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, 2018

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

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

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 year ended June 30, 2018, 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 audit. We did not audit the financial statements of Thomas Edison State University Foundation, Inc. as of and for year ended December 31, 2017, 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

KPMG

Opinions

In our opinion, based on our audit 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, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(g) to the financial statements, in fiscal 2018, the Organization adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 16 and the schedules of employer contributions and schedules of proportionate share of the net pension liability as of June 30, 2018 on pages 51 and 52, respectively, and the schedule of proportionate share of the total OPEB liability on page 53 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 4 and 5 on pages 54 and 55, respectively, 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 4 and 5 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Short Hills, New Jersey
March 29, 2019

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, 2018

(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 year that ended on June 30, 2018, with certain fiscal year ended June 30, 2017 amounts presented for comparative purposes. 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 2,059,000 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 317,000 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.

In fiscal year 2018, the Organization implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits other than Pensions.* GASB 75 require state and local government employers to recognize the net liability of these plans. The state is legally obligated for the benefit payments on behalf of the retirees of the Organization, therefore, the plan meets the definition of a special funding situation as defined by GASB 75. The Organization was not required to recognize the proportionate share of the total liability of these plans on its financial statements. However, the related revenue and expenses for fiscal year 2018 were included. The Organization recorded it proportionate share of the revenue and expenses of $5,445,517.

Financial Highlights

At June 30, 2018, the Organization's net position has decreased to $19,205,844 from $23,711,344 at June 30, 2017. In fiscal year 2018, the Organization's net position decreased primarily because of the recognition of pension expense in accordance with GASB 68 of $4,828,908. 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 $406,510.

The Organization recorded on its financial statement the state paid revenue and expenses for other employment benefits for fiscal year 2018. The State of New Jersey has communicated that the associated unfunded liability, deferred inflows and deferred outflows should not be reported on the financial statements. The Organization 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 2018 and 2017. 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.

Current year operating revenues for the year ended June 30, 2018 decreased to $65,136,082 from $65,967,649. The decrease was from decreases in student tuition and fee revenue and federal financial aid.

Net nonoperating revenues for the year ended June 30, 2018 increased to $31,174,900 from $24,429,211 in fiscal year 2017, primarily due to recognizing State of New Jersey paid other post employment benefits due to the implementation of GASB 75 and an increase in State of New Jersey appropriations and restricted 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.

(Continued)

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.

Condensed Statement of Net Position

		2018	2017
Current assets	$	35,997,015	38,799,119
Capital assets, net		65,302,725	67,420,875
Other assets		13,170,041	11,781,685
Total assets		114,469,781	118,001,679
Deferred outflows of resources		20,377,509	21,534,700
Total assets and deferred outflows of resources	$	134,847,290	139,536,379
Current liabilities	$	16,599,458	18,910,932
Noncurrent liabilities		87,160,413	95,484,155
Total liabilities		103,759,871	114,395,087
Deferred inflows of resources		11,881,575	1,429,948
Total liabilities and deferred inflows of resources	$	115,641,446	115,825,035
Net position:			
Net investment in capital assets	$	56,363,511	57,131,126
Restricted		3,417,382	2,839,147
Unrestricted		(40,575,049)	(36,258,929)
Net position, end of year	$	19,205,844	23,711,344

