



**THOMAS EDISON STATE UNIVERSITY AND ITS
AFFILIATE THE NEW JERSEY STATE LIBRARY**
(A Component Unit of the State of New Jersey)

Financial Statements, Management's Discussion
and Analysis, Required Supplementary Information
and Supplemental Schedules

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

**THOMAS EDISON STATE UNIVERSITY AND ITS
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(A Component Unit of the State of New Jersey)

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Independent Auditors' Report

The Board of Trustees
Thomas Edison State University and its
Affiliate the New Jersey State Library:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Thomas Edison State University Foundation, Inc., the discretely presented component unit of the Organization. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Thomas Edison State University Foundation, Inc., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Thomas Edison State University and its Affiliate the New Jersey State Library as of June 30, 2017 and 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–17 and the schedules of employer contributions and schedules of proportionate share of the net pension liability as of June 30, 2017 on pages 57 and 58, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements. The supplementary information included in Schedules 3 through 6 (pages 59–62) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in Schedules 3 through 6 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Short Hills, New Jersey
October 26, 2017

**THOMAS EDISON STATE UNIVERSITY AND ITS
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Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

The Introduction

This Section of Thomas Edison State University (formerly Thomas Edison State College) and its Affiliate the New Jersey State Library's (the Organization) financial statements presents our discussion and analysis of the Organization's financial performance during the fiscal years that ended on June 30, 2017 and 2016 with comparisons to 2015. Since this discussion and analysis is designed to focus on current activities, it should be read in conjunction with the Organization's basic financial statements, which follow.

Organization

Thomas Edison State College was founded by the New Jersey Board of Higher Education in 1972 as an institution that provides flexible and accessible, high quality college opportunities primarily for adults. The College received University status during fiscal year 2016 and was renamed Thomas Edison State University (the University). The University is accredited by the Middle States Association of Colleges and Schools. The New Jersey State Library (the Library) was established by the State of New Jersey (the State) to provide lifelong learning and educational services, through the use of a State library, to the citizens of the State of New Jersey. The Library has existed as part of the State since 1796 and maintains approximately 2,057,000 volumes of books and historical documents. Included in the Library is the Talking Book & Braille Center (formerly known as the Library for the Blind and Handicapped), which maintains approximately 319,000 books, audiotapes and other nonprint items. Public Law 2001, Chapter 137 was signed into law effective July 2, 2001, making the Library an affiliate of the University. As a result, the financial reporting entity was formed known as the Organization under the control of the University's Board of Trustees.

Using this Annual Financial Report

The financial statements presented in this report focus on the financial position of the Organization, the changes in financial position and cash flows of the Organization as a whole. The statement of net position focuses on total assets, deferred outflows of resources, liabilities, and deferred inflows of resources. This statement combines and consolidates current short-term expendable resources with capital assets. The statement of revenues, expenses, and changes in net position focuses on the revenues earned during the year and the costs of Organization activities. The statement of cash flows focuses on cash inflows and outflows summarized by operating, noncapital financing, capital financing and related investing activities.

Financial Highlights

At June 30, 2017, the Organization's net position has decreased to \$23,711,344 from \$32,471,541 and decreased to \$32,471,541 from \$34,234,149 at June 30, 2016 and 2015, respectively. In fiscal year 2017, the Organization's net position decreased primarily because of pension expense of \$7,975,307. The University does not budget for pension expense since the liability will be paid by the State of New Jersey. The full amount of the pension expense will decrease the net position on an annual basis. In addition, student tuition decreased \$1,578,603. In fiscal year 2016, the Organization's net position decreased primarily because of an increase in pension expense of \$1,497,204.

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Current year operating revenues for the year ended June 30, 2017 decreased to \$65,967,649 from \$68,021,886. Operating revenues for the year ended June 30, 2016 decreased to \$68,021,886 from \$69,940,319 for the year ended June 30, 2015. The decrease in both fiscal years was from decreases in student tuition and fee revenue and federal financial aid.

Net nonoperating revenues for the year ended June 30, 2017 increased to \$24,429,210 from \$22,656,858 in fiscal year 2016, primarily due to an increase in State of New Jersey paid fringe benefits and investment income. Net nonoperating revenues for the year ended June 30, 2016 increased to \$22,656,858 from \$20,278,419 in fiscal year 2015, primarily due to an increase in State of New Jersey paid fringe benefits and private gifts.

Statement of Net Position

The statement of net position presents the financial position of the Organization at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Organization. The assets and liabilities are divided into current and noncurrent.

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

GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories: Net investment in capital assets, restricted, and unrestricted.

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

Restricted net position consists of nonexpendable and expendable net position. Nonexpendable net position is subject to externally imposed stipulations that must be maintained permanently by the Organization. Expendable net position is subject to externally imposed stipulations that can be fulfilled by actions of the Organization pursuant to the stipulations or that expire by the passage of time.

Unrestricted net position is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management to the board of trustees. Substantially all unrestricted net position is designated for academic programs and initiatives and capital programs.

Net Position, End of Year

The Organization's net position decreased \$8,760,198 or 27% from fiscal year 2016 to \$23,711,343 and its net position decreased \$1,762,608 or 5% from fiscal year 2015 to \$32,471,541. The decrease in fiscal year 2017 was primarily due to pension expense of \$7,975,307 and depreciation of \$2,548,954. Student tuition and fees decreased \$1,578,603. The University's and Library's share of pension expense was \$5,211,423 and \$2,763,884, respectively. The decrease in fiscal year 2016 was primarily due to an increase in pension expense of \$1,497,204.

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The Organization's total assets decreased \$5,974,493 or 5% from fiscal year 2016 to \$118,001,679 and decreased \$1,014,801 or 1% from fiscal year 2015 to \$123,976,172. The fiscal year 2017 decrease was primarily due to depreciation of \$2,548,954, and a decrease of cash of \$6,580,400. The fiscal year 2016 decrease was primarily related to reserves (carryforward) spending on one time initiatives including program development and costs associated with University status achieved during fiscal year 2016.

The Organization's total deferred outflows increased \$12,763,683 or 145% from fiscal year 2016 to \$21,534,700 (University share \$14,116,330 and Library share \$7,418,370). The Organization's total deferred inflows decreased \$718,401 or 33% from fiscal year 2016 to \$1,429,948 (University share \$0 and Library share \$1,429,948). The deferred outflows and inflows are related to pensions which include changes in assumptions, changes in proportion, net differences between projected and actual investment earnings on pension plan assets and fiscal year 2017 contributions subsequent to the measurement date made by the State of New Jersey to the pension plan on behalf of the Organization of \$1,433,525 (University share \$807,305 and Library share \$626,220).

The Organization's total deferred outflows increased \$6,595,630 or 303% from fiscal year 2015 to \$8,771,017 (University share \$5,699,295 and Library share \$3,071,722). The Organization's total deferred inflows decreased \$859,244 or 29% from fiscal year 2015 to \$2,148,349 (University share \$170,854 and Library share \$1,977,495). The deferred outflows and inflows are related to pensions which include changes in assumptions, changes in proportion, net differences between projected and actual investment earnings on pension plan assets and fiscal year 2016 contributions subsequent to the measurement date made by the State of New Jersey to the pension plan on behalf of the Organization of \$972,275 (University share \$527,950 and Library share \$444,325).

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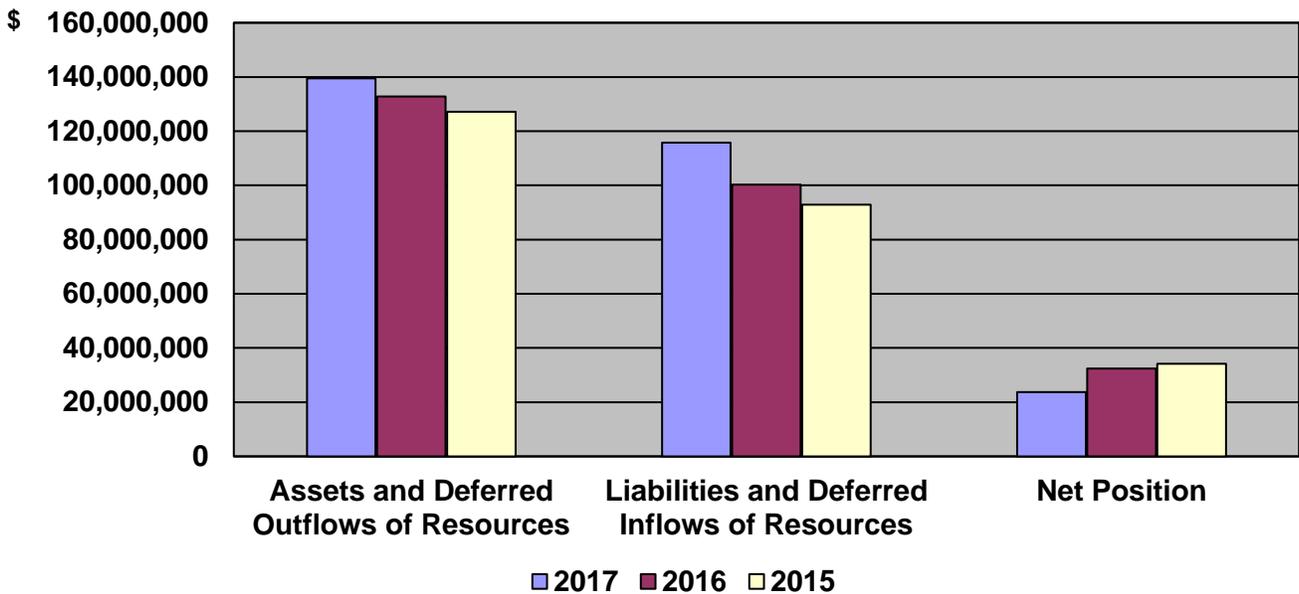
Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

The Organization's total liabilities increased \$16,267,788 or 17% to \$114,395,087 and increased \$8,202,681 or 9% from fiscal year 2015 to \$98,127,299. The fiscal year 2017 increase was primarily due to a \$19,900,483 (University share \$12,897,628 and Library share \$7,002,855) increase in the net pension liability. The fiscal year 2016 increase was primarily due to a \$10,731,202 (university share \$7,148,757 and Library share \$3,582,445) increase in the net pension liability.

Statement of Net Position



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	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 38,799,119	47,295,855	53,887,803
Capital assets, net	67,420,875	68,725,080	53,966,630
Other assets	<u>11,781,685</u>	<u>7,955,237</u>	<u>17,136,540</u>
Total assets	118,001,679	123,976,172	124,990,973
Deferred outflows of resources	<u>21,534,700</u>	<u>8,771,017</u>	<u>2,175,387</u>
Total assets and deferred outflows of resources	<u>\$ 139,536,379</u>	<u>132,747,189</u>	<u>127,166,360</u>
Current liabilities	\$ 18,910,932	21,138,180	22,131,128
Noncurrent liabilities	<u>95,484,155</u>	<u>76,989,119</u>	<u>67,793,490</u>
Total liabilities	114,395,087	98,127,299	89,924,618
Deferred inflows of resources	<u>1,429,948</u>	<u>2,148,349</u>	<u>3,007,593</u>
Total liabilities and deferred inflows of resources	<u>\$ 115,825,035</u>	<u>100,275,648</u>	<u>92,932,211</u>
Net position:			
Net investment in capital assets	\$ 57,131,126	57,230,271	47,878,499
Restricted	2,839,147	2,713,149	2,415,608
Unrestricted	<u>(36,258,929)</u>	<u>(27,471,879)</u>	<u>(16,059,958)</u>
Net position, end of year	<u>\$ 23,711,344</u>	<u>32,471,541</u>	<u>34,234,149</u>

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Statements of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the Organization's results of operations. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, expenses paid by the institution, operating and nonoperating, and any other changes to net position. A summary of the Organization's revenues, expenses, and changes in net position for the years ended June 30, 2017, 2016, and 2015 follows:

Changes in Net Position for the years ended June 30, 2017, 2016, and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues:			
Student tuition and fees, net of scholarships	\$ 47,877,844	49,456,447	50,620,422
Federal grants and contracts	8,400,243	8,866,686	9,691,265
State of New Jersey grants and contracts	<u>9,067,428</u>	<u>9,031,817</u>	<u>8,886,064</u>
Subtotal grants	17,467,671	17,898,503	18,577,329
Other	<u>622,134</u>	<u>666,936</u>	<u>742,568</u>
Total operating revenues	65,967,649	68,021,886	69,940,319
Operating expenses	<u>99,434,293</u>	<u>96,267,638</u>	<u>92,796,202</u>
Operating loss	<u>(33,466,644)</u>	<u>(28,245,752)</u>	<u>(22,855,883)</u>
Nonoperating revenues (expenses):			
State of New Jersey funding	22,765,670	20,890,103	19,462,396
Other nonoperating revenues, net	1,675,787	1,809,021	1,304,688
Loss on disposal of equipment	<u>(12,247)</u>	<u>(42,266)</u>	<u>(488,665)</u>
Net nonoperating revenues	24,429,210	22,656,858	20,278,419
State of New Jersey capital grants	<u>277,236</u>	<u>3,826,286</u>	<u>8,827,501</u>
(Decrease) increase in net position	<u>(8,760,198)</u>	<u>(1,762,608)</u>	<u>6,250,037</u>
Net position beginning of year	32,471,541	34,234,149	79,335,692
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>(51,351,580)</u>
Net position as of beginning of year, as restated	<u>32,471,541</u>	<u>34,234,149</u>	<u>27,984,112</u>
Net position end of year	<u>\$ 23,711,343</u>	<u>32,471,541</u>	<u>34,234,149</u>

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Operating Revenues

Operating revenues are defined as those revenues received by an institution for providing goods and services directly to the students, New Jersey state libraries, and the constituencies of the institution.

During the year, the Organization generated \$65,967,649 in operating revenues. The sources of these revenues were: tuition and fees, net of scholarships of \$47,877,844; governmental grants and contracts of \$17,467,671; and other operating revenues of \$622,134. The University's share of operating revenues was \$52,722,901 and the Library's operating revenues share was \$13,244,748.

