7.10
Credit oriented hedge funds	1.00	6.60
Debt related private equity	2.00	10.63
Debt related real estate	1.00	6.61
Private real asset	2.50	11.83
Equity related real estate	6.25	9.23
U.S. equity	30.00	8.19
Non-U.S. developed markets equity	11.50	9.00
Emerging market equities	6.50	11.64
Buyouts/venture capital	8.25	13.08

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Discount Rate

The discount rates used to measure the total pension liabilities were 5.00%, 6.14% and 4.25% for PERS, PFRS, and TPAF, respectively, as of June 30, 2017. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017, 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, 2017 was projected to be available to make projected future benefit payments of current plan members through 2040 for PERS, 2057 for PFRS and 2036 for TPAF. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 for PERS, 2057 for PFRS and 2036 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, 2017 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:

<u>Plan (rates)</u>	<u>At 1% decrease</u>	<u>At current discount rate</u>	<u>At 1% increase</u>
PERS(4.00%, 5.00%, 6.00%)	343,561,501	295,481,815	255,547,006
PFRS(5.14%, 6.14%, 7.14%)	21,447,185	18,121,876	15,396,087

Change in Assumption

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.

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(b) Defined Contribution Retirement Plans

Alternative Benefit Program (ABP)

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, 2018, ABP investment carriers received employer and employee contributions as follows:

Employer contributions	\$	10,799,217
Employee contributions		13,468,992
Basis for contributions:		
Participating employee salaries	\$	134,990,216

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.

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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, 2018, Prudential received employer and employee contributions as follows:

Employer contributions	\$	28,140
Employee contributions		51,589
Basis for contributions:		
Participating employee salaries	\$	937,978

(c) Post-Employment Benefits Other than Pensions

The University's retirees participate in the State Health Benefit State Retired Employees Plan (the Plan).

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

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

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

Total OPEB Liability and OPEB expense

As of June 30, 2018, the State recorded a liability of \$554,246,968 which represents the portion of the State's total proportionate share of the collective total OPEB liability that is associated with the University (the University's share). The University's share was based on the ratio of its members to the total members of the Plan. At June 30, 2018, the University's share was 6.77% and 1.97% of the special funding situation and of the Plan, respectively.

For the year ended June 30, 2018, the University recognized OPEB expense of \$32,605,585. As the State is legally obligated for benefit payments on behalf of the University, the University recognized revenue related to the support provided by the State of \$32,605,585.

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

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

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

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

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

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

(7) Accounts Payable and Accrued Expenses

The components of accounts payable and accrued expenses as of June 30, 2018 are as follows:

Vendors and other	\$ 19,971,756
Salaries and benefits	8,262,358
Due to State of New Jersey	4,067,049
Compensated absences – current portion	8,041,808
Accrued interest payable	<u>8,265,867</u>
Total accounts payable and accrued expenses	<u>\$ 48,608,838</u>

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(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, 2018:

	<u>Interest rate</u>	<u>2018</u>
NJEFA Series 2007 B Revenue Refunding Bonds, due serially to 2034	3.000%–5.500%	\$ 4,125,000
CCIA Series 2010 A Build America Bonds, due serially to 2035	5.055%–7.847%	90,590,000
NJEFA Series 2011 C Revenue Refunding Bonds, due serially to 2025	3.000%–5.000%	17,580,000
CCIA Series 2013 A Rowan SOM Revenue Refunding Bonds, due serially to 2032	3.000%–5.000%	23,905,000
CCIA Series 2013 B Rowan SOM Revenue Refunding Bonds due serially to 2032	0.890%–5.160%	22,235,000
GCIA Series 2015 A Revenue Bonds, due serially to 2036	3.250%–5.000%	34,745,000
GCIA Series 2015 B Revenue Refunding Bonds, due serially to 2031	1.500%–5.000%	64,455,000
GCIA Series 2015 C Revenue Bonds, due serially to 2044	4.000%–5.000%	51,550,000
NJEFA Series 2016 C Revenue Refunding, due serially to 2031	2.500%–5.000%	44,735,000
GCIA Series 2017 A Revenue Bonds, due serially to 2033	3.000%–5.000%	73,475,000
GCIA Series 2017 B Revenue Bonds, due serially to 2019	1.850%–2.100%	<u>4,155,000</u>
		431,550,000
Plus:		
Bond premium		<u>32,730,177</u>
Total bonds payable		<u>\$ 464,280,177</u>

