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Discussion Materials

New Jersey City University

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Discussion on NJCU Net Position

The purpose of these materials is to provide clarity regarding recent claims that NJCU leadership squandered a surplus of more than \$100M.

August 5, 2022

TRENTON – Governor Phil Murphy today sent a **letter** to the Office of the State Comptroller to request an investigation into the financial situation of New Jersey City University (NJCU). This request follows public reports that NJCU has gone from a \$108 million surplus in 2014 to a \$67 million deficit today, with another \$156 million in debt.

Recent articles suggests that NJCU has gone from a surplus of \$108M to a negative \$67M, with another \$156M in debt. The article is clearly conflating two concepts (Surplus versus Net Position), and inaccurately depicting the financial activities between 2014 and 2021. While the language in the article is referring to a surplus (which most often refers to a year - or period - when revenues exceed expenditures), the numbers quoted in the article are referring to the university's Net Position (i.e., difference between assets and liabilities) which includes debt, cash and cash equivalents, and a number of non-liquid assets, like investments in property, plant and equipment. Net position is not a surplus.

The reference to decline in Net Position is also being discussed without appropriate context, as the article does not provide commentary on the implementation of GASB 68 a new, pension-related accounting standard that was required, beginning in 2015.

NJCU's Net Position is currently negative (\$61M), but only because of GASB 68. NJCU's Net Position would be \$84M without the 2015 change in accounting standards.

Finally, NJCU does not have "another \$156M in debt". That is, the university's debt is already included in its Net Position, and much of it existed prior to 2014. In fact, in FY14, the university's outstanding long-term debt was \$145M. As of the FY 2021 audit, the university's outstanding long-term debt was \$156.2M, a net increase of \$11.2M over the 7-year period mentioned in the article.

Understanding GASB 68

- The Governmental Accounting Standards Board (GASB) voted unanimously in March 2014 to implement GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

- This accounting standard modifies existing financial reporting requirements as well as establishes new ones for governmental entities—including public colleges and universities—that participate in defined benefit pension plans.

- GASB 68 **dramatically changes the way that public colleges and universities account for their defined benefit pension plans.** The primary consequence is that **most institutions will have to report a much larger pension liability on their financial statements** than in the past.

- GASB 68 required two key changes, both of which negatively impacted the Net Position of Public Institutions:
 - 1) Until 2015, public colleges and universities were only required to report a pension liability to the extent that they were behind on their annual actuarially-determined payments into the pension plan. Under GASB 68, institutions have to **report a liability for the entire underfunded status of the plan.**
 - 2) Institutions now have to report **their portion** of the liability of any cost-sharing, multiple employer pension plans they participate in. Until 2015, if a public college or university has participated in a cost-sharing plan with others, it **only had to disclose the existence of the plan in a footnote**, but **did not have to record any liability** related to the plan.

NJCU Net Position Trend

- Decline in Net Position from 2014 to 2021

- It is reasonable to attribute a \$26M decline in Net Position (\$110M to \$84M) to the decisions made by leadership between 2014 and 2021. However, it is completely inaccurate to attribute a \$175M decline in Net Position to leadership, which is what recent articles suggest.

Fiscal Year	Net Investment			Total	GASB 68 Impact	Adjusted Net Position
	In Plant	Restricted	Unrestricted			
2014	57,299	8,252	43,167	108,718		
2015 ⁽¹⁾	60,303	6,967	(72,798)	(5,528)	(115,406)	109,878
2016	57,452	5,019	(82,823)	(20,352)	(122,498)	102,146
2017	74,030	5,076	(96,848)	(17,742)	(134,320)	116,578
2018	86,110	5,155	(122,631)	(31,366)	(141,520)	110,154
2019	89,446	5,183	(142,550)	(47,921)	(145,259)	97,338
2020	85,970	5,378	(158,753)	(67,405)	(146,401)	78,996 ⁽⁵⁾
2021	81,262	4,446	(146,837)	(61,129) ⁽³⁾	(144,952) ⁽⁴⁾	83,823 ⁽⁵⁾

Notes:

- (1) Adopted GASB 68 - Pensions in 2015
- (2) Unrestricted includes long-term pension liability
- (3) As noted in FY21 Audit, pg 6
- (4) As noted in FY21 Audit, pg 8
- (5) Change of \$4.8M as noted on page 10 of the FY21 Audit

- GASB 68

- In the year it was implemented, GASB 68 had a \$115M negative impact on NJCU's Net Position. This was a change in reporting requirements **not** an actual decline in Net Position. In all practical respects, nothing had changed. The accounting rules simply required NJCU to show a liability that they previously were not required to. In the most recent fiscal year, the GASB 68 adjustment had a \$145M negative impact on Net Position, as indicated above.

GASB 68 Implementation Impact for Select NJ Institutions

Net Position Summary

(numbers in 1,000's)

Fiscal Year	NJCU	Rutgers	Keane	WPU	NJIT
2014	108,718	3,068,354	252,691	290,778	320,275
2015	(5,528)	1,914,486	153,603	167,314	251,125
Decline in Net Position	(114,246)	(1,153,868)	(99,088)	(123,464)	(69,150)
Decline related to GASB 68	(115,406)	(1,348,471)	(135,350)	(134,800)	(109,399)

In accordance with GASB 68, beginning in 2015 universities recorded on their financial statements their proportionate share of the net pension liability and related pension amounts as determined by the State of New Jersey, Division of Pensions and Benefits. The State of New Jersey contributes to the Public Employees' Retirement System (PERS), and the Police and Firemen's Retirement System (PFRS). Historically, the State of New Jersey has directly covered pension contributions on behalf of the University and there are no current changes to this legislation.

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