- Student tuition and fees decreased \$1,578,603 or 3% in fiscal year 2017 due to a 6% decrease in enrollments being offset by a 3.25% fee increase. Student tuition and fees decreased \$1,163,975 or 2% in fiscal year 2016 due to a 6% decrease in enrollments being offset by a 3.2% fee increase.
- The decrease in Federal grants of \$466,443 or 5% in fiscal year 2017 was due to decreased Pell revenue of \$683,355 or 14% which was partially offset by an increase in Library federal funding of \$330,605. The decrease in Federal grants of \$824,579 or 9% in fiscal year 2016 was due to decreased Pell revenue of \$649,926 or 12%.
- State of New Jersey grants and contracts increased \$35,611 or less than 1% in fiscal year 2017. The increase in State grants and contracts of \$145,753 or 2% in fiscal year 2016 was primarily due to an increase of \$212,257 and \$70,209 in Network Aid and Commission for the Blind and Visually Impaired (CBVI) revenue, respectively, that was partially offset by a decrease in TAG grants of \$106,851.

	2017		2016		2015	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
Operating revenues:						
Student tuition and fees (net of scholarship allowances of \$2,343,000, \$2,779,000, and \$3,157,000, respectively)	\$ 47,877,844	73 %	\$ 49,456,447	73 %	\$ 50,620,422	73 %
Federal grants and contracts	8,400,243	13	8,866,686	13	9,691,265	14
State of New Jersey grants and contracts	<u>9,067,428</u>	14	<u>9,031,817</u>	13	<u>8,886,064</u>	13
Subtotal grants	<u>17,467,671</u>		<u>17,898,503</u>		<u>18,577,329</u>	
Other sources:						
Federal indirect cost recovery	159,407	—	204,081	—	301,952	—
Noncollegiate sponsored programs	77,301	—	102,635	—	38,265	—
Other operating revenue	<u>385,426</u>	—	<u>360,220</u>	1	<u>402,351</u>	—
Subtotal other sources	<u>622,134</u>		<u>666,936</u>		<u>742,568</u>	
Total operating revenues	<u>\$ 65,967,649</u>	<u>100 %</u>	<u>\$ 68,021,886</u>	<u>100 %</u>	<u>\$ 69,940,319</u>	<u>100 %</u>

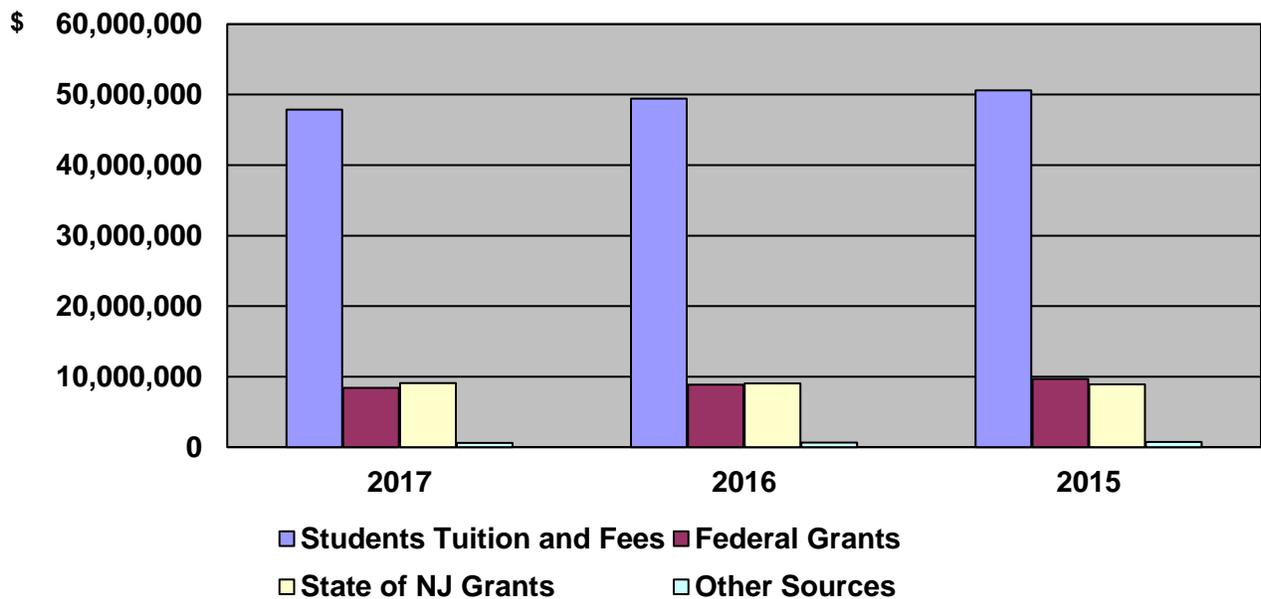
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Operating Revenues



Operating Expenses

Operating expenses are defined as those expenses paid by an institution to acquire or produce goods and services in return for the operating revenues, and to carry out the mission of the institution. For the year ended June 30, 2017, the Organization incurred total operating expenses of \$99,434,293, which were \$33,466,644 more than the operating revenues of \$65,967,649. The University's operating expenses share was \$76,258,377 and the Library's operating expenses share was \$23,175,916. The University's net operating loss share was \$23,535,476 and the Library's net operating loss share was \$9,931,168. The Organization's operating expenses increased \$3,166,655 or 3% from fiscal years 2016 to 2017. The increase is primarily due to increased pension expenses as well as an increase in the State of New Jersey fringe benefit rate.

- The increase in academic support expenses of \$1,314,530 or 5% in fiscal year 2017 is primarily due to an increase in pension expense of \$769,509 and the increase in the fringe benefit rate that was partially offset by a decrease in mentor expense from lower course enrollments. The increase in academic support expenses of \$693,615 or 3% in fiscal year 2016 is primarily due to an increase in salary expenses and the increase in the fringe benefit rate that was partially offset by a decrease in mentor expense from lower course enrollments.
- The increase in student services expenses of \$476,434 or 7% in fiscal year 2017 is primarily due to the increase in pension expense of \$360,601 and the increase in the fringe rate. The increase of \$263,718 or 4% in fiscal year 2016 is primarily due to the increase in fringe rate.

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- Public services expenses increased \$405,411 or 11% and decreased \$7,712 or less than 1% in fiscal years 2017 and 2016, respectively. The increase in fiscal year 2017 was due to an increase in pension expense of \$209,871 and the increased fringe benefit rate. The decrease in fiscal year 2016 was due to Library State grant spending due to timing that was partially offset by increased salary and the fringe benefit rate at the University.
- General institutional expenses decreased \$957,803 or 7% and increased \$1,037,291 or 8% over the previous year in fiscal years 2017 and 2016, respectively. The change in expenses during fiscal year 2017 was primarily due to decreases in one-time program development costs paid with unrestricted net position. The change in expenses during fiscal year 2016 was primarily due to increases in salary, the fringe benefit rate, and one-time program development costs paid with the prior year surplus.
- General administration expenses increased \$779,810 or 4% and \$1,456,659 or 8% in fiscal year 2017 and 2016, respectively. The increase in fiscal year 2017 was primarily due to increased pension expense of \$809,622. The increase in fiscal year 2016 was primarily due to increased salary, the fringe benefit rate, maintenance on software packages and other services.

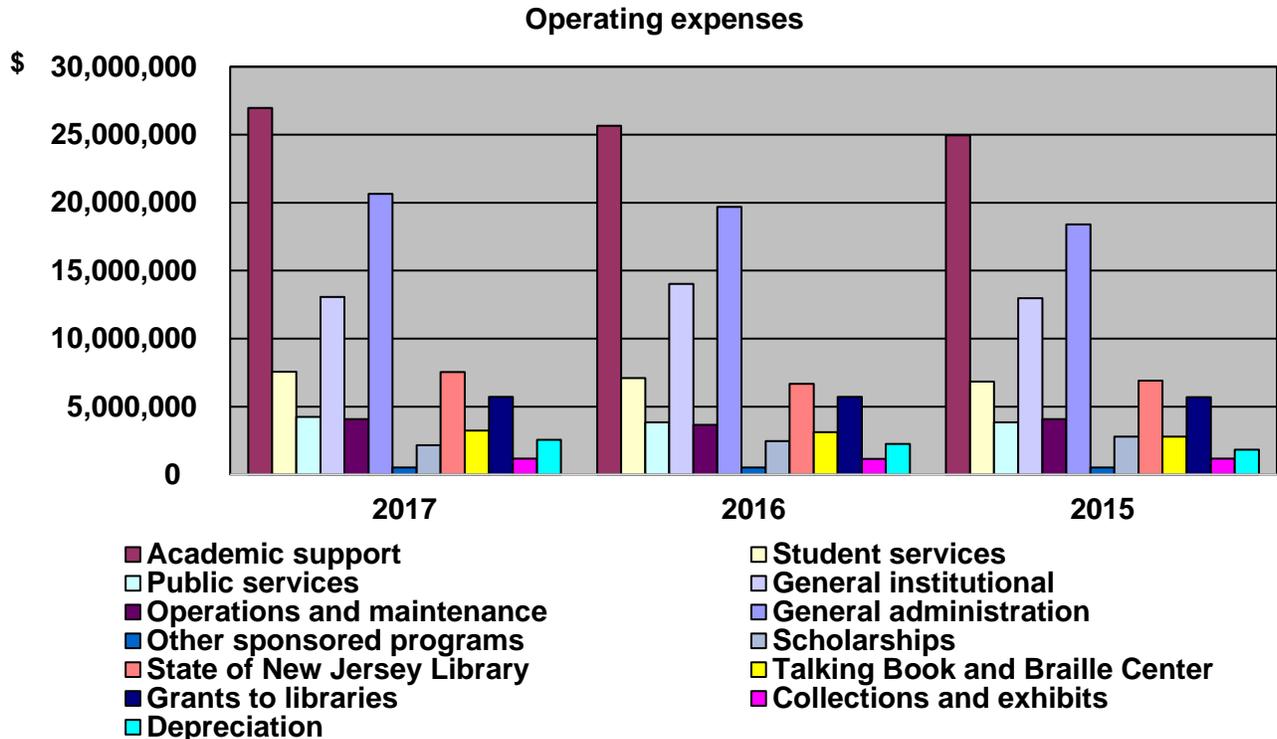
	2017		2016		2015	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
Operating expenses:						
Academic support	\$ 26,969,016	27 %	\$ 25,654,486	27 %	\$ 24,960,871	27 %
Student services	7,572,190	8	7,095,756	7	6,832,038	7
Public services	4,243,276	4	3,837,865	4	3,845,577	4
General institutional	13,055,745	13	14,013,548	15	12,976,257	14
Operations and maintenance	4,076,887	4	3,648,233	4	4,071,264	5
General administration	20,641,148	21	19,861,338	20	18,404,679	20
Other sponsored programs	507,893	1	527,147	1	523,127	1
Scholarships	2,165,182	2	2,467,236	3	2,797,481	3
State of New Jersey Library	7,542,514	7	6,924,315	7	6,897,547	7
Talking Book & Braille Center	3,224,980	3	3,125,438	3	2,778,688	3
Grants to libraries	5,711,006	6	5,711,575	6	5,701,190	6
Collections and exhibits	1,175,502	1	1,159,683	1	1,181,106	1
Depreciation	2,548,954	3	2,241,018	2	1,826,377	2
Total operating expenses	<u>\$ 99,434,293</u>	<u>100 %</u>	<u>\$ 96,267,638</u>	<u>100 %</u>	<u>\$ 92,796,202</u>	<u>100 %</u>

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Nonoperating Revenues

Nonoperating revenues are defined as those revenues received for which goods and services are not provided in return for the revenues.

During the fiscal year 2017, the Organization generated \$24,429,210 in nonoperating revenues. The components of the nonoperating revenues were primarily direct and indirect State of New Jersey appropriations of \$22,765,670, contributed U.S. Postal Service of \$774,475, private gifts of \$721,761, and investment income of \$589,184. The University's nonoperating revenue share was \$16,042,080 and the Library's nonoperating revenue share was \$8,387,130.

- The increase in State of New Jersey appropriations of \$50,616 or less than 1% in fiscal year 2017 was due to increased library support. The decrease in State of New Jersey appropriations of \$329,220 or 4% in fiscal year 2016 was due to a \$259,000 reduction at the University and a \$70,220 reduction at the Library.
- The increase in State of New Jersey paid fringe benefits of \$1,824,951 or 15% in fiscal year 2017 was due to an 18% increase in the fringe benefit rate. The increase in State of New Jersey paid fringe benefits of \$1,756,927 or 16% in fiscal year 2016 was due to a 16% increase in the fringe benefit rate. The negotiated fringe benefit rate was 44.3%, 37.6%, and 32.5% for the years ended 2017, 2016, and 2015, respectively.

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- The decrease in private gifts in fiscal year 2017 of \$267,235 or 27% was due to receiving several large private grants in the prior year compared to the current year. The increase of \$653,838 or 195% in fiscal year 2016 was primarily due to several academic grants received of \$605,405 for the nursing simulation lab and course development.
- The increase in investment income of \$302,845 and a decrease of \$59,495 in fiscal year 2017 and fiscal year 2016, respectively, was due to the performance of the fixed income and equity portion of the portfolios.