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Future annual debt service requirements approximate the following:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total amount</u>
Year ending June 30:			
2019	\$ 22,890,000	21,317,235	44,207,235
2020	18,175,000	20,467,413	38,642,413
2021	20,085,000	19,476,874	39,561,874
2022	23,665,000	18,327,334	41,992,334
2023	21,395,000	17,207,959	38,602,959
2024-2028	126,125,000	66,878,959	193,003,959
2029-2033	104,675,000	36,057,575	140,732,575
2034-2038	48,575,000	14,425,908	63,000,908
2039-2043	31,470,000	6,239,750	37,709,750
2044-2048	14,495,000	371,250	14,866,250
	<u>\$ 431,550,000</u>	<u>220,770,257</u>	<u>652,320,257</u>

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 2007 B, Series 2008 B and Series 2009 B Bonds. Accordingly, these bonds are legally outstanding obligations of the University as of June 30, 2018, however are defeased for financial reporting, therefore, they are not reflected in the accompanying financial statements. The principal amounts of these bonds were \$62,533,150 as of June 30, 2018.

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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 were 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.

(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, 2018 in the amount of \$72,010,025.

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, 2018 in the amount of \$11,762,987.

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, 2018 in the amount of \$34,234,100.

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.

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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, 2018 in the amount of \$21,496,019.

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 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, 2018 in the amount of \$15,043,597.

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

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total amount</u>
Year ending June 30:			
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	484,670	14,787,565	15,272,235
2024-2028	9,322,728	72,324,215	81,646,943
2029-2033	27,017,205	64,669,259	91,686,464
2034-2038	47,833,770	47,958,948	95,792,718
2039-2043	70,425,413	16,662,741	87,088,154
2044-2046	402,571	4,945	407,516
	<u>\$ 154,546,728</u>	<u>275,479,033</u>	<u>430,025,761</u>

(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

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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, 2018 is \$3,557,535 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, 2018 is \$1,010,908.
- (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, 2018 is \$7,377,756, 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, 2018 is \$101,009.
- (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, 2018 is \$5,103,455, with maturities through August 15, 2036.
- (F) In August 2017, the University entered into a loan with NEXUS Properties in the amount of \$2,693,846 with an interest rate of 4.88% for a term of 15 years. The loan is for the fit-out of the classroom portion of the A-3 building situated at Victoria Street and Mick Drive in the Borough of Glassboro. The outstanding balance as of June 30, 2018 \$2,579,510 with principal and interest due monthly.

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Principal and interest payments for these obligations are as follows:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total amount</u>
Year ending June 30:			
2019	\$ 1,487,273	824,205	2,311,478
2020	1,542,106	772,783	2,314,889
2021	1,596,142	715,831	2,311,973
2022	1,677,636	654,329	2,331,965
2023	1,745,961	588,122	2,334,083
2024-2028	4,308,393	2,273,519	6,581,912
2029-2033	5,177,161	1,181,384	6,358,545
2034-2038	2,195,501	173,806	2,369,307
	<u>\$ 19,730,173</u>	<u>7,183,979</u>	<u>26,914,152</u>

(9) Noncurrent Liabilities

Noncurrent liabilities activity for the year ended June 30, 2018 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Compensated absences	\$ 10,440,957	8,120,972	8,166,557	10,395,372	8,041,808
Unearned revenue	35,080,792	19,964,776	23,094,776	31,950,792	22,799,693
Other liabilities	658,556	2,003,169	—	2,661,725	—
Repurchase liability	3,220,000	—	—	3,220,000	—
Deposits held in custody for others	1,685,482	3,022,301	2,573,355	2,134,428	—
Net pension liability	355,619,853	22,616,860	64,633,022	313,603,691	—
Bonds payable	481,194,304	91,297,549	108,211,676	464,280,177	22,890,000
Other long-term debt	18,379,099	2,579,511	1,228,437	19,730,173	1,487,273
Capital lease obligation	153,646,921	—	(899,807)	154,546,728	(611,006)
Total noncurrent liabilities	<u>\$ 1,059,925,964</u>	<u>149,605,138</u>	<u>207,008,016</u>	<u>1,002,523,086</u>	<u>54,607,768</u>

(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.