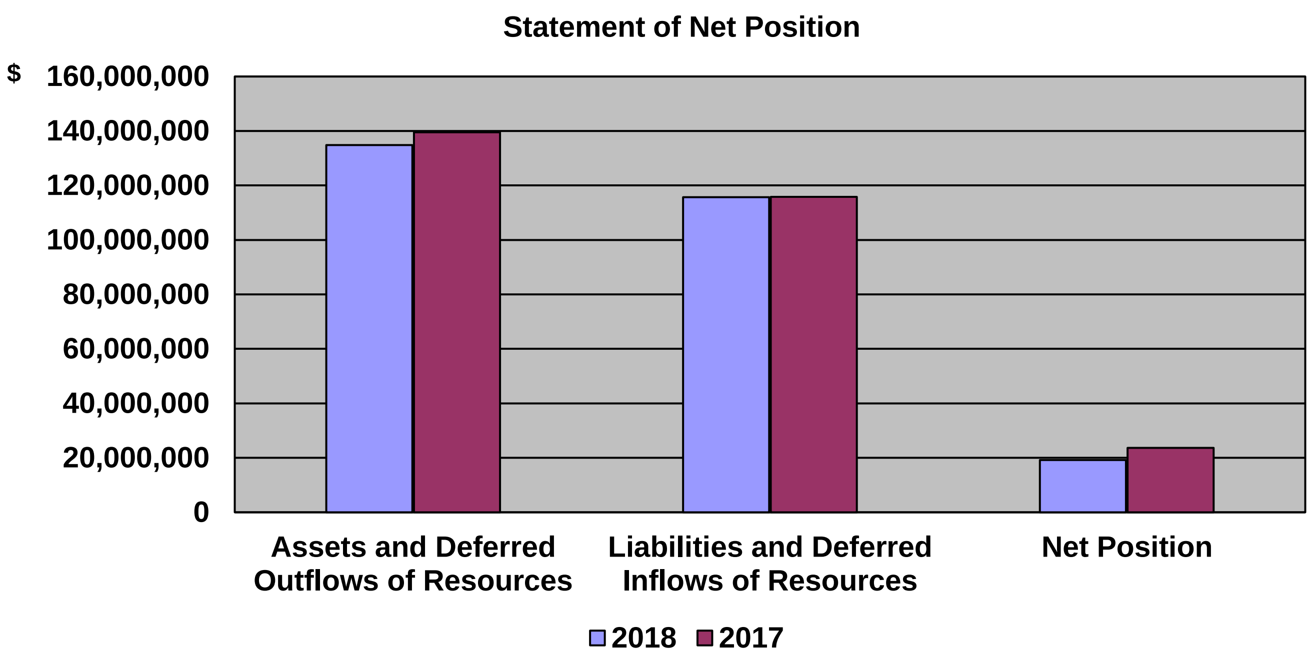
Net Position, End of Year

The Organization's net position decreased $4,505,500 or 19% from fiscal year 2017 to $19,205,844. The decrease in fiscal year 2018 was primarily due to pension expense of $4,828,908. The University's and Library's share of pension expense was $3,599,139 and $1,229,769, respectively.

The Organization's total assets decreased $3,531,898 or 3% from fiscal year 2017 to $114,469,781. The fiscal year 2018 decrease was primarily due to depreciation of $2,492,205 and a decrease in current investments of $4,525,745, offset by an increase in cash of $2,658,699.

The Organization's total deferred outflows decreased $1,157,191 or 5% from fiscal year 2017 to $20,377,509 (University share $13,649,828 and Library share $6,727,681). The Organization's total deferred inflows increase $10,451,627 or 730.9% from fiscal year 2017 to $11,881,575 (University share $6,264,722 and Library share $5,616,853). 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 2018 contributions subsequent to the measurement date made by the State of New Jersey to the pension plan on behalf of the Organization of $1,909,793 (University share $1,078,012 and Library share $831,781).

The Organization's total liabilities decreased $10,635,216 or 9% to $103,759,871. The fiscal year 2018 decrease was primarily due to a $6,959,517 decrease in the net pension liability (University share $3,255,731 and Library share $3,703,786) and a $1,385,371 decrease in unearned tuition and fees.



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 condensed summary of the Organization's revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017 follows:

Condensed Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2018 and 2017

		2018	2017
Operating revenues:			
Student tuition and fees, net of scholarships	$	47,471,334	47,877,844
Federal grants and contracts		8,617,924	8,400,243
State of New Jersey grants and contracts		8,668,666	9,067,428
Subtotal grants		17,286,590	17,467,671
Other		378,158	622,134
Total operating revenues		65,136,082	65,967,649
Operating expenses		101,050,579	99,434,293
Operating loss		(35,914,497)	(33,466,644)
Nonoperating revenues (expenses):			
State of New Jersey funding, including OPEB		29,348,406	22,765,670
Other nonoperating revenues, net		1,905,149	1,675,788
Loss on disposal of equipment		(78,655)	(12,247)
Net non-operating revenues		31,174,900	24,429,211
State of New Jersey capital grants		234,097	277,236
Decrease in net position		(4,505,500)	(8,760,197)
Net position beginning of year		23,711,344	32,471,541
Net position end of year	$	19,205,844	23,711,344

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.

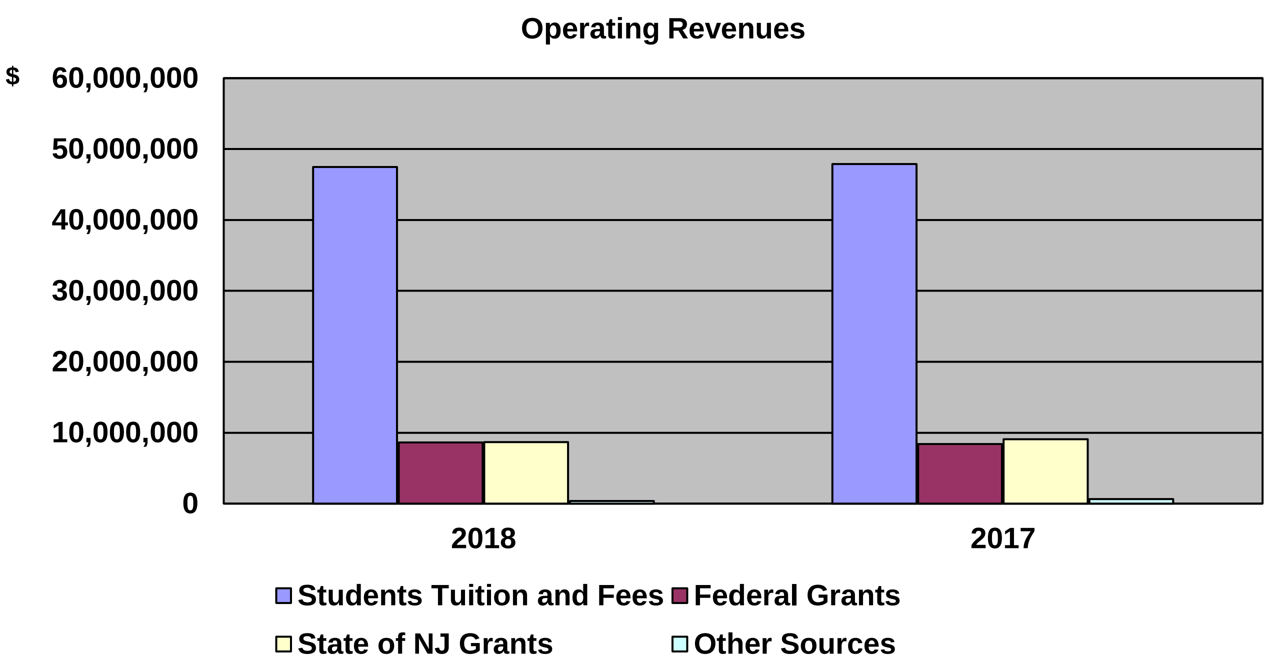
During the year, the Organization generated $65,136,082 in operating revenues. The sources of these revenues were: tuition and fees, net of scholarships of $47,471,334; governmental grants and contracts of $17,286,590; and other operating revenues of $378,158. The University's share of operating revenues was $52,271,372 and the Library's operating revenues share was $12,864,710.