	2017		2016		2015	
	Total	Percentage of total	Total	Percentage of total	Total	Percentage of total
Nonoperating revenues:						
State of New Jersey appropriations	\$ 8,473,477	34 %	\$ 8,422,861	37 %	\$ 8,752,081	42 %
State of New Jersey paid fringe benefits	<u>14,292,193</u>	58	<u>12,467,242</u>	54	<u>10,710,315</u>	50
Subtotal State of New Jersey	22,765,670		20,890,103		19,462,396	
Contributed U.S. Postal Service	774,475	3	841,050	4	889,105	4
Private gifts	721,761	3	988,996	4	335,158	2
Investment income	<u>589,184</u>	2	<u>286,339</u>	1	<u>345,834</u>	2
Nonoperating revenues	<u>\$ 24,851,090</u>	<u>100 %</u>	<u>\$ 23,006,488</u>	<u>100 %</u>	<u>\$ 21,032,493</u>	<u>100 %</u>

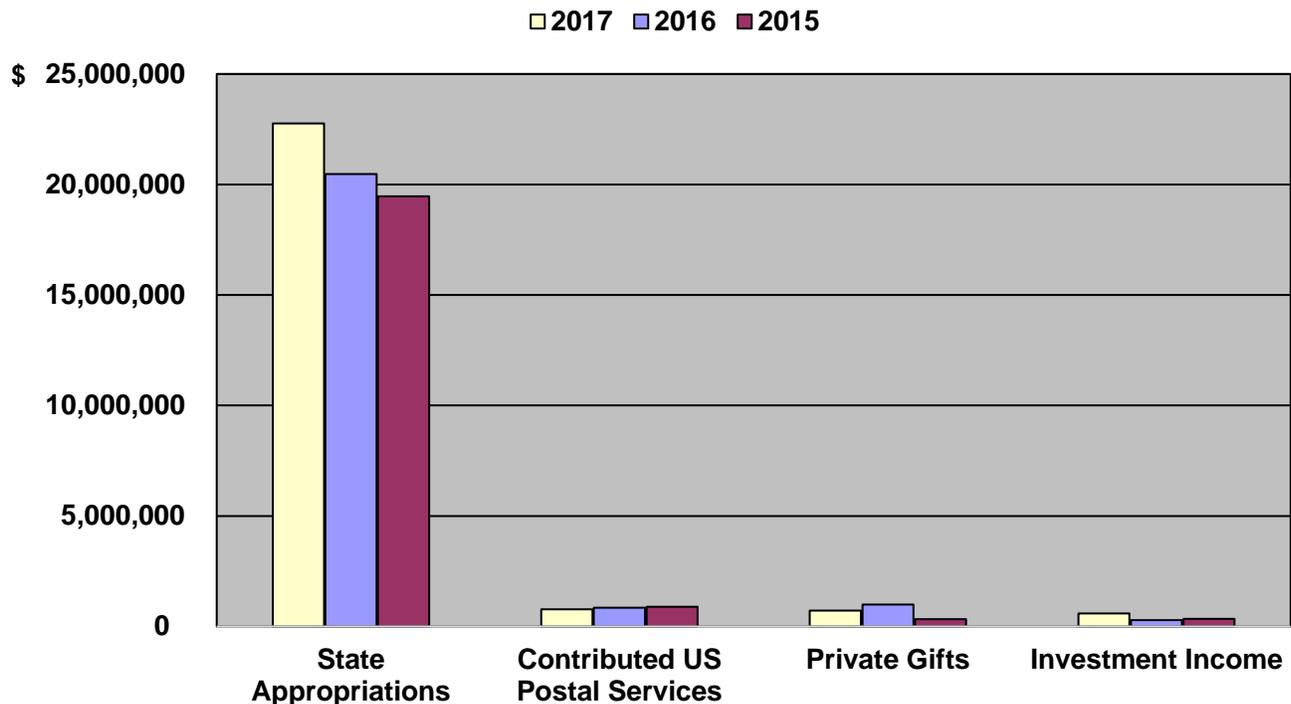
**THOMAS EDISON STATE UNIVERSITY AND ITS
AFFILIATE THE NEW JERSEY STATE LIBRARY**
(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Nonoperating Revenues



Capital Assets and Debt Activities

The Organization received \$277,236 in State of New Jersey capital grants in fiscal year 2017. The capital grants included \$162,634 which represents the amount reimbursed for the New Jersey Equipment Leasing Fund (ELF) and \$114,602 which represents the amount reimbursed on the Capital Improvement Fund (CIF) for the Archway project that was completed during fiscal year 2017. The University portion of the CIF and New Jersey Equipment Leasing Fund (ELF) debt are recorded in long-term debt.

At June 30, 2017, the Organization's capital assets, including rare books, artwork, and historical documents, amounted to \$69,551,522, net of accumulated depreciation of \$31,084,234. The amount invested in capital assets, net of related debt of \$12,424,090, was \$57,131,126. Depreciation charges totaled \$2,548,954 for the current fiscal year. The \$99,145 decrease of net investment in capital assets was due to capital additions of \$1,256,997, principal paid on outstanding debt of \$1,297,836, less debt proceeds spent in the current year of \$92,777, depreciation of \$2,548,954 and net capital retirements of \$12,247.

Capital assets are comprised of replacements, renovations, as well as investments in equipment, including information technology.

**THOMAS EDISON STATE UNIVERSITY AND ITS
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June 30, 2017 and 2016

(Unaudited)

Interest on indebtedness was \$409,633 in fiscal year 2017 as compared to \$307,364 in fiscal year 2016, an increase of \$102,269 or 33%. The increase was due to a full year of interest expense on the \$7,000,000 loan for Glen Cairn Hall. Interest on indebtedness was \$307,364 in fiscal year 2016 as compared to \$265,409 in fiscal year 2015, an increase of \$41,955, or 16%. The increase was primarily due to the capitalized interest expense related to the \$7 million debt for Glen Cairn Hall, which was placed into service during fiscal year 2016.

Tax-Exempt Lease Financing

During fiscal year 2017, the State issued bonds to fund a New Jersey Capital Improvement Fund grant award made to the University. The University is responsible for one third of each debt service payment that will be reimbursed to the State. The payment schedule has a twenty-year term. The University was awarded \$170,000 for alterations and renovations to the entryway of the Kelsey/Townhouse Complex. The University share of the debt is \$55,399 with interest rates ranging from 3.000% to 5.500%. The project was completed during fiscal year 2017.

In October 2014, the Organization entered into a tax-exempt lease financing agreement with PNC Bank to partially fund the construction of the Glen Cairn Hall. The total debt issued was \$7,000,000. The payment schedule has a ten-year term with an interest rate of 2.486%.

During fiscal year 2014, the State of New Jersey issued bonds to fund the New Jersey Equipment Leasing Fund grant award made to the University. The University is responsible for one quarter of each debt service payment that will be reimbursed to the State. The payment schedule has a ten-year term. The University was awarded \$585,000 for nursing simulation laboratory equipment. The University share of the debt is \$127,318 with an interest rate of 5.000%.

In October 2011, the Organization entered into a tax-exempt lease financing agreement with TD Bank Finance, Inc. to fully renovate the Kuser facility. The total debt issued was \$8,000,000. The payment schedule has a twenty-year term with an interest rate of 3.500%.

In July 2011, the Organization entered in a tax-exempt lease financing arrangement in which TD Equipment Finance, Inc. is the lessor, the New Jersey Educational Facilities Authority is the lessee, and the Organization is the sublessee. The lease financing was for \$948,000 used for a movable shelving system at the New Jersey State Library and University Information Technology Equipment. The lease agreement payment schedule is an eight-year term with an interest rate of 2.427%.

In September 2010, the Organization entered in a tax-exempt lease financing arrangement in which Banc of America Leasing and Capital, LLC is the lessor, the New Jersey Educational Facilities Authority is the lessee, and the Organization is the sublessee. The lease financing was for \$700,000 used for furniture and data processing equipment. The lease agreement payment schedule is a five-year term with an interest rate of 2.370%.

**THOMAS EDISON STATE UNIVERSITY AND ITS
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(Unaudited)

In September 2007, the Organization entered in a tax-exempt lease financing arrangement in which Banc of America Leasing and Capital, LLC is the lessor, the New Jersey Educational Facilities Authority is the lessee, and the Organization is the sublessee. The lease financing was for \$2,700,000 used for building improvements, security, equipment, and data processing upgrades. The lease agreement calls for three separate payment schedules to be paid over five, seven, and fifteen-years with interest rates of 4.100%, 4.380% and 4.570%.

The Organization's net investment in capital assets at June 30, 2017, 2016, and 2015 were:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net investment in capital assets:			
Depreciable assets:			
Buildings and improvements	\$ 60,490,003	61,658,648	33,775,825
Equipment and vehicles	1,966,207	1,974,908	2,229,577
Furniture and fixtures	2,511,986	2,638,844	2,046,979
Subtotal	<u>64,968,196</u>	<u>66,272,400</u>	<u>38,052,381</u>
Nondepreciable assets:			
Land	2,452,680	2,452,680	2,286,825
Construction in progress	—	—	13,627,424
Rare books, artwork, and historical documents	2,130,647	2,130,647	2,130,647
Subtotal	<u>4,583,327</u>	<u>4,583,327</u>	<u>18,044,896</u>
Total capital assets	69,551,523	70,855,727	56,097,277
Less related long-term debt, net of unspent proceeds	<u>(12,420,397)</u>	<u>(13,625,456)</u>	<u>(8,218,778)</u>
Net investment in capital assets	<u>\$ 57,131,126</u>	<u>57,230,271</u>	<u>47,878,499</u>

Conclusion and Economic Outlook

With net position of \$23,711,344, the Organization's financial position remains positive. A major challenge to the Organization is maintenance and growth of the University's enrollment. The University had 17,279 enrollments in fiscal year 2017. During fiscal year 2017, the University experienced a 3% decrease in student revenue, which was impacted by a 6% decline in enrollments being offset by a price increase. The University has significantly expanded its physical campus over the last five years. The University has completed its long-range facility plan. The University continued to invest significant reserves to support new products, programs, and increased enrollment to minimize student tuition increases.

**THOMAS EDISON STATE UNIVERSITY AND ITS
AFFILIATE THE NEW JERSEY STATE LIBRARY**

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

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(Unaudited)

The University recorded on its financial statements the net pension liability and related pension amounts as determined by the State of New Jersey, Division of Pensions and Benefits during fiscal year 2017, 2016 and 2015. The State has communicated that the GASB 68 pension liability "allocations do not impact state laws or past funding arrangements that have been established annually in the State budget". The State has historically made and has communicated it will continue to make direct payments on behalf of the Organization to the PERS plan.

**THOMAS EDISON STATE UNIVERSITY AND ITS
AFFILIATE THE NEW JERSEY STATE LIBRARY**
(A Component Unit of the State of New Jersey)

Statements of Net Position

Business-Type Activities – Organization Only

June 30, 2017 and 2016

	Assets	2017	2016
Current assets:			
Cash (note 2)		\$ 5,965,148	12,545,548
Investments (notes 2 and 4)		20,478,694	25,536,380
Receivables:			
Students, less allowance for doubtful accounts of approximately \$3,848,000 in 2017 and \$3,039,000 in 2016		7,153,975	6,426,048
State of New Jersey		744,516	666,955
Federal		3,524,627	880,877
Corporate accounts, less allowance for doubtful accounts of approximately \$436,000 in 2017 and \$359,000 in 2016		487,892	693,769
Other receivables		<u>131,093</u>	<u>143,174</u>
Total receivables		12,042,103	8,810,823
Prepaid expenses and other assets		<u>313,174</u>	<u>403,104</u>
Total current assets		<u>38,799,119</u>	<u>47,295,855</u>
Noncurrent assets:			
Investments (notes 2 and 4)		6,728,939	2,621,039
Restricted investments (notes 2 and 4)		1,813,831	1,717,087
Trustee held investments – restricted (notes 3 and 4)		1,108,268	1,486,464
Rare books, artwork, and historical documents		2,130,647	2,130,647
Capital assets, net (note 5)		<u>67,420,875</u>	<u>68,725,080</u>
Total noncurrent assets		<u>79,202,560</u>	<u>76,680,317</u>
Total assets		118,001,679	123,976,172
Deferred outflows of resources:			
Pensions related (note 9)		<u>21,534,700</u>	<u>8,771,017</u>
Total assets and deferred outflows of resources		<u>\$ 139,536,379</u>	<u>132,747,189</u>
	Liabilities		
Current liabilities:			
Accounts payable and accrued expenses (notes 6 and 7)		\$ 8,892,531	9,987,385
Unearned tuition and fees		7,426,845	8,101,079
Unearned grants and contracts		1,179,272	1,639,262
Deposits held in custody for others		58,153	112,612
Long-term debt – current portion (note 8)		<u>1,354,131</u>	<u>1,297,842</u>
Total current liabilities		<u>18,910,932</u>	<u>21,138,180</u>
Noncurrent liabilities:			
Compensated absences – noncurrent portion (note 7)		760,921	705,008
Unearned grants and contracts		17,519	180,153
Long-term debt (note 8)		11,069,959	12,368,685
Net pension liability (note 9)		<u>83,635,756</u>	<u>63,735,273</u>
Total noncurrent liabilities		<u>95,484,155</u>	<u>76,989,119</u>
Total liabilities		114,395,087	98,127,299
	Deferred Inflows of Resources		
Deferred inflows of resources:			
Pensions related (note 9)		<u>1,429,948</u>	<u>2,148,349</u>
Total liabilities and deferred inflows of resources		<u>\$ 115,825,035</u>	<u>100,275,648</u>
	Net Position		
Net investment in capital assets		\$ 57,131,126	57,230,271
Restricted for:			
Nonexpendable:			
Aid to local libraries		416,073	416,073
Library for the Blind and Handicapped		333,642	333,642
Expendable:			
Aid to local libraries		281,839	298,123
Library for the Blind and Handicapped		1,129,527	1,024,072
Public policy		678,066	641,239
Unrestricted		<u>(36,258,929)</u>	<u>(27,471,879)</u>
Total net position		<u>\$ 23,711,344</u>	<u>32,471,541</u>

See accompanying notes to financial statements.

THOMAS EDISON STATE UNIVERSITY FOUNDATION, INC.
(A Component Unit of Thomas Edison State University and its
Affiliate The New Jersey State Library)

Statements of Financial Position

December 31, 2016 and 2015

Assets	2016	2015
Cash	\$ 175,478	124,861
Investments	9,346,882	8,731,549
Contributions and grants receivable	274,000	560,912
Other assets	<u>87,377</u>	<u>69,556</u>
Total assets	<u>\$ 9,883,737</u>	<u>9,486,878</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 21,973	5,489
Contributions and grants payable	47,071	48,775
Accrued liabilities	<u>669,913</u>	<u>793,087</u>
Total liabilities	<u>738,957</u>	<u>847,351</u>
Net assets:		
Unrestricted	3,995,063	3,731,584
Temporarily restricted	1,240,659	1,197,976
Permanently restricted	<u>3,909,058</u>	<u>3,709,967</u>
Total net assets	<u>9,144,780</u>	<u>8,639,527</u>
Total liabilities and net assets	<u>\$ 9,883,737</u>	<u>9,486,878</u>

See accompanying notes to financial statements.