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The components of professional services and contract revenues for the year ended June 30, 2018 are as follows:

Faculty practice revenues:	
Gross charges	\$ 57,107,819
Contractual and other allowances	(25,403,863)
Provision for bad debts	(1,094,471)
Bad debt recovery	<u>212,141</u>
Total faculty practice	<u>30,821,626</u>
House staff and affiliation revenues:	
House staff billings	20,674,083
Affiliation billings	<u>2,598,241</u>
Total house staff and affiliation	<u>23,272,324</u>
Total professional services and contract revenue	<u>\$ 54,093,950</u>

Gross charges pertain to the following payers:

Medicare	35 %
Medicaid and Medicaid HMO	18
Contracts	16
Other third party payors	29
Uninsured, charity care and self pays	<u>2</u>
	<u>100 %</u>

Faculty practice gross accounts receivable pertain to the following payers:

Medicare	38 %
Medicaid and Medicaid HMO	18
Contracts	33
Other third party payors	10
Self pays	<u>1</u>
	<u>100 %</u>

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(11) Commitments and Contingencies

(a) Operating Leases

The University leases certain space and equipment used in general operations. Rental expense was approximately \$2,947,000 during fiscal year 2018. Future minimum annual rental commitments approximate the following:

	Amount
Year ending June 30:	
2019	\$ 2,398,769
2020	2,071,358
2021	1,961,776
2022	1,942,981
2023	1,957,482
2024 and thereafter	15,634,513
	\$ 25,966,879

(b) Compensated Absences

The University recorded a liability for accumulated vacation time in the amount of approximately \$8,042,000 as of June 30, 2018, 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 \$1,950,000 as of June 30, 2018, 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 \$403,000 as of June 30, 2018, 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

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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.

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(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 \$1,633,542 in fiscal year 2018 for SOM. Included in accounts payable and accrued expenses is approximately \$3,250,000 as of June 30, 2018, 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.

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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 is 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,

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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 ground 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 personality 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.

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(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 \$544,295 shortfall payments during fiscal year 2018.

(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 to 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. As of June 30, 2018, the University has a repurchase liability of \$3,220,000.

(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

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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 year ended June 30, 2018 the University received \$11,061,684 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, 2018, the Foundation's cash, cash equivalents and investments are reported on the statements of net position as follows:

Cash and cash equivalents	\$	8,707,774
Restricted cash and cash equivalents		<u>3,897,815</u>
	\$	<u><u>12,605,589</u></u>
Investments	\$	50,191,293
Restricted investments		22,466,864
Restricted nonexpendable investments		<u>143,283,589</u>
	\$	<u><u>215,941,746</u></u>

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Cash, cash equivalents, restricted nonexpendable investments and investments consist of the following as of June 30, 2018:

Cash and cash equivalents:	
Cash	\$ 3,480,896
Money market funds	<u>9,124,693</u>
	<u>\$ 12,605,589</u>
Investments:	
Bond mutual funds (domestic)	\$ 22,256,803
Common stock mutual funds (domestic)	85,676,939
Common stock mutual funds (international)	42,892,144
Venture capital investments	1,876,950
Alternative investments	<u>63,238,910</u>
	<u>\$ 215,941,746</u>

For the year ended June 30, 2018, the increase in fair value on investments was \$10,640,563 and the net realized gain on investments for June 30, 2018 was \$6,360,481. 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 \$12,615,771 as of June 30, 2018. Of this amount, \$250,000 was FDIC insured, leaving an uninsured and uncollateralized balance of \$12,239,911.

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, 2018, 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.

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The Foundation's investments' average effective duration for June 30, 2018 are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Average effective duration</u>
Bond mutual funds (domestic)	\$ 6,894,043	5.67 years
Bond mutual funds (domestic)	4,446,773	6.13 years
Bond mutual funds (domestic)	6,870,963	6.05 years
Bond mutual funds (domestic)	155,933	6.03 years
Bond mutual funds (domestic)	<u>3,889,091</u>	-1.14 years
Total	<u>\$ 22,256,803</u>	

Fair Value Measurement

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

- Level 1 – unadjusted quoted 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.
- 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.