- Student tuition and fees decreased $406,510 or 1% in fiscal year 2018 due to a 1% decrease in enrollments and change in student mix, offset by a 2.5% fee increase.
- The increase in Federal grants of $217,681 or 3% in fiscal year 2018 was due to a new Federal Nuclear Regulatory Commission grant of $172,146 and an increase in Library federal funding of $53,769.
- The decrease in State of New Jersey grants and contracts of $398,762 or 4% in fiscal year 2018 was primarily due to a decrease in Library state funding of $375,904.

	2018		2017	
	Amount	**Percentage of total**	**Amount**	**Percentage of total**
Operating revenues:				
Student tuition and fees (net of scholarship allowances of $2,552,000 and $2,343,000, respectively)	$ 47,471,334	73 %	$ 47,877,844	73 %
Federal grants and contracts	8,617,924	13 %	8,400,243	13 %
State of New Jersey grants and contracts	8,668,666	13 %	9,067,428	14 %
Subtotal grants	17,286,590		17,467,671	

(Continued)

	2018		2017	
	Amount	**Percentage of total**	**Amount**	**Percentage of total**
Other sources:				
Federal indirect cost recover $	87,556	— %	159,407	— %
Noncollegiate sponsored		— %		
programs	47,875	— %	77,301	— %
Other operating revenue	242,727	1	385,426	— %
Subtotal other sources	378,158		622,134	
Total operating revenues	$ 65,136,082	100 %	$ 65,967,649	100 %



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, 2018, the Organization incurred total operating expenses of $101,050,579, which were $35,914,497 more than the operating revenues of $65,136,082. The University's operating expenses share was $77,764,079 and the Library's operating expenses share was $23,286,500. The University's net operating loss share was $25,492,707 and the Library's net operating loss share was $10,421,790. The Organization's operating expenses increased $1,616,286 or 2% from fiscal years 2017 to 2018. The increase is primarily due to the implementation of GASB 75, other post employment benefits (OPEB), which was partially offset by decreased pension expenses and bad debt expenses, and as well as a small decrease in the fringe benefit rate.

- The increase in academic support expenses of $321,111 or 1% in fiscal year 2018 is primarily due to OPEB expense of $1,386,217 which was partially offset by a decrease in mentor expense of $251,775 from lower course enrollments, a decrease of fringe benefits of $100,302 due to a lower fringe benefit rate and a $564,003 decrease in bad debt expenses.
- The increase in student services expenses of $253,728 or 3% in fiscal year 2018 is primarily due to OPEB expenses of $658,893 which was partially offset by a decrease in salaries and fringe benefits paid of $110,047 and $74,920, respectively.
- Public services expenses increased $1,470,009 or 35% and $405,411 or 11% in fiscal years 2018 and 2017, respectively. The increase in fiscal year 2018 was due to Library grant spending due to timing, along with increased salary and fringe benefit payments at the University and combined OPEB expenses of $324,201.
- General institutional expenses decreased $671,081 or 5% and $957,803 or 7% over the previous year in fiscal years 2018 and 2017, respectively. The decrease in expenses during fiscal year 2018 was primarily due to decreases in bad debt expense and one time program development costs paid with the prior year surplus that was partially offset by OPEB expense of $278,780.