**THOMAS EDISON STATE UNIVERSITY AND ITS
AFFILIATE THE NEW JERSEY STATE LIBRARY**
(A Component Unit of the State of New Jersey)

Statements of Revenues, Expenses, and Changes in Net Position

Business-Type Activities – Organization Only

Years ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Student tuition and fees (net of scholarship allowances of approximately \$2,343,000 in 2017 and \$2,779,000 in 2016)	\$ 47,877,844	49,456,447
Federal grants and contracts	8,400,243	8,866,686
Federal indirect cost recovery	159,407	204,081
State of New Jersey grants and contracts	9,067,428	9,031,817
Noncollegiate sponsored programs	77,301	102,635
Other operating revenues	385,426	360,220
Total operating revenues	65,967,649	68,021,886
Operating expenses:		
Academic support	26,969,016	25,654,486
Student services	7,572,190	7,095,756
Public services	4,243,276	3,837,865
General institutional	13,055,745	14,013,548
Operations and maintenance	4,076,887	3,648,233
General administration	20,641,148	19,861,338
Other sponsored programs	507,893	527,147
Scholarships	2,165,182	2,467,236
State of New Jersey Library	7,542,514	6,924,315
Talking Book and Braille Center	3,224,980	3,125,438
Grants to libraries	5,711,006	5,711,575
Collections and exhibits	1,175,502	1,159,683
Depreciation	2,548,954	2,241,018
Total operating expenses	99,434,293	96,267,638
Operating loss	(33,466,644)	(28,245,752)
Nonoperating revenues (expenses):		
State of New Jersey appropriations	8,473,477	8,422,861
State of New Jersey paid fringe benefits	14,292,193	12,467,242
Contributed U.S. Postal Service	774,475	841,050
Private gifts – restricted	721,761	988,996
Investment income	589,184	286,339
Interest on indebtedness	(409,633)	(307,364)
Loss on disposal of equipment	(12,247)	(42,266)
Net nonoperating revenues	24,429,210	22,656,858
Decrease before other revenues	(9,037,434)	(5,588,894)
State of New Jersey capital grants	277,236	3,826,286
Decrease in net position	(8,760,198)	(1,762,608)
Net position as of beginning of year	32,471,541	34,234,149
Net position as of end of year	\$ 23,711,343	32,471,541

See accompanying notes to financial statements.

THOMAS EDISON STATE UNIVERSITY FOUNDATION, INC.
(A Component Unit of Thomas Edison State University and its
Affiliate The New Jersey State Library)

Statement of Activities

Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenues:				
Contributions and grants	\$ 186,952	395,764	150,018	732,734
Special events	184,232	—	49,073	233,305
Donated services and auction materials	268,561	—	—	268,561
Donated securities	6,661	—	—	6,661
Net assets released from restrictions	589,997	(589,997)	—	—
Total support and revenues	<u>1,236,403</u>	<u>(194,233)</u>	<u>199,091</u>	<u>1,241,261</u>
Expenses:				
Grants	512,167	—	—	512,167
Scholarships	106,336	—	—	106,336
Promotional	21,227	—	—	21,227
Special events	112,601	—	—	112,601
Donated services and auction materials	268,561	—	—	268,561
Management and general	121,960	—	—	121,960
Fundraising	24,648	—	—	24,648
Total expenses	<u>1,167,500</u>	<u>—</u>	<u>—</u>	<u>1,167,500</u>
Change in net assets before investment return	68,903	(194,233)	199,091	73,761
Net investment return	<u>194,576</u>	<u>236,916</u>	<u>—</u>	<u>431,492</u>
Change in net assets	263,479	42,683	199,091	505,253
Net assets, beginning of year	<u>3,731,584</u>	<u>1,197,976</u>	<u>3,709,967</u>	<u>8,639,527</u>
Net assets, end of year	<u>\$ 3,995,063</u>	<u>1,240,659</u>	<u>3,909,058</u>	<u>9,144,780</u>

See accompanying notes to financial statements.

THOMAS EDISON STATE UNIVERSITY FOUNDATION, INC.
(A Component Unit of Thomas Edison State University and its
Affiliate The New Jersey State Library)

Statement of Activities

Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenues:				
Contributions and grants	\$ 193,017	363,462	30,201	586,680
Special events	172,002	—	27,915	199,917
Donated services and auction materials	266,611	—	—	266,611
Donated securities	12,901	—	—	12,901
Net assets released from restrictions	614,096	(614,096)	—	—
Total support and revenues	<u>1,258,627</u>	<u>(250,634)</u>	<u>58,116</u>	<u>1,066,109</u>
Expenses:				
Grants	442,098	—	—	442,098
Scholarships	96,234	—	—	96,234
Promotional	15,579	—	—	15,579
Special events	94,637	—	—	94,637
Donated services and auction materials	266,611	—	—	266,611
Management and general	106,382	—	—	106,382
Fundraising	21,356	—	—	21,356
Total expenses	<u>1,042,897</u>	<u>—</u>	<u>—</u>	<u>1,042,897</u>
Change in net assets before investment return	215,730	(250,634)	58,116	23,212
Net investment return	<u>38,634</u>	<u>69,616</u>	<u>—</u>	<u>108,250</u>
Change in net assets	254,364	(181,018)	58,116	131,462
Net assets, beginning of year	<u>3,477,220</u>	<u>1,378,994</u>	<u>3,651,851</u>	<u>8,508,065</u>
Net assets, end of year	<u>\$ 3,731,584</u>	<u>1,197,976</u>	<u>3,709,967</u>	<u>8,639,527</u>

See accompanying notes to financial statements.

**THOMAS EDISON STATE UNIVERSITY AND ITS
AFFILIATE THE NEW JERSEY STATE LIBRARY**
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

Business-Type Activities – Organization Only

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Student tuition and fees	\$ 48,830,111	50,319,558
Grants, contracts, and other revenues	11,874,394	14,546,763
Payments for salaries	(35,590,889)	(34,388,394)
Payments for fringe benefits	(3,640,994)	(3,265,378)
Payments for materials and supplies	(1,641,660)	(1,768,911)
Payments for services	(26,133,661)	(27,802,308)
Payments for maintenance	(3,097,214)	(3,029,566)
Payments to students	(2,343,460)	(2,363,385)
Payments for grants and contracts	(2,101,766)	(2,072,335)
Payments for noncapital improvements	(383,935)	(602,910)
Net cash used by operating activities	(14,229,074)	(10,426,866)
Cash flows from noncapital financing activities:		
State of New Jersey appropriations	8,473,477	8,422,861
Private gifts – restricted	701,295	951,023
Agency receipts	158,239	142,872
Agency disbursements	(163,160)	(144,182)
Net cash provided by noncapital financing activities	9,169,851	9,372,574
Cash flows from capital financing activities:		
Proceeds from issuance of capital debt	55,399	—
State of New Jersey capital grants	114,602	6,201,087
Purchases of capital assets	(1,789,079)	(17,560,011)
Net deposits with trustee	407,451	7,074,438
Principal paid on capital debt	(1,297,836)	(1,314,884)
Interest paid on capital debt	(417,177)	(307,413)
Net cash used by capital financing activities	(2,926,640)	(5,906,783)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	40,414,827	47,790,896
Purchases of investments	(39,398,931)	(40,505,961)
Interest on investments	389,567	404,901
Net cash provided by investing activities	1,405,463	7,689,836
Net (decrease) increase in cash	(6,580,400)	728,761
Cash as of beginning of the year	12,545,548	11,816,787
Cash as of end of the year	\$ 5,965,148	12,545,548

**THOMAS EDISON STATE UNIVERSITY AND ITS
AFFILIATE THE NEW JERSEY STATE LIBRARY**
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

Business-Type Activities – Organization Only

Years ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (33,466,644)	(28,245,752)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,548,954	2,241,018
Noncash transactions	15,085,596	13,336,399
Change in assets and liabilities:		
Receivables	(2,638,909)	(519,639)
Prepaid expenses and other assets	89,930	(96,669)
Accounts payable and accrued expenses	(1,077,717)	99,383
Deposits held in custody of others	(54,459)	83,348
Unearned tuition and fees	(674,234)	(292,999)
Unearned grants and contracts	(459,990)	(308,283)
Net pension liability and related deferred amounts	6,418,399	3,276,328
Net cash used by operating activities	\$ (14,229,074)	(10,426,866)
Noncash transactions:		
State of New Jersey paid fringe benefits	\$ 14,292,193	12,467,242
Contributed U.S. Postal Service	774,475	841,050
Contributed services	18,928	28,107
Student waivers expense	(780,209)	(685,447)
Student tuition and fees	780,209	685,447
State of New Jersey paid grants to local libraries expense	(3,639,240)	(3,639,240)
State of New Jersey paid grants to local libraries revenue	3,639,240	3,639,240
	\$ 15,085,596	13,336,399

See accompanying notes to financial statements.

**THOMAS EDISON STATE UNIVERSITY AND ITS
AFFILIATE THE NEW JERSEY STATE LIBRARY**
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2017 and 2016

(1) Organization and Summary of Significant Accounting Policies

Organization

(a) Thomas Edison State University (formerly Thomas Edison State College)

Thomas Edison State College was founded by the New Jersey Board of Higher Education in 1972 as an undergraduate institution which provides flexible and accessible, high-quality college opportunities primarily for adults. In December 2015, the New Jersey Secretary of Education granted university status to the College and the College's Board of Trustees approved a resolution authorizing the institution to change its name to Thomas Edison State University (the University). The University was developed within two guiding assumptions: (1) many adults acquire college-level knowledge through work, leisure, and formal and informal training activities and (2) college credit should be awarded for the demonstration of college-level knowledge, regardless of the source of that knowledge.

The mission statement of Thomas Edison State University charges the University with offering degree programs in liberal arts, business, and professional areas; developing and administering instruments such as credit-by-exam and assessment of documented learning to translate nontranscribed knowledge into college credit; providing educational advice to its students; enhancing adult access to all forms of higher education by developing cooperative relationships with higher education providers and by developing policies and procedures appropriate to the adult learner; and with developing linkages or creating educational delivery systems built around contemporary telecommunications technology.

The University is accredited by the Middle States Association of Colleges and Schools. Enrollment for 2017 was 17,278 students. Since the University was founded 59,231 associate, baccalaureate, and master's degrees in fourteen degree programs have been awarded. The University's offices are located in Trenton, New Jersey.

(b) The New Jersey State Library

The New Jersey State Library (the Library) was established by the State of New Jersey (the State) to provide lifelong learning and educational services, through the use of a State library, to the citizens of the State. This is accomplished by enabling citizens of the State and other libraries within the State, to have access to a national network of publications as well as the collection of books and historical documents at the Library, including a priceless Jerseyana collection. The Library also ensures that affiliated libraries within the State are provided Federal and State funds needed to administer library operations and update collections of books and records. The Library has existed as part of the State since 1796 and maintains approximately 2,057,000 volumes of books and historical documents.

**THOMAS EDISON STATE UNIVERSITY AND ITS
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(c) The Organization

The University and the State recognize that the mission of the Library complements and enhances the mission of the University. Therefore, to ensure the efficient and effective delivery of library and related services to the citizens of the State, Public Law 2001, Chapter 137 was signed into law effective July 2, 2001, making the Library an affiliate of the University. This statute makes permanent the conditions of Executive Order 002-1996 under which the University and the Library have been operating since July 1996. As a result, the financial reporting entity was formed known as Thomas Edison State University and its Affiliate the New Jersey State Library (the Organization) under control of the University's Board of Trustees.

The Organization is recognized as a public institution by the State. Under the law, the Organization is an instrumentality of the State with a high degree of autonomy. However, under Government Accounting Standards Board Statement (GASB) No. 14, *The Financial Reporting Entity*, the Organization is considered a component unit of the State for financial reporting purposes. Accordingly, the Organization's financial statements are included in the State's Comprehensive Annual Financial Report (CAFR).

Summary of Significant Accounting Policies

(a) Basis of Presentation

The accounting policies of the Organization conform to U.S. generally accepted accounting principles as applicable to colleges and universities. The Organization's reports are based on all applicable GASB pronouncements.

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

- *Net investment in capital assets:* Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted:*
 - Nonexpendable* – Net position subject to externally imposed stipulations that must be maintained permanently by the Organization.
 - Expendable* – Net position whose use by the Organization is subject to externally imposed stipulations that can be fulfilled by actions of the Organization 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. Substantially all unrestricted net position is designated for academic programs and initiatives and capital programs.

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When an expense is incurred that can be paid using either restricted or unrestricted resources, the Organization's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

(b) Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. The Organization 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*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

(c) Investments

Investments in money market funds and certificates of deposit are measured at amortized cost. All other 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.

(d) Rare Books, Artwork, and Historical Documents

The Organization capitalizes rare books, artwork, collections and historical documents of \$5,000 or greater at fair value at the date of donation. These items are held for public exhibition, education, or research in furtherance of public service, rather than financial gain, protected, kept unencumbered, cared for, and preserved, and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. They are considered inexhaustible and are not depreciated.

(e) Capital Assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold is \$5,000 and above for all furniture, equipment and vehicles. Building improvements are capitalized at \$5,000 and above. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets of the Organization are depreciated using the straight-line method over the following useful lives.

	Useful lives
Buildings	50 years
Building improvements	10–40 years
Data processing equipment	5 years
Furniture and fixtures	15 years
General equipment	10 years
Land improvements	10–50 years
Software	7 years
Vehicles	5 years

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The Organization does not capitalize the existing collections of the Library, including books and microfiche, except for rare books, artwork, and historical documents, as they have a short estimated useful life. Included in the accompanying financial statements as an expense are accessions of approximately \$1,176,000 and \$1,160,000 in 2017 and 2016, respectively.

(f) Net Pension Liability and Related Pension Amounts

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. 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, please refer to the State of New Jersey, Division of Pensions and Benefits' CAFR, which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml. Additional information regarding pensions is discussed in Footnote 9.

(g) 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 scholarship expenses and are recognized in the period incurred. Student tuition and fees collected in advance of the fiscal year are recorded as unearned tuition and fees in the accompanying statements of net position.

(h) State of New Jersey and Federal Grants and Contracts

State of New Jersey and Federal grants and contracts revenues are recognized as the related expenses are incurred. Amounts received from grants and contracts, which have not yet been earned under the terms of the agreement, are recorded as unearned grants and contracts in the accompanying statements of net position.

(i) State of New Jersey Paid Fringe Benefits

The State of New Jersey pays for the fringe benefits for certain employees of the Organization. Fringe benefits paid by the State of \$14,292,193 and \$12,467,242 in 2017 and 2016, respectively, have been included in the accompanying financial statements as revenues and expenses.

(j) Contributed U.S. Postal Service

As a service to the blind citizens of the State, the U.S. Postal Service provides certain delivery services for the Talking Book & Braille Center at no cost to the Library. The estimated value of such services, based upon the amount of packages delivered, is approximately \$774,000 and \$841,000 for the years ended June 30, 2017 and 2016, respectively. Such contributed services have been included in the accompanying financial statements as revenues and expenses.