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- 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, 2018 are summarized in the following table by their fair value hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments measured at fair value:				
Bond mutual funds (domestic)	\$ 22,256,803	22,256,803	—	—
Common stock mutual funds (domestic)	85,676,939	85,676,939	—	—
Common stock mutual funds (international)	42,892,144	42,892,144	—	—
Venture capital investments	1,876,950	—	—	1,876,950
Subtotal	<u>152,702,836</u>	<u>\$ 150,825,886</u>	<u>—</u>	<u>1,876,950</u>
Investments measured at net asset value:				
Absolute return	32,393,018			
Private equity	19,667,196			
Realty investments	<u>11,178,696</u>			
Subtotal	<u>63,238,910</u>			
Total cash equivalents and investments	<u>\$ 215,941,746</u>			

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Investments Measured at NAV

The following table represents the unfunded commitments and redemption terms by investment type as of June 30, 2018:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Absolute return ^(a)	\$ 32,393,018	None	Quarterly	65–100 days
Private equity ^(b)	19,667,196	16,389,000	Illiquid	Not applicable
Realty investments ^(c)	<u>11,178,696</u>	11,398,000	Illiquid	Not applicable
	<u>\$ 63,238,910</u>			

- (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 \$18.9 million as of June 30, 2018, 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 13 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 8 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.

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(c) Restricted Nonexpendable Net Position

Restricted nonexpendable net position as of June 30, 2018 consists of the following:

Henry and Betty Rowan for general operations	\$ 97,000,118
Henry M. Rowan College of Engineering Endowment	15,000,000
Jean & Ric Edelman Fossil Park Endowment	3,497,442
Rohrer College of Business	3,096,955
Keith and Shirley Campbell Endowment to support library operations	1,641,896
Thomas N. Bantivoglio Honors Program for scholarships	1,343,347
John B. Campbell Professorial Chair	1,176,282
Rohrer Scholars for scholarships	1,080,932
Lawrence & Rita Salva Medical School	1,010,250
William G. Rohrer Professorial Chair in the College of Business	1,000,000
King Family Professorial Chair	1,000,000
CMSRU Student Loan Assistance Program	1,000,000
Inspira Health Network Endowed Fund	1,000,000
Endowed Chair for Geriatrics	1,000,000
Henry M. Rowan Endowment for Engineering Scholarship	—
Other endowment funds	<u>13,436,367</u>
	<u>\$ 143,283,589</u>

(d) Adoption of Accounting Pronouncements

In fiscal year 2018, the Foundation implemented GASB Statement No. 81, *Irrevocable Split Interest Agreements* (GASB 81). GASB 81 requires that a government that receives resources pursuant to an irrevocable split interest agreement recognize assets, liabilities and deferred inflows of resources at the inception of the agreement. GASB 81 also requires that a government recognize revenue when the resources become applicable to the reporting period. The Foundation's charitable gift annuity

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agreements meet the definition of an irrevocable split interest agreement in which the Foundation has a remainder interest under GASB 81.

The provisions of GASB 81 have been retroactively applied to the beginning net position of fiscal year 2018. The following is a reconciliation of the total net position as previously reported at July 1, 2017 to the total restated net position:

Total net position as previously reported as of July 1, 2017		\$ 207,538,612
Restatement to beginning of year net position		<u>(286,756)</u>
Total net position as of July 1, 2017, as restated		<u>\$ 207,251,856</u>

(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.

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(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 statement of revenues, expenses, and changes in net position for fiscal year 2018.

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 year ended June 30, 2018, SJTP recognized \$1,135,604 in rental income related to this lease agreement. The University also reimbursed SJTP \$148,234 for utility charges associated with this lease for fiscal year 2018.

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 \$397,674 for fiscal year 2018 and are reflected in professional and other services expenses in the accompanying statements of revenues, expenses, and changes in net position.

(14) Subsequent Events

On February 6, 2019 Rowan University, as the fixed rate payer, entered into a swap agreement with the Royal Bank of Canada, as the floating rate payer, in the notional amount of \$72,595,000 with a termination date of July 1, 2035 at a fixed interest rate of 2.28850% with a mandatory early termination date of January 1, 2021. In addition, on January 14, 2019, the University paid the outstanding loan balance of \$2,504,137 to NEXUS Properties. This loan had been for the fit-out of the classroom portion of the A-3 building situated at Victoria Street and Mick Drive in the Borough of Glassboro.