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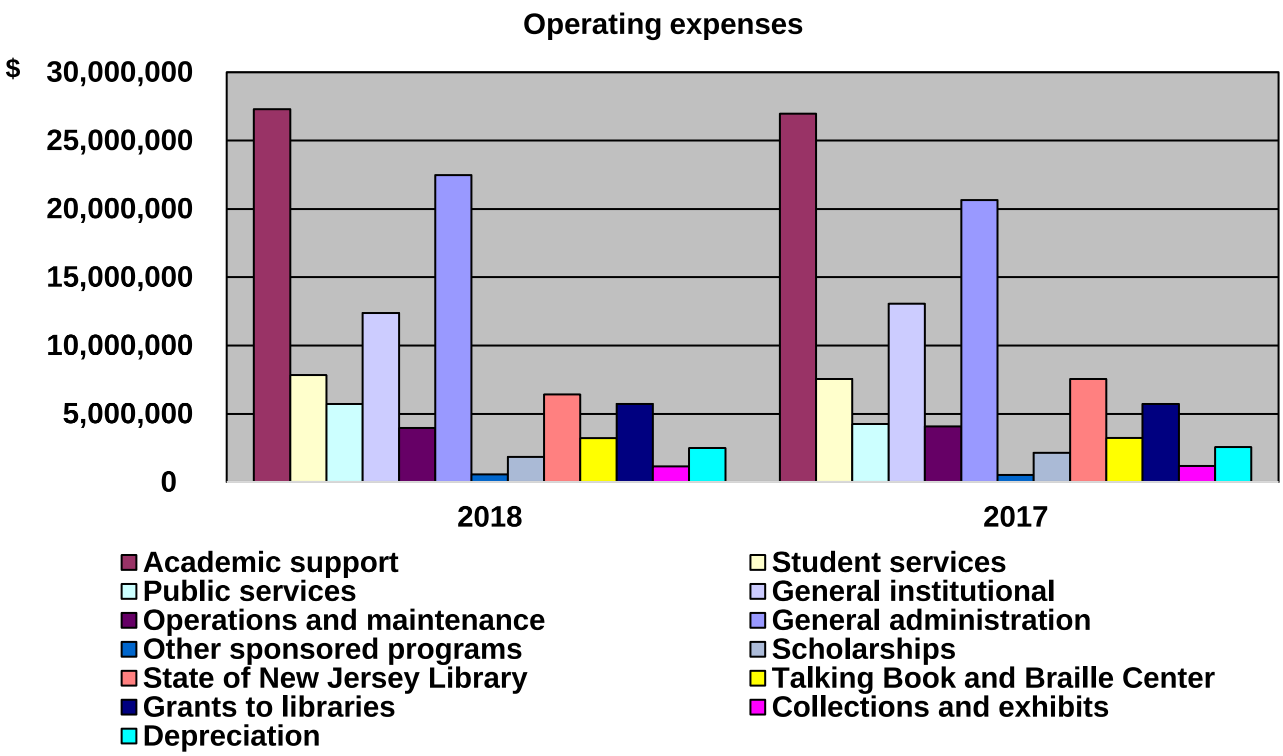
- General administration expenses increased $1,827,224 or 9% in fiscal year 2018. The increase in fiscal year 2018 was primarily due to OPEB expenses of $1,849,883.

	2018		2017	
	Amount	**Percentage of total**	**Amount**	**Percentage of total**
Operating expenses:				
Academic support	$ 27,290,127	27 %	$ 26,969,016	27 %
Student services	7,825,918	8	7,572,190	8
Public services	5,713,285	6	4,243,276	4
General institutional	12,384,664	12	13,055,745	13
Operations and maintenance	3,953,165	4	4,076,887	4
General administration	22,468,372	22	20,641,148	21
Other sponsored programs	567,439	1	507,893	1
Scholarships	1,848,294	2	2,165,182	2
State of New Jersey Library	6,405,543	6	7,542,514	7
Talking Book & Braille Center	3,216,815	3	3,224,980	3
Grants to libraries	5,745,818	6	5,711,006	6
Collections and exhibits	1,138,934	1	1,175,502	1
Depreciation	2,492,205	2	2,548,954	3
Total operating expenses	$ 101,050,579	100 %	$ 99,434,293	100 %



Nonoperating Revenues

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

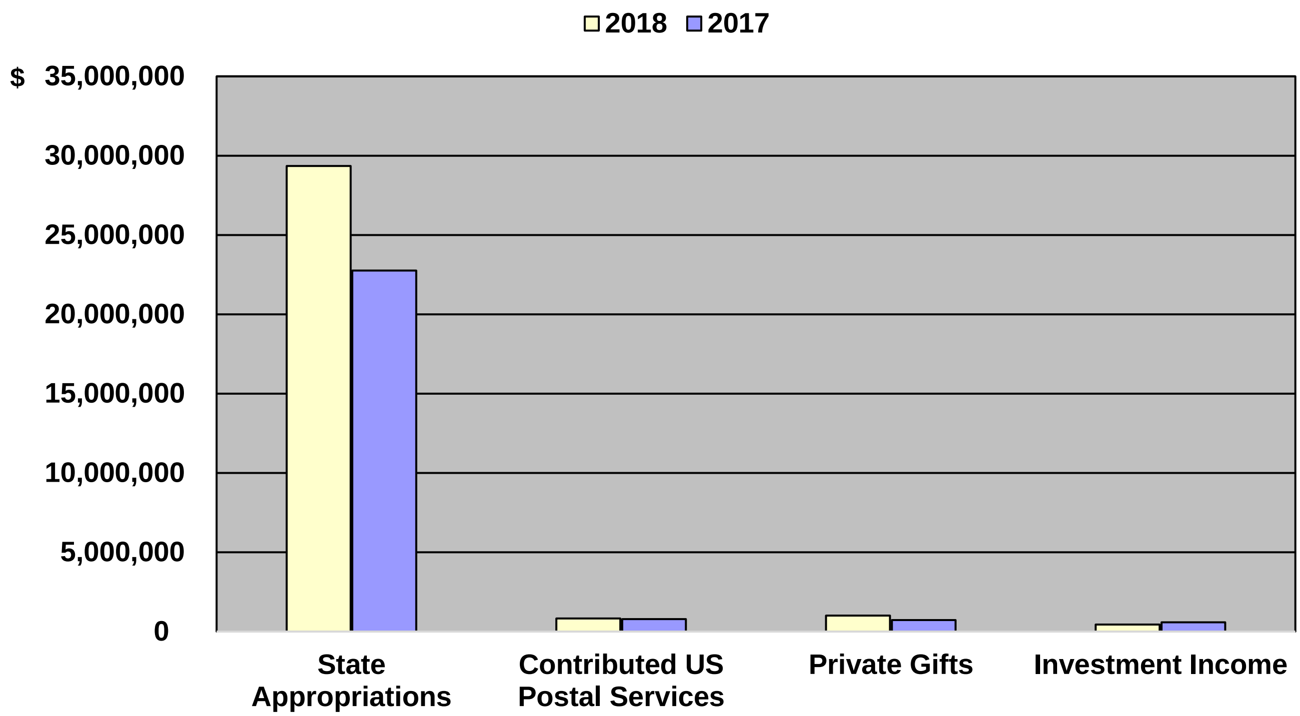
During the fiscal year 2018, the Organization generated $31,174,900 in net nonoperating revenues. The components of the nonoperating revenues were primarily direct and indirect State of New Jersey appropriations of $29,348,406, contributed U.S. Postal Service of $815,590, private gifts of $1,012,013, and investment income of $450,389. The University's nonoperating revenue share was $21,518,331 and the Library's nonoperating revenue share was $9,656,569.