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(k) Classification of Revenue

The Organization's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that serve the Organization'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, and (2) most Federal, State, and private grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as operating appropriations from the State, contributed U.S. Postal Service, private gifts, and investment income.

(l) Financial Dependency

The Organization receives a substantial amount of support from Federal and State sources. A significant reduction in the level of this support, if this were to occur, may have adverse effects on the Organization's programs and activities.

(m) Income Taxes

The Organization's income is excluded from Federal income taxes under Internal Revenue Code Section 115.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Accounting Pronouncements Applicable to the Organization, Issued but Not Yet Effective

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the basic financial statements, in addition to requiring more extensive note disclosures and required supplementary information. GASB 75 will be effective for periods beginning after June 15, 2017. The Organization is evaluating the impact of this new statement.

(p) Reclassifications

Certain reclassifications have been made to the 2016 disclosures in order to conform to the presentation of the current year disclosures.

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(2) Cash and Investments

(a) Cash

Cash consisted of the following demand deposits in a financial institution as of June 30, 2017 and 2016:

	Carrying amount	Bank balances
2017:		
University	\$ 3,581,655	4,384,655
Library	2,383,493	2,207,084
Total deposits	\$ 5,965,148	6,591,739
2016:		
University	\$ 7,503,283	14,940,053
Library	5,042,265	4,843,620
Total deposits	\$ 12,545,548	19,783,673

Bank balances in excess of FDIC insured amounts totaling \$5,986,340 in 2017, and \$19,170,713 in 2016 are collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes.

(b) Investments

The Organization has an investment policy which establishes guidelines for permissible investments. The investment policy for the Organization is based on a disciplined, consistent and diversified approach. The Organization may be invested in instruments such as, but not limited to, obligations of the United States government; certificates of deposit; domestic investment grade commercial paper; money market funds; domestic fixed income investments; and equities. Fixed income and equity investments may be part of an exchange traded fund.

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Investments consist of the following as of June 30, 2017 and 2016:

	2017		
	University	Library	Total
State of New Jersey Cash Management Fund	\$ 325,795	416,866	742,661
Money market funds	7,014,038	2,016,799	9,030,837
Equities and equity exchange traded funds (ETFs)	1,792,272	508,460	2,300,732
Fixed income ETFs	6,302,524	426,415	6,728,939
Certificates of deposit	10,218,295	—	10,218,295
Total	<u>\$ 25,652,924</u>	<u>3,368,540</u>	<u>29,021,464</u>
	2016		
	University	Library	Total
State of New Jersey Cash Management Fund	\$ 324,000	414,571	738,571
Money market funds	11,404,758	2,016,083	13,420,841
U.S. government bonds and notes	3,943,247	—	3,943,247
Equities and equity exchange traded funds (ETFs)	1,549,832	438,421	1,988,253
Fixed income ETFs	2,198,963	422,076	2,621,039
Certificates of deposit	7,162,555	—	7,162,555
Total	<u>\$ 26,583,355</u>	<u>3,291,151</u>	<u>29,874,506</u>

The bank balances of the certificate of deposits in excess of FDIC insured amounts totaling \$9,718,295 in 2017 and \$6,912,555 in 2016 are collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes.

The Organization'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). The Organization's investment policy requires that the overall average quality rating of the portfolio's domestic fixed income holdings will be at least "A" for Operating Funds and "BBB" for Quasi-Endowment Funds, as rated by the Standard and Poor's or Moody's rating agency.

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The following table summarizes the agency ratings (Moody's) of the Organization's fixed income investments as of June 30, 2017 and 2016:

	2017		2016	
	Rating	Fair value	Rating	Fair value
University:				
U.S. government bonds and notes		\$ —	AAA	\$ 3,943,247
Fixed income ETFs	AAA	<u>6,302,524</u>	BBB	<u>2,198,963</u>
		<u>\$ 6,302,524</u>		<u>\$ 6,142,210</u>
Library:				
Fixed income ETFs	AAA	\$ 426,415	AAA	\$ 422,076

The Organization participates in the State of New Jersey Cash Management Fund wherein amounts, also contributed by other State entities, are combined into a large-scale investment program. The State of New Jersey Cash Management Fund and money market funds are unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The Organization does not have a written policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

The following table summarizes the maturities of the Organization's fixed income investments as of June 30, 2017 and 2016:

	Fair value	2017			
		Maturities in years			
		Less than 1	1-5	6-10	11-15
University:					
State of New Jersey Cash Management Fund	\$ 325,795	325,795	—	—	—
Money market accounts	7,014,038	7,014,038	—	—	—
Fixed income ETFs	6,302,524	—	—	6,302,524	—
Library:					
State of New Jersey Cash Management Fund	416,866	416,866	—	—	—
Money market accounts	2,016,799	2,016,799	—	—	—
Fixed income ETFs	<u>426,415</u>	—	—	<u>426,415</u>	—
	<u>\$ 16,502,437</u>	<u>9,773,498</u>	<u>—</u>	<u>6,728,939</u>	<u>—</u>

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	2016				
	Fair value	Maturities in years			
		Less than 1	1-5	6-10	11-15
University:					
State of New Jersey Cash Management Fund	\$ 324,000	324,000	—	—	—
Money market accounts	11,404,758	11,404,758	—	—	—
U.S. government bonds and notes	3,943,247	3,943,247	—	—	—
Fixed income ETFs	2,198,963	—	—	2,198,963	—
Library:					
State of New Jersey Cash Management Fund	414,571	414,571	—	—	—
Money market accounts	2,016,083	2,016,083	—	—	—
Fixed income ETFs	422,076	—	—	422,076	—
	<u>\$ 20,723,698</u>	<u>18,102,659</u>	<u>—</u>	<u>2,621,039</u>	<u>—</u>

Cash Management Funds, money market funds, Fixed income ETFs are included in the above tables using their average weighted maturity.

(3) Trustee Held Investments – Restricted

Trustee held investments include restricted funds held for specific purposes by third party trustees. Trustee held investments consist of the following as of June 30, 2017 and 2016:

	2017		
	University	Library	Total
State of New Jersey Cash Management Fund	\$ —	614,789	614,789
Money market accounts	82,952	15,639	98,591
Alternative assets ETFs	—	96,902	96,902
Fixed income ETFs	—	72,078	72,078
Equity ETFs	—	225,908	225,908
Total	<u>\$ 82,952</u>	<u>1,025,316</u>	<u>1,108,268</u>

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	2016		
	University	Library	Total
State of New Jersey Cash Management Fund	\$ —	611,036	611,036
Money market accounts	490,402	10,791	501,193
Alternative assets ETFs	—	95,368	95,368
Fixed income ETFs	—	67,476	67,476
Equity ETFs	—	211,391	211,391
Total	<u>\$ 490,402</u>	<u>996,062</u>	<u>1,486,464</u>

The Organization's trustee held investments – restricted 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 Organization's investment policy requires that the overall average quality rating of the portfolio's domestic fixed income holdings will be at least "A", as rated by the Standard and Poor's or Moody's rating agency.

The Organization participates in the State of New Jersey Cash Management Fund wherein amounts are also contributed by other State entities are combined into a large-scale investment program. The State of New Jersey Cash Management Fund, fixed income ETFs held by trustees and money market funds are unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Organization does not have a written policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

The following table summarizes the maturities of the Organization's trustee held investments – restricted as of June 30, 2017 and 2016:

	2017		2016	
	Maturities in years		Maturities in years	
	Fair value	Less than 1	Fair value	Less than 1
University:				
Money market accounts	\$ 82,952	82,952	490,402	490,402
Library:				
State of New Jersey Cash				
Management Fund	614,789	614,789	611,036	611,036
Money market accounts	15,639	15,639	10,791	10,791
Fixed income ETFs	<u>72,078</u>	<u>72,078</u>	<u>67,476</u>	<u>67,476</u>
	<u>\$ 785,458</u>	<u>785,458</u>	<u>1,179,705</u>	<u>1,179,705</u>

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(4) Fair Value Measurement

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

- Level 1 – unadjusted quoted 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; and
- Level 3 – unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

- U.S. Government bonds and notes and corporate bonds – The fair value of government bonds and notes and corporate bonds are based on unadjusted quoted prices for identical assets or liabilities in inactive markets.
- Equity securities – The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers.
- Exchange traded funds – The fair value of ETFs are based on the quoted market price on an active market as of the measurement date.
- State of New Jersey Cash Management Fund – The fair value of the State of New Jersey cash management fund is based on a compilation of primarily observable market information or broker quotes in a nonactive market.
- Money market and certificates of deposit – These investments are measured at amortized cost and have been excluded from fair value leveling.

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

		Investments			
		Total	Level 1	Level 2	Level 3
Investments measured at fair value:					
Equity and equity ETFs	\$	2,300,732	2,300,732	—	—
Fixed income ETFs		6,728,939	6,728,939	—	—
Subtotal		9,029,671	\$ 9,029,671	—	—
Investments measured at amortized cost:					
Money market accounts		9,030,837			
Certificates of deposit		10,218,295			
Subtotal		19,249,132			
Local Government Investment Pool:					
State of New Jersey Cash Management Fund		742,661			
Total investments	\$	29,021,464			
		Trustee held investments			
		Total	Level 1	Level 2	Level 3
Investments measured at fair value:					
Alternative asset ETFs	\$	96,902	96,902	—	—
Fixed income ETFs		72,078	72,078	—	—
Equity ETFs		225,908	225,908	—	—
Subtotal		394,888	\$ 394,888	—	—
Investments measured at amortized cost:					
Money market accounts		98,591			
Subtotal		98,591			
Local Government Investment Pool:					
State of New Jersey Cash Management Fund		614,789			
Total investments	\$	1,108,268			

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

	Investments			
	Total	Level 1	Level 2	Level 3
Investments measured at fair value:				
U.S. government bonds and notes	\$ 3,943,247	—	3,943,247	—
Equity and equity ETFs	1,988,253	1,988,253	—	—
Fixed income ETFs	2,621,039	2,621,039	—	—
Subtotal	8,552,539	\$ 4,609,292	3,943,247	—
Investments measured at amortized cost:				
Money market accounts	13,420,841			
Certificates of deposit	7,162,555			
Subtotal	20,583,396			
Local Government Investment Pool:				
State of New Jersey Cash Management Fund	738,571			
Total investments	\$ 29,874,506			

	Trustee held investments			
	Total	Level 1	Level 2	Level 3
Investments measured at fair value:				
Alternative asset ETFs	\$ 95,368	95,368	—	—
Fixed income ETFs	67,476	67,476	—	—
Equity ETFs	211,391	211,391	—	—
Subtotal	374,235	\$ 374,235	—	—
Investments measured at amortized cost:				
Money market accounts	501,193			
Subtotal	501,193			
Local Government Investment Pool:				
State of New Jersey Cash Management Fund	611,036			
Total investments	\$ 1,486,464			

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(5) Capital Assets

The Organization's principal locations are in buildings, some of which are owned by the State and are dedicated for use by the Organization. Although legal title for buildings owned by the State rests with the State, the Organization has been given, through legislation, exclusive use of the buildings and has included the cost of capital assets in the accompanying statements of net position. For the years ended June 30, 2017 and 2016, capital assets and accumulated depreciation activity was as follows:

	2017			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Depreciable assets:				
Buildings and improvements	\$ 64,189,741	519,214	—	64,708,955
Equipment and vehicles	3,887,055	442,032	514,895	3,814,192
Furniture and fixtures	3,924,696	143,979	—	4,068,675
University subtotal	<u>72,001,492</u>	<u>1,105,225</u>	<u>514,895</u>	<u>72,591,822</u>
Buildings and improvements	20,093,944	8,002	—	20,101,946
Equipment and vehicles	3,214,014	143,769	38,819	3,318,964
Furniture and fixtures	39,697	—	—	39,697
Library subtotal	<u>23,347,655</u>	<u>151,771</u>	<u>38,819</u>	<u>23,460,607</u>
Total depreciable assets	<u>95,349,147</u>	<u>1,256,996</u>	<u>553,714</u>	<u>96,052,429</u>
Less accumulated depreciation:				
Buildings and improvements	8,078,112	1,463,939	—	9,542,051
Equipment and vehicles	2,322,135	443,914	502,648	2,263,401
Furniture and fixtures	1,300,761	268,191	—	1,568,952
University subtotal	<u>11,701,008</u>	<u>2,176,044</u>	<u>502,648</u>	<u>13,374,404</u>
Buildings and improvements	14,546,925	231,923	—	14,778,848
Equipment and vehicles	2,804,026	138,341	38,819	2,903,548
Furniture and fixtures	24,788	2,646	—	27,434
Library subtotal	<u>17,375,739</u>	<u>372,910</u>	<u>38,819</u>	<u>17,709,830</u>
Total accumulated depreciation	<u>29,076,747</u>	<u>2,548,954</u>	<u>541,467</u>	<u>31,084,234</u>
Total depreciable assets, net	<u>66,272,400</u>	<u>(1,291,958)</u>	<u>12,247</u>	<u>64,968,195</u>
Nondepreciable assets:				
University construction in progress	—	—	—	—
University land	1,363,088	—	—	1,363,088
Library land	1,089,592	—	—	1,089,592
Total nondepreciable assets	<u>2,452,680</u>	<u>—</u>	<u>—</u>	<u>2,452,680</u>
Total capital assets, net	<u>\$ 68,725,080</u>	<u>(1,291,958)</u>	<u>12,247</u>	<u>67,420,875</u>

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	2016			
	Beginning balance	Additions	Retirements	Ending balance
Depreciable assets:				
Buildings and improvements	\$ 35,149,223	29,040,518	—	64,189,741
Equipment and vehicles	4,576,019	531,873	1,220,837	3,887,055
Furniture and fixtures	3,148,803	806,091	30,198	3,924,696
University subtotal	42,874,045	30,378,482	1,251,035	72,001,492
Buildings and improvements	20,093,944	—	—	20,093,944
Equipment and vehicles	3,089,191	124,823	—	3,214,014
Furniture and fixtures	39,697	—	—	39,697
Library subtotal	23,222,832	124,823	—	23,347,655
Total depreciable assets	66,096,877	30,503,305	1,251,035	95,349,147
Less accumulated depreciation:				
Buildings and improvements	7,157,950	920,162	—	8,078,112
Equipment and vehicles	3,125,173	375,531	1,178,569	2,322,135
Furniture and fixtures	1,119,379	211,580	30,198	1,300,761
University subtotal	11,402,502	1,507,273	1,208,767	11,701,008
Buildings and improvements	14,309,392	237,533	—	14,546,925
Equipment and vehicles	2,310,460	493,566	—	2,804,026
Furniture and fixtures	22,142	2,646	—	24,788
Library subtotal	16,641,994	733,745	—	17,375,739
Total accumulated depreciation	28,044,496	2,241,018	1,208,767	29,076,747
Total depreciable assets, net	38,052,381	28,262,287	42,268	66,272,400
Nondepreciable assets:				
University construction in progress	13,627,424	14,834,766	28,462,190	—
University land	1,197,233	165,855	—	1,363,088
Library land	1,089,592	—	—	1,089,592
Total nondepreciable assets	15,914,249	15,000,621	28,462,190	2,452,680
Total capital assets, net	\$ 53,966,630	43,262,908	28,504,458	68,725,080

During 2017 and 2016, the Organization has capitalized interest expense, net of related interest income of \$0 and \$155,702, respectively, in the accompanying statements of net position.