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Schedules of Employer Contributions
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Public Employees' Retirement System	2018	2017	2016	2015
Contractually required contribution	\$ 7,325,414	5,331,193	3,690,074	2,386,805
Contributions in relation to the contractually required contribution	<u>7,325,414</u>	<u>5,331,193</u>	<u>3,690,074</u>	<u>2,386,805</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>
University employee covered-payroll	\$ 50,762,197	52,135,711	50,275,748	51,495,300
Contributions as a percentage of employee covered payroll	14.43 %	10.23 %	7.34 %	4.63 %
Police and Firemen's Retirement System	2018	2017	2016	2015
Contractually required contribution	\$ 1,069,699	805,419	545,161	268,537
Contributions in relation to the contractually required contribution	<u>1,069,699</u>	<u>805,419</u>	<u>545,161</u>	<u>268,537</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>
University employee covered-payroll	\$ 1,901,881	1,960,579	1,918,325	2,066,181
Contributions as a percentage of employee covered payroll	56.24 %	41.08 %	28.42 %	13.00 %

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

See accompanying independent auditors' report.

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Schedules of Proportionate Share of the Net Pension Liability
June 30, 2018

Public Employees' Retirement System	2018	2017	2016	2015
University proportion of the net pension liability – State Group	1.152 %	1.147 %	1.058 %	1.184 %
University proportion of the net pension liability – Total Plan	0.604	0.571	0.544	0.613
University proportionate share of the net pension liability	\$ 295,481,815	337,030,671	251,080,946	238,238,870
University employee covered-payroll	52,135,711	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	566.8 %	670.4 %	487.6 %	475.3 %
Plan fiduciary net position as a percentage of the total pension liability	36.78 %	31.20 %	38.21 %	42.74 %
Police and Firemen's Retirement System	2018	2017	2016	2015
University proportion of the net pension liability – State Group	0.412 %	0.395 %	0.379 %	0.406 %
University proportion of the net pension liability – Total Plan	0.084	0.073	0.073	0.083
University proportionate share of the net pension liability	\$ 18,121,876	18,589,182	16,256,503	14,428,274
University employee covered-payroll	1,960,579	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	924.3 %	969.0 %	786.8 %	726.6 %
Plan fiduciary net position as a percentage of the total pension liability	54.52 %	48.55 %	52.84 %	58.86 %
Teachers' Pension and Annuity Fund	2018	2017	2016	2015
University proportion of the net pension liability	0.002 %	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 University	1,479,732	1,744,239	6,423,696	6,406,231
Total net pension liability	\$ 1,479,732	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	25.41 %	22.33 %	28.71 %	33.64 %

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

Notes to Required Supplementary Information

Changes in benefit terms – There were no significant changes in benefits for any of the actuarial valuations used to determine required contributions.

Changes in assumptions – There were no significant changes in assumptions except for the annual change in the discount rate and the change in the long-term rate of return as follows:

PERS

For 2017, the discount rate changed to 5.00% and the long-term rate of return changed to 7.00%. For 2016, the discount rate changed to 3.98%, the long-term expected rate of return changed to 7.65% from 7.90%. For 2015, the discount rate changed to 4.90% from 5.39%.

PFRS

For 2017, the discount rate changed to 6.14% and the long-term rate of return changed to 7.00%. For 2016, the discount rate changed to 5.55%, the long-term expected rate of return changed to 7.65% from 7.90%. For 2015, the discount rate changed to 5.79% from 6.32%.

See accompanying independent auditors' report.

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Schedule of Proportionate Share of the Total OPEB Liability
June 30, 2018

	2018
University proportion of the collective total OPEB liability	— %
University proportionate share of the collective total OPEB liability	\$ —
State's proportionate share of the total OPEB liability associated with the University	554,246,968
Total OPEB liability	\$ 554,246,968
University covered-employee payroll	172,658,885
University proportionate share of the total OPEB liability as a percentage of covered-employee payroll	— %

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

Notes to the Schedule: For the State Health Benefit State Retired Employees Plan, there are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions.

See accompanying independent auditors' report.