- The increase in State of New Jersey appropriations of $1,012,224 or 12% in fiscal year 2018 was due to a new appropriation of $1,000,000 to fund National Guard tuition waivers and $12,224 of increased library support.
- The increase in State of New Jersey paid fringe benefits of $124,995 or 1% in fiscal year 2018 was due to salary increases offset by a 3% decrease in the fringe benefit rate. The negotiated fringe benefit rate was 43.0% for the year ended 2018.

- The increase in State of New Jersey paid other post-employment benefits in fiscal year 2018 was due to the implementation of GASB 75.
- The increase in private gifts in fiscal year 2018 of $290,252 or 40% was primarily due to a grant received to establish the Center for Leadership and Governance.
- The decrease in investment income of $138,795 in fiscal year 2018 was due to the performance of the fixed income and equity portion of the portfolios for each respective fiscal year.

	2018		2017	
	Total	**Percentage of total**	**Total**	**Percentage of total**
Nonoperating revenues:				
State of New Jersey appropriations	$ 9,485,701	30 %	$ 8,473,477	34 %
State of New Jersey paid fringe benefits	14,417,188	46	14,292,193	58
State of New Jersey paid other post employment benefits	5,445,517	17	—	—
Subtotal State of New Jersey	29,348,406		22,765,670	
Contributed U.S. Postal Service	815,590	3	774,475	3
Private gifts - restricted	1,012,013	3	721,761	3
Investment income	450,389	1	589,184	2
Nonoperating revenues	$ 31,626,398	100 %	$ 24,851,090	100 %

Nonoperating Revenues



Capital Assets and Debt Activities

The Organization received $234,097 in State of New Jersey capital grants in fiscal year 2018, which represents the amount reimbursed for the New Jersey Equipment Leasing Fund (ELF) and carpet installation at the New Jersey State Library. The University portion of the ELF debt is recorded in long term debt.

At June 30, 2018, the Organization's capital assets, including rare books, artwork, and historical documents, amounted to $67,433,372, net of accumulated depreciation of $32,639,231. The amount invested in capital assets, net of related debt of $11,069,861, was $56,363,511. Depreciation charges totaled $2,492,205 for the current fiscal year. The $767,615 decrease of net investment in capital assets was due to capital additions of $494,512, principal paid on outstanding debt of $1,354,229, less unspent ELF funds of $3,694 at the conclusion of the project, depreciation of $2,492,205 and net capital retirements of $120,457.

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

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Interest on indebtedness was $372,843 in fiscal year 2018 as compared $409,633 in fiscal year 2017, a decrease of $36,790 or 9%. The decrease was due to the allocation of principal and interest per the amortization schedules.

Tax-Exempt Lease Financing

There were no State issued bonds awarded to fund capital improvements at the Organization in fiscal year 2018.

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%.

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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, 2018 and 2017 were:

		2018	2017
Net investment in capital assets:			
Depreciable assets:			
Buildings and improvements	$	58,851,607	60,490,003
Equipment and vehicles		1,521,650	1,966,207
Furniture and fixtures		2,476,788	2,511,986
Subtotal		62,850,045	64,968,196
Nondepreciable assets:			
Land		2,452,680	2,452,680
Construction in progress		—	—
Rare books, artwork, and historical documents		2,130,647	2,130,647
Subtotal		4,583,327	4,583,327
Total capital assets		67,433,372	69,551,523
Less related long-term debt, net of unspent proceeds		(11,069,861)	(12,420,397)
Net investment in capital assets	$	56,363,511	57,131,126

Economic Outlook

With net position of $19,205,844, 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 16,205 enrollments in fiscal year 2018. During fiscal year 2018, the University experienced a 1% decrease in student revenue, which was impacted by an overall 1% decline in total enrollments, including a change in student mix and lower course enrollments per student in certain populations. 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)