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(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of June 30, 2017 and 2016:

		2017			2016
		University	Library	Total	Total
Vendors	\$	4,945,443	187,303	5,132,746	5,584,110
Accrued salaries and benefits		960,710	150,462	1,111,172	2,219,153
Compensated absences		1,591,452	326,479	1,917,931	1,936,799
Other accrued expenses		728,899	1,783	730,682	247,323
Total	\$	<u>8,226,504</u>	<u>666,027</u>	<u>8,892,531</u>	<u>9,987,385</u>

(7) Noncurrent Liabilities

For the years ended June 30, 2017 and 2016, noncurrent liabilities activity was as follows:

		2017				
		Beginning balance	Additions	Reductions	Ending balance	Current portion
Compensated absences:						
University	\$	2,095,701	2,646,936	2,645,300	2,097,337	1,591,452
Library		546,106	618,532	583,123	581,515	326,479
Total compensated absences		2,641,807	3,265,468	3,228,423	2,678,852	1,917,931
Net pension liability:						
University		34,608,556	13,519,995	622,367	47,506,184	—
Library		29,126,717	7,476,185	473,330	36,129,572	—
Total net pension liability		63,735,273	20,996,180	1,095,697	83,635,756	—
Unearned grants and contracts:						
University		467,916	261,302	550,984	178,234	160,715
Library		1,351,499	4,734,496	5,067,438	1,018,557	1,018,557
Total unearned grants and contracts		1,819,415	4,995,798	5,618,422	1,196,791	1,179,272
Total	\$	<u>68,196,495</u>	<u>29,257,446</u>	<u>9,942,542</u>	<u>87,511,399</u>	<u>3,097,203</u>

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	2016				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Compensated absences:					
University	\$ 1,953,779	2,631,908	2,489,986	2,095,701	1,620,252
Library	<u>560,847</u>	<u>632,445</u>	<u>647,186</u>	<u>546,106</u>	<u>316,547</u>
Total compensated absences	2,514,626	3,264,353	3,137,172	2,641,807	1,936,799
Net pension liability:					
University	27,459,799	7,477,753	328,996	34,608,556	—
Library	<u>25,544,272</u>	<u>3,859,327</u>	<u>276,882</u>	<u>29,126,717</u>	—
Total net pension liability	53,004,071	11,337,080	605,878	63,735,273	—
Unearned grants and contracts:					
University	863,283	533,135	928,502	467,916	287,763
Library	<u>1,541,944</u>	<u>4,668,228</u>	<u>4,858,673</u>	<u>1,351,499</u>	<u>1,351,499</u>
Total unearned grants and contracts	<u>2,405,227</u>	<u>5,201,363</u>	<u>5,787,175</u>	<u>1,819,415</u>	<u>1,639,262</u>
Total	<u>\$ 57,923,924</u>	<u>19,802,796</u>	<u>9,530,225</u>	<u>68,196,495</u>	<u>3,576,061</u>

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(8) Long-Term Debt

For the years ended June 30, 2017 and 2016, long-term debt activity was as follows:

	Beginning balance	2017		Ending balance	Current portion
		Additions	Reductions		
Long-term debt:					
University:					
Banc of America Leasing & Capital, LLC:					
2007 Tax Exempt Lease	\$ 456,673	—	70,257	386,416	70,257
TD Bank Finance, Inc.:					
2012 Tax Exempt Lease	5,710,689	—	421,054	5,289,635	421,052
TD Equipment Finance, Inc.:					
2012 Tax Exempt Lease	136,951	—	44,535	92,416	45,626
Capital Improvement Fund:					
102-104 West State Street	418,717	—	15,208	403,509	15,830
Capital Improvement Fund:					
Kelsey/Townhouse Complex	573,401	—	20,827	552,574	21,678
Equipment Leasing Fund:					
Nursing Equipment	105,311	—	12,938	92,373	13,586
PNC Bank:					
Nursing Center	6,025,000	—	635,000	5,390,000	685,000
Capital Improvement Fund:					
Kelsey Entryway	—	55,399	—	55,399	1,175
University subtotal	<u>13,426,742</u>	<u>55,399</u>	<u>1,219,819</u>	<u>12,262,322</u>	<u>1,274,204</u>
Library:					
TD Equipment Finance, Inc.:					
2012 Tax Exempt Lease	<u>239,785</u>	<u>—</u>	<u>78,017</u>	<u>161,768</u>	<u>79,927</u>
Library subtotal	<u>239,785</u>	<u>—</u>	<u>78,017</u>	<u>161,768</u>	<u>79,927</u>
Total	<u>\$ 13,666,527</u>	<u>55,399</u>	<u>1,297,836</u>	<u>12,424,090</u>	<u>1,354,131</u>

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	2016				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Long-term debt:					
University:					
Banc of America Leasing & Capital, LLC:					
2007 Tax Exempt Lease	\$ 526,930	—	70,257	456,673	70,257
2010 Tax Exempt Lease	37,003	—	37,003	—	—
TD Bank Finance, Inc.:					
2012 Tax Exempt Lease	6,131,742	—	421,053	5,710,689	421,053
TD Equipment Finance, Inc.:					
2012 Tax Exempt Lease	180,417	—	43,466	136,951	44,581
Capital Improvement Fund:					
102-104 West State Street	433,333	—	14,616	418,717	15,210
Capital Improvement Fund:					
Kelsey/Townhouse Complex	593,417	—	20,016	573,401	20,829
Equipment Leasing Fund:					
Nursing Equipment	117,633	—	12,322	105,311	12,938
PNC Bank:					
Nursing Center	6,645,000	—	620,000	6,025,000	635,000
University subtotal	<u>14,665,475</u>	<u>—</u>	<u>1,238,733</u>	<u>13,426,742</u>	<u>1,219,868</u>
Library:					
TD Equipment Finance, Inc.:					
2012 Tax Exempt Lease	315,936	—	76,151	239,785	77,974
Library subtotal	<u>315,936</u>	<u>—</u>	<u>76,151</u>	<u>239,785</u>	<u>77,974</u>
Total	<u>\$ 14,981,411</u>	<u>—</u>	<u>1,314,884</u>	<u>13,666,527</u>	<u>1,297,842</u>

In December 2016, the Organization received grant funding as part of the Higher Education Capital Improvement Fund Act in which BNY Mellon Bank is Custodian, the New Jersey Educational Facilities Authority is the grantor, and the Organization is the grantee. The grant funding of \$170,000 to the University was used for alterations and renovations to the entryway of the Kelsey/Townhouse Complex. The Organization's share of the bond debt service is \$55,399. As of June 30, 2017, the Organization has drawn down \$145,441. The bond debt service payment schedule has a twenty-year term. There are nineteen interest-only payments totaling \$15,786 and twenty principal plus interest payments totaling \$73,100 with interest rates ranging from 3.000% to 5.500%. As of June 30, 2017, the Organization owes \$55,399.

In October 2014, the Organization entered into a tax-exempt lease financing arrangement in which PNC Bank is the lessor, the New Jersey Educational Facilities Authority is the lessee, and the Organization is the sublessee. The lease financing of \$7,000,000 was to assist the University in covering costs associated with the construction of the Nursing Education Center in Trenton, NJ. As of June 30, 2017, the Organization has fully drawn down the funds. The bond debt service payment schedule has a ten-year term. There are 121 loan payments of principal plus interest at 2.486%. As of June 30, 2017 and 2016, the Organization owes \$5,390,000 and \$6,025,000, respectively.

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In March 2014, the Organization received grant funding as part of the Higher Education Capital Improvement Fund Act in which BNY Mellon Bank is Custodian, the New Jersey Educational Facilities Authority is the grantor, and the Organization is the grantee. The grant funding of \$1,397,000 to the University was used for the renovations to 102 – 104 West State Street to house its new Center for Learning Technology. The Organization's share of the bond debt service is \$662,932. As of June 30, 2017, the Organization has fully drawn down the funds. The bond debt service payment schedule has a twenty-year term. There are twenty interest-only payments totaling \$118,131 and nineteen principal plus interest payments totaling \$544,801 with interest rates ranging from 3.500% to 5.000%. As of June 30, 2017 and 2016, the Organization owes \$403,509 and \$418,717, respectively.

In March 2014, the Organization received grant funding as part of the Higher Education Capital Improvement Fund Act in which BNY Mellon Bank is Custodian, the New Jersey Educational Facilities Authority is the grantor, and the Organization is the grantee. The grant funding of \$1,913,000 to the University was used for capital improvements and renovations to the Kelsey/Townhouse Complex. The Organization's share of the bond debt service is \$907,836. As of June 30, 2017, the Organization has fully drawn down the funds. The bond debt service payment schedule has a twenty-year term. There are twenty interest-only payments totaling \$161,772 and nineteen principal plus interest payments totaling \$746,064 with interest rates ranging from 3.500% to 5.000%. As of June 30, 2017 and 2016, the Organization owes \$552,574 and \$573,401, respectively.

In January 2014, the Organization received leasing funds as part of the Higher Education Equipment Leasing Fund Act in which BNY Mellon Bank is Custodian, the New Jersey Educational Facilities Authority is the lessor, and the Organization is the lessee. The lease agreement funding of \$585,000 to the University is being used for computing and instructional equipment for the School of Nursing. The Organization's share of the bond debt service is \$163,791. As of June 30, 2017, the Organization has drawn down \$544,609. The bond debt service payment schedule has a nine-year term. There are nine interest-only payments totaling \$19,306 and nine principal plus interest payments totaling \$144,485 with an interest rate of 5.000%. As of June 30, 2017 and 2016, the Organization owes \$92,373 and \$105,311, respectively.

In October 2011, the Organization entered into a tax-exempt lease financing arrangement in which TD Bank Finance, Inc. is the lessor, the New Jersey Educational Facilities Authority is the lessee, and the Organization is the sublessee. The lease financing of \$8,000,000 by the University was used for renovations to the historic Kuser Mansion in Trenton. As of June 30, 2017, the Organization has fully drawn down the funds. The lease rental payment schedule has a twenty-year term. There are four interest-only payments totaling \$265,222, followed by 76 lease payments of \$105,263 plus interest at 3.500% that started quarterly on March 31, 2013. As of June 30, 2014, the Organization made a one-time pay-down in the amount of \$815,626 from the bond proceeds that remained unspent at the end of construction. Upon notice to the Organization, TD Bank Finance, Inc. has the option to declare the entire outstanding principal and outstanding interest, due and payable in full on the ten year anniversary date. As of June 30, 2017 and 2016, the Organization owes \$5,289,636 and \$5,710,689, respectively.

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In July 2011, the Organization entered into a tax-exempt lease financing arrangement in which TD Equipment Finance, Inc. is the lessor, the New Jersey Educational Facilities Authority is the lessee, and the Organization is the sublessee. The lease financing of \$948,000 by the University was used for data processing equipment in the Kuser facility and for moveable shelving replacement at the Library. As of June 30, 2017, the Organization has fully drawn down the funds. The lease rental payment schedule has an eight-year term. There are 32 lease payments of \$32,646, which includes interest at 2.427% that are scheduled every quarter. As of June 30, 2017 and 2016, the Organization owes \$254,222 and \$376,736, respectively.

In September 2007, the Organization entered into a tax-exempt lease financing arrangement in which Banc of America Leasing & Capital, LLC is the lessor, the New Jersey Educational Facilities Authority is the lessee, and the Organization is the sublessee. The lease financing of \$2,700,000 by the University was used for renovations to the Kelsey building and security, equipment and data processing upgrades. As of June 30, 2017, the Organization has fully drawn down the funds. The lease is made up of three rental payment schedules. The first schedule has an interest rate of 4.100%, which will be repaid over a five-year period. The second schedule has an interest rate of 4.380%, which will be repaid over a seven-year period. The third schedule has an interest rate of 4.570%, which will be repaid over a fifteen-year period. As of June 30, 2017 and 2016, the Organization owes \$386,416 and \$456,673, respectively.

The following is a schedule, by year, of future minimum payments under long-term debt as of June 30, 2017:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2018	\$ 1,354,131	378,439
2019	1,345,019	338,179
2020	1,229,005	297,755
2021	1,256,937	260,224
2022	1,300,044	221,355
2023–2027	4,337,667	595,051
2028–2032	1,421,617	134,033
2033–2037	<u>179,670</u>	<u>10,676</u>
Total	\$ <u>12,424,090</u>	<u>2,235,712</u>

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(9) Retirement Plans

The Organization participates in two major retirement plans, administered by the State of New Jersey, Division of Pensions and Benefits (the Division), for its employees – Public Employees' Retirement System (PERS) and the Alternate Benefit Program (ABP), which presently makes contributions to Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA/CREF), Aetna Life Insurance, Lincoln Life Insurance, Metropolitan Life Insurance, Travelers Insurance, and VALIC. PERS is a cost sharing, multiple-employer defined benefit pension plan. The ABP alternatives are defined contribution plans that are administered by a separate Board of Trustees. The Organization is charged pension costs through a fringe benefit charge assessed by the State, which is included within the state paid fringe benefits in the accompanying financial statements.

A publicly available Comprehensive Annual Financial Report (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 and ABP'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.