Statement of Net Position

Business-Type Activities – Organization Only

June 30, 2018

Assets		**2018**
Current assets:		
Cash (note 2)	$	8,623,847
Investments (notes 2 and 4)		15,952,949
Receivables:		
Students, less allowance for doubtful accounts of approximately $3,251,000		7,733,375
State of New Jersey		1,093,624
Federal		1,617,576
Corporate accounts, less allowance for doubtful accounts of approximately $350,000		350,289
Other receivables		180,636
Total receivables		10,975,500
Prepaid expenses and other assets		444,719
Total current assets		35,997,015
Noncurrent assets:		
Investments (notes 2 and 4)		7,622,012
Restricted investments (notes 2 and 4)		2,373,619
Trustee held investments – restricted (notes 3 and 4)		1,043,763
Rare books, artwork, and historical documents		2,130,647
Capital assets, net (note 5)		65,302,725
Total noncurrent assets		78,472,766
Total assets		114,469,781
Deferred outflows of resources:		
Pensions related (note 9)		20,377,509
Total assets and deferred outflows of resources		134,847,290
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses (notes 6 and 7)		7,819,961
Unearned tuition and fees		6,041,474
Unearned grants and contracts		1,369,223
Deposits held in custody for others		23,784
Long-term debt – current portion (note 8)		1,345,016
Total current liabilities		16,599,458
Noncurrent liabilities:		
Compensated absences – noncurrent portion (note 7)		759,329
Long-term debt (note 8)		9,724,845
Net pension liability (note2 5, 7 and 9)		76,676,239
Total noncurrent liabilities		87,160,413
Total liabilities		103,759,871
Deferred Inflows of Resources		
Deferred inflows of resources:		
Pensions related (note 9)		11,881,575
Total liabilities and deferred inflows of resources		115,641,446
Net Position		
Net investment in capital assets		56,363,511
Restricted for:		
Nonexpendable:		
Aid to local libraries		416,073
Library for the Blind and Handicapped		333,642
Expendable:		
Aid to local libraries		289,120
Library for the Blind and Handicapped		1,193,708
Public policy		1,184,839
Unrestricted		(40,575,049)
Total net position	$	19,205,844

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 Financial Position

December 31, 2017

Assets		**2017**
Cash	$	138,410
Investments		10,974,198
Contributions and grants receivable		528,000
Other assets		63,587
Total assets	$	11,704,195
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	5,367
Contributions and grants payable		52,519
Accrued liabilities		1,064,353
Total liabilities		1,122,239
Net assets:		
Unrestricted		4,753,891
Temporarily restricted		1,809,455
Permanently restricted		4,018,610
Total net assets		10,581,956
Total liabilities and net assets	$	11,704,195

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)

Statement of Revenues, Expenses, and Changes in Net Position

Business-Type Activities – Organization Only

Year ended June 30, 2018

		2018
Operating revenues:		
Student tuition and fees (net of scholarship allowances of approximately $2,552,000)	$	47,471,334
Federal grants and contracts		8,617,924
Federal indirect cost recovery		87,556
State of New Jersey grants and contracts		8,668,666
Noncollegiate sponsored programs		47,875
Other operating revenues		242,727
Total operating revenues		65,136,082
Operating expenses:		
Academic support		27,290,127
Student services		7,825,918
Public services		5,713,285
General institutional		12,384,664
Operations and maintenance		3,953,165
General administration		22,468,372
Other sponsored programs		567,439
Scholarships		1,848,294
State of New Jersey Library		6,405,543
Talking Book and Braille Center		3,216,815
Grants to libraries		5,745,818
Collections and exhibits		1,138,934
Depreciation		2,492,205
Total operating expenses		101,050,579
Operating loss		(35,914,497)
Nonoperating revenues (expenses):		
State of New Jersey appropriations		9,485,701
State of New Jersey paid fringe benefits		14,417,188
State of New Jersey paid other postemployment benefits (note 9)		5,445,517
Contributed U.S. Postal Service		815,590
Private gifts – restricted		1,012,013
Investment income		450,389
Interest on indebtedness		(372,843)
Loss on disposal of equipment		(78,655)
Net nonoperating revenues		31,174,900
Decrease before other revenues		(4,739,597)
State of New Jersey capital grants		234,097
Decrease in net position		(4,505,500)
Net position as of beginning of year		23,711,344
Net position as of end of year	$	19,205,844

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, 2017

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues:					
Contributions and grants	$	208,319	647,825	67,868	924,012
Special events		345,322	—	41,684	387,006
Donated services and auction materials		267,604	—	—	267,604
Donated securities		—	142,809	—	142,809
Net assets released from restrictions		1,061,735	(1,061,735)	—	—
Total support and revenues		1,882,980	(271,101)	109,552	1,721,431
Expenses:					
Grants		808,585	—	—	808,585
Scholarships		170,418	—	—	170,418
Promotional		28,948	—	—	28,948
Special events		198,247	—	—	198,247
Donated services and auction materials		267,604	—	—	267,604
Management and general		166,527	—	—	166,527
Fundraising		25,594	—	—	25,594
Total expenses		1,665,923	—	—	1,665,923
Change in net assets before investment return		217,057	(271,101)	109,552	55,508
Net investment return		541,771	839,897	—	1,381,668
Change in net assets		758,828	568,796	109,552	1,437,176
Net assets, beginning of year		3,995,063	1,240,659	3,909,058	9,144,780
Net assets, end of year	$	4,753,891	1,809,455	4,018,610	10,581,956

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)

Statement of Cash Flows

Business-Type Activities – Organization Only

Year ended June 30, 2018

		2018
Cash flows from operating activities:		
Student tuition and fees	$	46,768,241
Grants, contracts, and other revenues		15,959,572
Payments for salaries		(35,364,805)
Payments for fringe benefits		(3,396,498)
Payments for materials and supplies		(1,517,918)
Payments for services		(23,616,851)
Payments for maintenance		(3,172,074)
Payments to students		(2,552,053)
Payments for grants and contracts		(2,076,578)
Payments for noncapital improvements		(252,744)
Net cash used by operating activities		(9,221,708)
Cash flows from noncapital financing activities:		
State of New Jersey appropriations		9,485,701
Private gifts – restricted		1,012,758
Agency receipts		149,431
Agency disbursements		(164,898)
Net cash provided by noncapital financing activities		10,482,992
Cash flows from capital financing activities:		
State of New Jersey capital grants		40,456
Purchases of capital assets		(462,711)
Net deposits with trustee		82,952
Principal paid on capital debt		(1,354,229)
Interest paid on capital debt		(381,014)
Net cash used by capital financing activities		(2,074,546)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		28,588,181
Purchases of investments		(25,744,279)
Interest on investments		628,059
Net cash provided by investing activities		3,471,961
Net increase in cash		2,658,699
Cash as of beginning of the year		5,965,148
Cash as of end of the year	$	8,623,847

(Continued)

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

Statement of Cash Flows

Business-Type Activities – Organization Only

Year ended June 30, 2018

		2018
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(35,914,497)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		2,492,205
Noncash transactions		20,688,540
Change in assets and liabilities:		
Receivables		1,103,768
Prepaid expenses and other assets		(131,545)
Accounts payable and accrued expenses		(879,691)
Deposits held in custody of others		(34,369)
Unearned tuition and fees		(1,385,371)
Unearned grants and contracts		189,951
Net pension liability and related deferred amounts		4,649,301
Net cash used by operating activities	$	(9,221,708)
Noncash transactions:		
State of New Jersey paid fringe benefits	$	14,417,188
State of New Jersey paid other postemployment benefits		5,445,517
Contributed U.S. Postal Service		815,590
Contributed services		10,245
Student waivers expense		(658,229)
Student tuition and fees		658,229
State of New Jersey paid grants to local libraries expense		(3,639,240)
State of New Jersey paid grants to local libraries revenue		3,639,240
	$	20,688,540

See accompanying notes to financial statements.

(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 nontranscripted 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 2018 was 16,205 students. Since the University was founded 61,753 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 2,059,000 volumes of books and historical documents.

(c) The Organization

The University and the State recognize that the mission of the Library compliments 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.

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

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 $1,139,000 in 2018.

(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 note 9.

(g) Postemployment Benefits Other Than Pensions

In fiscal year 2018, the Organization adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which replaces existing standards of accounting and financial reporting for retirement plans for postemployment benefits other than pensions (OPEB) that are provided to the employees of state and local governmental employers through OPEB plans that are administered either through trusts or equivalent arrangements or not administered through trusts that meet certain specified criteria. The effect of adoption of GASB 75 resulted in recording the Organization's proportionate share of OPEB revenue and expenses that the State is legally obligated for benefit payments on behalf of the Organization. The Organization recognized non-operating revenue and operating expenses related to the support provided by the State of New Jersey. The State of New Jersey is legally obligated for benefit payments on behalf of the Organization. No net liability is required to be included in the Organization's financial statements.

(h) 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.

(i) 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.

(j) 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 $14,417,188 in 2018 have been included in the accompanying financial statements as revenues and expenses.

(k) 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 $816,000 for the year ended June 30, 2018. Such contributed services have been included in the accompanying financial statements as revenues and expenses.

(l) 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.

(m) 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.

(n) Income Taxes

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

(o) 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.

(Continued)

(2) Cash and Investments

(a) Cash

Cash consisted of the following demand deposits in a financial institution as of June 30, 2018:

		Carrying amount	Bank balances
2018:			
University	$	3,969,938	4,693,477
Library		4,653,909	4,285,071
Total deposits	$	8,623,847	8,978,548

Bank balances in excess of FDIC insured amounts totaling $8,365,274 in 2018 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.

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

		University	Library	Total
State of New Jersey Cash Management Fund	$	330,084	422,354	752,438
Money market accounts		3,610,342	2,019,251	5,629,593
Equities and equity exchange traded funds (ETFs)		1,344,736	562,491	1,907,227
Fixed income ETFs		6,904,359	425,535	7,329,894
Certificates of deposit		10,329,428	—	10,329,428
Total	$	22,518,949	3,429,631	25,948,580

The bank balances of the certificate of deposits in excess of FDIC insured amounts totaling $10,329,428 in 2018 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.