Effective July 1, 2010, the Organization established two supplemental retirement plans – Supplemental Alternate Benefit Plan and Supplemental Retirement Plan for the benefit of its eligible employees. The objective of the plans is to help provide for additional security on retirement, by means of employer contributions supplemental to those under the Alternate Benefit Program for the Supplemental Alternate Benefit Plan and supplemental to those under the Alternate Benefit Program and the Supplemental Alternate Benefit Plan for the Supplemental Retirement Plan.

(a) Defined Benefit Pension Plan

(i) Plan Description

PERS was established under the provisions of N.J.S.A. 43:15A to provide retirement, death and disability benefits, including post-retirement health care, to substantially all full-time employees of the State or public agency provided the employee is not a member of another state-administered retirement system.

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

PERS members were required to contribute 7.2% and 7.06% of their annual covered salary for the years ended June 30, 2017 and 2016, respectively. The State makes employer contributions on behalf of the Organization. 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 State's contribution for the Organization was \$1,433,525 and \$972,275 for 2017 and 2016, respectively.

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(ii) *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources*

The Organization's respective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense for PERS are calculated by the Division. At June 30, 2017 and 2016, the Organization reported a liability of \$83,635,756 and \$63,735,273, respectively, for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability at June 30, 2017 was determined by an actuarial valuation as of July 1, 2015 and rolled forward to the measurement date of June 30, 2016. The June 30, 2016 PERS net pension liability was recorded in the statement of net position as of June 30, 2017 and June 30, 2016. The total pension liability used to calculate the net pension liability at June 30, 2016 was determined by an actuarial valuation as of July 1, 2014 and rolled forward to the measurement date of June 30, 2015. The Organization'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 of participating employers of the State Group for the respective fiscal years. Below is a summary of PERS information for June 30, 2016 and 2015:

	2016		
	University	Library	Total
Proportionate share of net pension liability	\$ 47,506,184	36,129,572	83,635,756
Allocation percentage – State Group	0.1616368692 %	0.1229286457 %	0.2845655149 %
Allocation percentage – Total Plan*	0.0805082886	0.0612284500	0.1417367386
Pension expense for the year ended	\$ 5,211,423	2,763,884	7,975,307

* Allocation percentage calculated as the Organization's respective net pension liability as a percentage of the total plan's net pension liability.

	2015		
	University	Library	Total
Proportionate share of net pension liability	\$ 34,608,556	29,126,717	63,735,273
Allocation percentage – State Group	0.1458914015 %	0.1227828623 %	0.2686742638 %
Allocation percentage – Total Plan*	0.0749587553	0.0630856269	0.1380443822
Pension expense for the year ended	\$ 2,291,656	1,154,258	3,445,914

* Allocation percentage calculated as the Organization's respective net pension liability as a percentage of the total plan's net pension liability.

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The Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30:

	2017		
	University	Library	Total
Deferred outflows of resources:			
Differences between actual and expected experience	\$ 1,011,099	768,964	1,780,063
Changes of assumptions	7,100,786	5,400,315	12,501,101
Net differences between projected and actual investment earnings on pension plan investments	784,875	596,916	1,381,791
Changes in proportionate share Contributions subsequent to the measurement date	4,412,265	25,955	4,438,220
	<u>807,305</u>	<u>626,220</u>	<u>1,433,525</u>
	<u>\$ 14,116,330</u>	<u>7,418,370</u>	<u>21,534,700</u>
Deferred inflows of resources:			
Changes in proportionate share	\$ —	1,429,948	1,429,948
	<u>\$ —</u>	<u>1,429,948</u>	<u>1,429,948</u>
	2016		
	University	Library	Total
Deferred outflows of resources:			
Differences between actual and expected experience	\$ 483,717	407,098	890,815
Changes of assumptions	2,638,175	2,220,299	4,858,474
Changes in proportionate share Contributions subsequent to the measurement date	2,049,453	—	2,049,453
	<u>527,950</u>	<u>444,325</u>	<u>972,275</u>
	<u>\$ 5,699,295</u>	<u>3,071,722</u>	<u>8,771,017</u>
Deferred inflows of resources:			
Changes in proportionate share	\$ —	1,833,703	1,833,703
Net differences between projected and actual investment earnings on pension plan investments	170,854	143,792	314,646
	<u>\$ 170,854</u>	<u>1,977,495</u>	<u>2,148,349</u>

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\$1,433,525 reported as deferred outflows of resources at June 30, 2017 related to pensions resulting from contributions made on behalf of the Organization by the State subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2017 will be recognized in pension expense as follows:

	University	Library	Total
Years ending:			
2018	\$ 3,081,935	1,144,357	4,226,292
2019	3,081,935	1,144,357	4,226,292
2020	3,328,782	1,332,086	4,660,868
2021	2,794,001	1,226,534	4,020,535
2022	1,022,372	514,869	1,537,241
	\$ 13,309,025	5,362,203	18,671,228

(iii) *Actuarial Assumptions*

The total pension liability measured as of June 30, 2016 (based on the July 1, 2015 actuarial valuation) and June 30, 2015 (based on the July 1, 2014 actuarial valuation) were determined using the following actuarial assumptions:

Inflation rate	3.08% (2016); 3.04% (2015)
Salary increases:	
Through 2026	1.65–4.15% based on age
Thereafter	2.65–5.15% based on age
Investment rate of return	7.65 %
Inflation rate	3.04% (2015); 3.01% (2014)
Salary increases:	
Through 2021	2.15–4.40% based on age
Thereafter	3.15–5.40% based on age
Investment rate of return	7.90 %

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. Mortality tables are set back 4 years for males and females. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback one year for males and females) for service retirement 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 2013 using a generational

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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 (setback 3 years for males and setback 1 year for females).

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

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

The long-term expected rate of return on pension plan investments (7.65% at June 30, 2016 and 7.9% at June 30, 2015) 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 rate of return was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 and 2015 are summarized in the following table:

Asset class	2016		2015	
	Target allocation	Long-term expected real rate of return	Target allocation	Long-term expected real rate of return
Cash	5.00 %	0.87 %	5.00 %	1.04 %
U.S. Treasuries	1.50	1.74	1.75	1.64
Investment grade credit	8.00	1.79	10.00	1.79
Mortgages	2.00	1.67	2.10	1.62
High yield bonds	2.00	4.56	2.00	4.03
Inflation-indexed bonds	1.50	3.44	1.50	3.25
Broad U.S. equities	26.00	8.53	27.25	8.52
Developed foreign equities	13.25	6.83	12.00	6.88
Emerging market equities	6.50	9.95	6.40	10.00
Private equity	9.00	12.40	9.25	12.41
Hedge funds/absolute return	12.50	4.68	12.00	4.72
Real estate (property)	2.00	6.91	2.00	6.83
Commodities	0.50	5.45	1.00	5.32
Global debt excluding U.S.	5.00	(0.25)	3.50	(0.40)
Real estate investment trusts	5.25	5.63	4.25	5.12

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(v) *Discount Rate*

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and 7.90% as of June 30, 2016 and 2015, respectively, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position as of June 30, 2016 and 2015 was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

(vi) *Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Organization's proportionate share of the collective net pension liability for the PERS as of June 30, 2016 and June 30, 2015 calculated using the discount rate as disclosed above for each plan as well as what the Organization's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

		2016		
		At 1% decrease (2.98%)	At current discount rate (3.98%)	At 1% increase (4.98%)
	University	\$ 56,931,589	47,506,184	39,733,050
	Library	43,297,814	36,129,572	30,217,921
	Total	\$ 100,229,403	83,635,756	69,950,971

		2015		
		At 1% decrease (3.90%)	At current discount rate (4.90%)	At 1% increase (5.90%)
	University	\$ 41,753,702	34,608,556	28,628,060
	Library	35,140,104	29,126,717	24,093,505
	Total	\$ 76,893,806	63,735,273	52,721,565

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(b) Defined Contribution Benefit Plans

(i) Alternate Benefit Program

ABP provides the choice of seven investment carriers all of which are privately operated defined contribution retirement plans. The Organization assumes no liability for ABP members other than payment of contributions. ABP provides retirement and death benefits for or on behalf of these full-time professional employees and faculty members electing to participate in this optional retirement program. Participation eligibility, as well as contributory and noncontributory requirements, are established by the State of New Jersey Retirement and Social Security Law. Benefits are determined by the amount of individual accumulations and the retirement income option selected. 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 Organization employees are required to contribute 5% of salary and may contribute a voluntary additional contribution up to the maximum Federal statutory limit, on a pretax basis. Employer contributions are 8%. During the years ended June 30, 2017 and 2016, ABP received employer and employee contributions as follows:

	2017			2016
	University	Library	Total	Total
Employer contributions	\$ 1,622,168	51,190	1,673,358	1,670,393
Employee contributions	1,013,855	31,994	1,045,849	1,043,996
Basis for contributions:				
Participating employee salaries	20,277,100	639,880	20,916,980	20,879,920

Employer contributions to ABP are paid by the State and are reflected in the accompanying financial statements as State paid fringe benefits revenue and as expenses. The maximum compensation to be considered for employer retirement contributions is \$141,000 per New Jersey state law Chapter 31, P.L. 2010. This law was effective as of July 1, 2010. The Organization created the Supplemental Alternate Benefit Program to fund the 8% employer match above the \$141,000 compensation limit. These contributions are funded by the Organization.

(ii) Supplemental Alternate Benefit Program

The Plan is administered by the Organization. TIAA-CREF is the privately operated investment carrier for this defined contribution retirement plan. All contributions are made by the Organization with Non-State funds. The plan is intended to qualify as a governmental plan that is a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code of 1986, as amended. It is also intended that the Plan be exempt from the Employee Retiree Income Security Act of 1974, as amended, pursuant to Department of Labor regulations Section 2510.3-2(f). Each employee whose compensation exceeds the State limit on contributions for the ABP in a given year shall be eligible to participate in the plan and have employer contributions made on their behalf. The Organization will contribute 8% of the employee's compensation in excess of the State limit on compensation. The accumulated base salary limit during each calendar year is \$141,000. There were no

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employee contributions during fiscal year 2017 or 2016. The employer contributions made during fiscal year 2017 and 2016 were \$67,702 and \$68,587, respectively.

(iii) Supplemental Retirement Program

The Plan is administered by the Organization. TIAA-CREF is the privately operated investment carrier for this defined contribution retirement plan. All contributions are made by the Organization with Non-State funds. The plan is intended to qualify as a governmental plan that is a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code of 1986, as amended. It is also intended that the Plan be exempt from the Employee Retiree Income Security Act of 1974, as amended, pursuant to Department of Labor regulations Section 2510.3-2(f). The Organization may contribute to the plan, on behalf of participants who are employees of the employer during the plan year and are eligible to share in the employer contributions for such plan year, as determined by the Compensation Committee and approved by the Board of Trustees. There were no employee contributions during fiscal year 2016 or 2015. The employer contributions made during fiscal year 2017 and 2016 were \$13,334 and \$12,954, respectively.

(c) Postemployment Benefits Other than Pensions

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

(10) Commitments

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. Since Federal and State funds comprise approximately 99% of the total revenues of the Library, and through developing a memorandum of understanding between the University and the State with respect to the Library, accrued sick time will be funded by the State for Library employees.

The University and Library paid \$31,889 and \$9,530, respectively, in 2017 and \$73,725 and \$45,392, respectively, in 2016. The University and Library have accrued amounts of \$505,885 and \$255,036, respectively, as of June 30, 2017, and \$475,449 and \$229,559, respectively, as of June 30, 2016, for anticipated future payments to employees who are planning to retire in the foreseeable future and are eligible for payment of a portion of their accumulated sick time. A receivable from the State for \$255,036 and \$229,559 has been recorded as of June 30, 2017 and 2016, respectively, in the accompanying statements of net position for Library sick accrual reimbursable from the State. At the current time, it is

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uncertain whether the policy followed by the State regarding unused sick time reimbursement during fiscal year 2017 will continue into fiscal year 2018 and beyond. If the State did not provide reimbursement to the University for these amounts in the future, the University would still be liable for the payments to these employees.

(11) Component Unit

Thomas Edison State University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt component unit of the Organization with a fiscal year-end of December 31. As of January 11, 2016, the Foundation changed its name to the Thomas Edison State University Foundation. 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 and Library in support of its programs. The Board of Directors of the Foundation, which consists of at least five and no more than thirty persons, is self-perpetuating and consists of qualified persons elected by majority vote of the Board of Directors of the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the resources, or income thereon, the Foundation holds and invests are used exclusively for the benefit, support, and promotion of the University for its educational activities. Because these resources held by the Foundation can only be used by, or for the benefit of the University and Library, the Foundation is considered a component unit of the Organization and is discretely presented in the Organization's financial statements.

During the year ended June 30, 2017 and 2016, the Foundation distributed \$741,060 and \$1,029,773, respectively, to the University for restricted purposes. Complete financial statements for the Foundation can be obtained from the Controller's Office at 101 West State Street, Trenton, NJ 08608.

The Foundation is a private not-for-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Organization's financial reporting entity for these differences.

(12) Risk Management

The Organization is exposed to various risks of loss. The Organization purchased and funds property and casualty insurances through a joint insurance program with the nine State of New Jersey Public Colleges and Universities. The Organization's risk management program involves insurance for all property risk (property, money and securities) in the joint insurance program and all liability risk and employee benefit exposures are self-funded programs maintained and administered by the State of New Jersey (including tort liability, auto liability, trustees and officers liability, workers' compensation, unemployment, temporary and long term disability, unemployment liability, life insurance and employee retirement programs).

Buildings, plant, equipment and lost revenue are fully insured on an all risk replacement basis to the extent that losses exceed \$100,000 per occurrence with a per occurrence limit of \$1,500,000,000. Money and securities coverage provides for the actual loss in excess of \$100,000 with a per loss limit of \$5,000,000.

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As an instrumentality of the State of New Jersey the liability of Thomas Edison State University is subject to all of the provisions of the New Jersey Tort Claims Act (NJSA 59:1-1 et seq.), the New Jersey Contractual Liability Act (NJSA 59:13-1 et seq.) and the availability of appropriations.

The Tort Claims Act also creates a fund and provides for payment of claims under the Act against the State of New Jersey or against its employees for which the State of New Jersey is obligated to indemnify against tort claims, which arise out of the performance of their duties.

All insurance policies are renewed on an annual basis. All of the State of New Jersey self-funded programs are statutory with an annual appropriation provided by the legislature.

There has been no decrease in insurance coverage during the current year. There have been no settlements in excess of insurance coverage in the past three years.

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Required Supplementary Information (Unaudited)

Schedules of Employer Contributions

**State of New Jersey Public Employees' Retirement System
Thomas Edison State University**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 807,305	527,950	328,993
Contributions in relation to the contractually required contribution	<u>807,305</u>	<u>527,950</u>	<u>328,993</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>
Organization employee covered—payroll	\$ 7,481,975	7,349,168	7,555,305
Contributions as a percentage of employee covered payroll	10.79 %	7.18 %	4.35 %

New Jersey State Library

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 626,220	444,325	276,882
Contributions in relation to the contractually required contribution	<u>626,220</u>	<u>444,325</u>	<u>276,882</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>
Organization employee covered—payroll	\$ 5,454,972	5,313,407	5,592,606
Contributions as a percentage of employee covered payroll	11.48 %	8.36 %	4.95 %

Total

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,433,525	972,275	605,875
Contributions in relation to the contractually required contribution	<u>1,433,525</u>	<u>972,275</u>	<u>605,875</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>
Organization employee covered—payroll	\$ 12,936,947	12,662,575	13,147,911
Contributions as a percentage of employee covered payroll	11.08 %	7.68 %	4.61 %

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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Required Supplementary Information (Unaudited)

Schedules of Proportionate Share of the Net Pension Liability

**State of New Jersey Public Employees' Retirement System
Thomas Edison State University**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Organization proportion of the net pension liability – State Group	0.162 %	0.146 %	0.136 %
Organization proportion of the net pension liability – Total Plan	0.081	0.075	0.071
Organization proportionate share of the net pension liability	\$ 47,506,184	34,608,556	27,459,799
Organization employee covered–payroll	7,349,168	7,555,305	6,978,413
Organization proportionate share of the net pension liability as a percentage of the employee covered-payroll	634.94 %	458.07 %	393.50 %
Plan fiduciary net position as a percentage of the total pension liability	31.2	38.21	42.74

New Jersey State Library

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Organization proportion of the net pension liability – State Group	0.123 %	0.123 %	0.127 %
Organization proportion of the net pension liability – Total Plan	0.061	0.063	0.066
Organization proportionate share of the net pension liability	\$ 36,129,572	29,126,717	25,544,272
Organization employee covered–payroll	5,313,407	5,592,606	5,527,456
Organization proportionate share of the net pension liability as a percentage of the employee covered-payroll	662.32 %	520.81 %	462.13 %
Plan fiduciary net position as a percentage of the total pension liability	31.2	38.21	42.74

Total

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Organization proportion of the net pension liability – State Group	0.285 %	0.269 %	0.263 %
Organization proportion of the net pension liability – Total Plan	0.142	0.138	0.136
Organization proportionate share of the net pension liability	\$ 83,635,756	63,735,273	53,004,071
Organization employee covered–payroll	12,936,947	13,147,911	12,505,869
Organization proportionate share of the net pension liability as a percentage of the employee covered-payroll	646.49 %	484.76 %	423.83 %
Plan fiduciary net position as a percentage of the total pension liability	31.2	38.21	42.74

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

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Schedule of Net Position

June 30, 2017

Assets	University	Library	Total
Current assets:			
Cash	\$ 3,581,655	2,383,493	5,965,148
Investments	18,672,334	1,806,360	20,478,694
Receivables:			
Students, net	7,153,975	—	7,153,975
State of New Jersey	386,489	358,027	744,516
Federal	47,797	3,476,830	3,524,627
Corporate accounts, net	487,892	—	487,892
Other receivables	116,109	14,984	131,093
Total receivables	8,192,262	3,849,841	12,042,103
Prepaid expenses and other assets	157,347	155,827	313,174
Due to University from Library	275,285	(275,285)	—
Total current assets	30,878,883	7,920,236	38,799,119
Noncurrent assets:			
Investments	6,302,524	426,415	6,728,939
Restricted investments	678,066	1,135,765	1,813,831
Trustee held investments – restricted	82,952	1,025,316	1,108,268
Rare books, artwork, and historical documents	566,597	1,564,050	2,130,647
Capital assets	60,580,507	6,840,368	67,420,875
Total noncurrent assets	68,210,646	10,991,914	79,202,560
Total assets	99,089,529	18,912,150	118,001,679
Deferred Outflows of Resources			
Deferred outflows of resources:			
Pensions related	14,116,330	7,418,370	21,534,700
Total deferred outflows of resources	\$ 113,205,859	26,330,520	139,536,379
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	\$ 8,226,504	666,027	8,892,531
Unearned tuition and fees	7,426,845	—	7,426,845
Unearned grants and contracts	160,715	1,018,557	1,179,272
Deposits held in custody for others	58,153	—	58,153
Long-term debt – current portion	1,274,204	79,927	1,354,131
Total current liabilities	17,146,421	1,764,511	18,910,932
Noncurrent liabilities:			
Compensated absences – noncurrent portion	505,885	255,036	760,921
Unearned grants and contracts	17,519	—	17,519
Long-term debt	10,988,118	81,841	11,069,959
Net pension liability	47,506,184	36,129,572	83,635,756
Total noncurrent liabilities	59,017,706	36,466,449	95,484,155
Total liabilities	76,164,127	38,230,960	114,395,087
Deferred Inflows of Resources			
Deferred inflows of resources:			
Pensions related	—	1,429,948	1,429,948
Total deferred inflows of resources	\$ 76,164,127	39,660,908	115,825,035
Net Position			
Net investment in capital assets	\$ 48,888,476	8,242,650	57,131,126
Restricted for:			
Nonexpendable:			
Aid to local libraries	—	416,073	416,073
Library for the Blind and Handicapped	—	333,642	333,642
Expendable:			
Aid to local libraries	—	281,839	281,839
Library for the Blind and Handicapped	—	1,129,527	1,129,527
Public policy	678,066	—	678,066
Unrestricted	(12,524,810)	(23,734,119)	(36,258,929)
Total net position	\$ 37,041,732	(13,330,388)	23,711,344

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Schedule of Net Position

June 30, 2016

Assets	University	Library	Total
Current assets:			
Cash	\$ 7,503,283	5,042,265	12,545,548
Investments	23,743,153	1,793,227	25,536,380
Receivables:			
Students, net	6,426,048	—	6,426,048
State of New Jersey	256,253	410,702	666,955
Federal	308,800	572,077	880,877
Corporate accounts, net	693,769	—	693,769
Other receivables	129,728	13,446	143,174
Total receivables	7,814,598	996,225	8,810,823
Prepaid expenses and other assets	243,869	159,235	403,104
Due to University from Library	113,232	(113,232)	—
Total current assets	39,418,135	7,877,720	47,295,855
Noncurrent assets:			
Investments	2,198,963	422,076	2,621,039
Restricted investments	641,239	1,075,848	1,717,087
Trustee held investments – restricted	490,402	996,062	1,486,464
Rare books, artwork, and historical documents	566,597	1,564,050	2,130,647
Capital assets	61,663,573	7,061,507	68,725,080
Total noncurrent assets	65,560,774	11,119,543	76,680,317
Total assets	104,978,909	18,997,263	123,976,172
Deferred Outflows of Resources			
Deferred outflows of resources:			
Pensions related	5,699,295	3,071,722	8,771,017
Total deferred outflows of resources	\$ 110,678,204	22,068,985	132,747,189
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	\$ 9,057,105	930,280	9,987,385
Unearned tuition and fees	8,101,079	—	8,101,079
Unearned grants and contracts	287,763	1,351,499	1,639,262
Deposits held in custody for others	112,612	—	112,612
Long-term debt – current portion	1,219,868	77,974	1,297,842
Total current liabilities	18,778,427	2,359,753	21,138,180
Noncurrent liabilities:			
Compensated absences – noncurrent portion	475,449	229,559	705,008
Unearned grants and contracts	180,153	—	180,153
Long-term debt	12,206,874	161,811	12,368,685
Net pension liability	34,608,556	29,126,717	63,735,273
Total noncurrent liabilities	47,471,032	29,518,087	76,989,119
Total liabilities	66,249,459	31,877,840	98,127,299
Deferred Inflows of Resources			
Deferred inflows of resources:			
Pensions related	170,854	1,977,495	2,148,349
Total deferred inflows of resources	\$ 66,420,313	33,855,335	100,275,648
Net Position			
Net investment in capital assets	\$ 48,844,499	8,385,772	57,230,271
Restricted for:			
Nonexpendable:			
Aid to local libraries	—	416,073	416,073
Library for the Blind and Handicapped	—	333,642	333,642
Expendable:			
Aid to local libraries	—	298,123	298,123
Library for the Blind and Handicapped	—	1,024,072	1,024,072
Public policy	641,239	—	641,239
Unrestricted	(5,227,847)	(22,244,032)	(27,471,879)
Total net position	\$ 44,257,891	(11,786,350)	32,471,541

See accompanying independent auditors' report.

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Schedule of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2017

	<u>University</u>	<u>Library</u>	<u>Total</u>
Operating revenues:			
Student tuition and fees, net	\$ 47,877,844	—	47,877,844
Federal grants and contracts	4,199,250	4,200,993	8,400,243
Federal indirect cost recovery	47,854	111,553	159,407
State of New Jersey grants and contracts	143,690	8,923,738	9,067,428
Noncollegiate sponsored programs	77,301	—	77,301
Other operating revenues	376,962	8,464	385,426
Total operating revenues	<u>52,722,901</u>	<u>13,244,748</u>	<u>65,967,649</u>
Operating expenses:			
Academic support	26,969,016	—	26,969,016
Student services	7,572,190	—	7,572,190
Public services	1,734,290	2,508,986	4,243,276
General institutional	13,055,745	—	13,055,745
Operations and maintenance	4,031,600	45,287	4,076,887
General administration	18,046,417	2,594,731	20,641,148
Other sponsored programs	507,893	—	507,893
Scholarships	2,165,182	—	2,165,182
State of New Jersey Library	—	7,542,514	7,542,514
Talking Book and Braille Center	—	3,224,980	3,224,980
Grants to libraries	—	5,711,006	5,711,006
Collections and exhibits	—	1,175,502	1,175,502
Depreciation	2,176,044	372,910	2,548,954
Total operating expenses	<u>76,258,377</u>	<u>23,175,916</u>	<u>99,434,293</u>
Operating loss	<u>(23,535,476)</u>	<u>(9,931,168)</u>	<u>(33,466,644)</u>
Nonoperating revenues (expenses):			
State of New Jersey appropriations	3,292,000	5,181,477	8,473,477
State of New Jersey paid fringe benefits	12,031,404	2,260,789	14,292,193
Contributed U.S. Postal Service	—	774,475	774,475
Private gifts – restricted	674,247	47,514	721,761
Investment income	461,195	127,989	589,184
Interest on indebtedness	(404,519)	(5,114)	(409,633)
Loss on disposal of equipment	(12,247)	—	(12,247)
Net nonoperating revenues	<u>16,042,080</u>	<u>8,387,130</u>	<u>24,429,210</u>
Decrease before other revenues	<u>(7,493,396)</u>	<u>(1,544,038)</u>	<u>(9,037,434)</u>
State of New Jersey capital grants	<u>277,236</u>	<u>—</u>	<u>277,236</u>
Increase (decrease) in net position	<u>(7,216,160)</u>	<u>(1,544,038)</u>	<u>(8,760,198)</u>
Net position as of beginning of year	<u>44,257,891</u>	<u>(11,786,350)</u>	<u>32,471,541</u>
Net position as of end of year	<u>\$ 37,041,731</u>	<u>(13,330,388)</u>	<u>23,711,343</u>

See accompanying independent auditors' report.

**THOMAS EDISON STATE UNIVERSITY AND ITS
AFFILIATE THE NEW JERSEY STATE LIBRARY**
(A Component Unit of the State of New Jersey)

Schedule of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2016

	<u>University</u>	<u>Library</u>	<u>Total</u>
Operating revenues:			
Student tuition and fees, net	\$ 49,456,447	—	49,456,447
Federal grants and contracts	4,996,298	3,870,388	8,866,686
Federal indirect cost recovery	68,781	135,300	204,081
State of New Jersey grants and contracts	145,614	8,886,203	9,031,817
Noncollegiate sponsored programs	102,635	—	102,635
Other operating revenues	346,851	13,369	360,220
Total operating revenues	<u>55,116,626</u>	<u>12,905,260</u>	<u>68,021,886</u>
Operating expenses:			
Academic support	25,654,486	—	25,654,486
Student services	7,095,756	—	7,095,756
Public services	1,503,350	2,334,515	3,837,865
General institutional	14,013,548	—	14,013,548
Operations and maintenance	3,597,878	50,355	3,648,233
General administration	17,465,426	2,395,912	19,861,338
Other sponsored programs	527,147	—	527,147
Scholarships	2,467,236	—	2,467,236
State of New Jersey Library	—	6,924,315	6,924,315
Talking Book and Braille Center	—	3,125,438	3,125,438
Grants to libraries	—	5,711,575	5,711,575
Collections and exhibits	—	1,159,683	1,159,683
Depreciation	1,507,273	733,745	2,241,018
Total operating expenses	<u>73,832,100</u>	<u>22,435,538</u>	<u>96,267,638</u>
Operating loss	<u>(18,715,474)</u>	<u>(9,530,278)</u>	<u>(28,245,752)</u>
Nonoperating revenues (expenses):			
State of New Jersey appropriations	3,292,000	5,130,861	8,422,861
State of New Jersey paid fringe benefits	10,323,219	2,144,023	12,467,242
Contributed U.S. Postal Service	—	841,050	841,050
Private gifts – restricted	829,361	159,635	988,996
Investment income	278,482	7,857	286,339
Interest on indebtedness	(300,385)	(6,979)	(307,364)
Loss on disposal of equipment	(42,266)	—	(42,266)
Net nonoperating revenues	<u>14,380,411</u>	<u>8,276,447</u>	<u>22,656,858</u>
Decrease before other revenues	<u>(4,335,063)</u>	<u>(1,253,831)</u>	<u>(5,588,894)</u>
State of New Jersey capital grants	3,826,286	—	3,826,286
Decrease in net position	<u>(508,777)</u>	<u>(1,253,831)</u>	<u>(1,762,608)</u>
Net position as of beginning of year	<u>44,766,668</u>	<u>(10,532,519)</u>	<u>34,234,149</u>
Net position as of end of year	<u>\$ 44,257,891</u>	<u>(11,786,350)</u>	<u>32,471,541</u>

See accompanying independent auditors' report.