The following table summarizes the agency ratings (Moody's) of the Organization's fixed income investments as of June 30, 2018:

	Rating		Fair value
University:			
Fixed income ETFs	AAA	$	6,904,359
Library:			
Fixed income ETFs	AAA	$	425,535

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, 2018:

		Maturities in years			
	Fair value	**Less than 1**	**1–5**	**6–10**	**11–15**
University:					
State of New Jersey Cash Management Fund	$ 330,084	330,084	—	—	—
Money market accounts	3,610,342	3,610,342	—	—	—
Fixed income ETFs	6,904,359	—	—	6,904,359	—
Library:					
State of New Jersey Cash Management Fund	422,354	422,354	—	—	—
Money market accounts	2,019,251	2,019,251	—	—	—
Fixed income ETFs	425,535	—	—	425,535	—
	$ 13,711,925	6,382,031	—	7,329,894	—

State of New Jersey Cash Management Funds, money market accounts, 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 Library specific purposes by third party trustees. Trustee held investments consist of the following as of June 30, 2018:

	Library
State of New Jersey Cash Management Fund	$ 623,257
Money market accounts	9,364
Alternative assets ETFs	103,756
Fixed income ETFs	75,945
Equity ETFs	231,441
Total	$ 1,043,763

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, 2018:

		Maturities in years	
		Fair value	**Less than 1**
Library:			
State of New Jersey Cash Management Fund	$	623,257	623,257
Money market accounts		9,364	9,364
Fixed income ETFs		75,945	75,945
	$	708,566	708,566

(4) Fair Value Measurement

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

- Level 1 – unadjusted quoted or published prices for identical assets or liabilities in active markets 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 accounts and certificates of deposit – These investments are measured at amortized cost and have been excluded from fair value leveling.

The Organization’s investments as of June 30, 2018 are summarized in the following table by their fair value hierarchy:

	Investments			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments measured at fair value:				
Equities and equity ETFs	$ 1,907,227	1,907,227	—	—
Fixed income ETFs	7,329,894	7,329,894	—	—
Subtotal	9,237,121	$ 9,237,121	—	—
Investments measured at amortized cost:				
Money market accounts	5,629,593			
Certificates of deposit	10,329,428			
Subtotal	15,959,021			
Local Government Investment Pool:				
State of New Jersey Cash Management Fund	752,438			
Total investments	$ 25,948,580			

	Trustee held investments			
	Total	Level 1	Level 2	Level 3
Investments measured at fair value:				
Alternative asset ETFs	$ 103,756	103,756	—	—
Fixed income ETFs	75,945	75,945	—	—
Equity ETFs	231,441	231,441	—	—
Subtotal	411,142	$ 411,142	—	—
Investments measured at amortized cost:				
Money market accounts	9,364			
Subtotal	9,364			
Local Government Investment Pool:				
State of New Jersey Cash Management Fund	623,257			
Total investments	$ 1,043,763			

(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 year ended June 30, 2018, capital assets and accumulated depreciation activity was as follows:

	Beginning balance	Additions	Retirements	Ending balance
Depreciable assets:				
Buildings and improvements	$ 64,708,955	100,869	41,942	64,767,882
Equipment and vehicles	3,814,192	76,781	252,025	3,638,948
Furniture and fixtures	4,068,675	240,462	11,147	4,297,990
University subtotal	72,591,822	418,112	305,114	72,704,820
Buildings and improvements	20,101,946	—	—	20,101,946
Equipment and vehicles	3,318,964	76,400	752,551	2,642,813
Furniture and fixtures	39,697	—	—	39,697
Library subtotal	23,460,607	76,400	752,551	22,784,456
Total depreciable assets	96,052,429	494,512	1,057,665	95,489,276
Less accumulated depreciation:				
Buildings and improvements	9,542,051	1,471,274	140	11,013,185
Equipment and vehicles	2,263,401	373,923	180,478	2,456,846
Furniture and fixtures	1,568,952	268,989	7,122	1,830,819
University subtotal	13,374,404	2,114,186	187,740	15,300,850
Buildings and improvements	14,778,848	226,188	—	15,005,036
Equipment and vehicles	2,903,548	149,185	749,468	2,303,265
Furniture and fixtures	27,434	2,646	—	30,080
Library subtotal	17,709,830	378,019	749,468	17,338,381
Total accumulated depreciation	31,084,234	2,492,205	937,208	32,639,231
Total depreciable assets, net	64,968,195	(1,997,693)	120,457	62,850,045

		Beginning balance	Additions	Retirements	Ending balance
Nondepreciable assets:					
University land	$	1,363,088	—	—	1,363,088
Library land		1,089,592	—	—	1,089,592
Total nondepreciable assets		2,452,680	—	—	2,452,680
Total capital assets, net	$	67,420,875	(1,997,693)	120,457	65,302,725

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of June 30, 2018:

		University	Library	Total
Vendors	$	3,965,126	145,052	4,110,178
Accrued salaries and benefits		738,975	151,291	890,266
Compensated absences		1,620,011	348,465	1,968,476
Other accrued expenses		641,468	209,573	851,041
Total	$	6,965,580	854,381	7,819,961

(7) Noncurrent Liabilities

For the year ended June 30, 2018, noncurrent liabilities activity was as follows:

		Beginning balance	Additions	Reductions	Ending balance	Current portion
Compensated absences:						
University	$	2,097,337	2,710,254	2,720,988	2,086,603	1,620,011
Library		581,515	631,650	571,963	641,202	348,465
Total compensated absences		2,678,852	3,341,904	3,292,951	2,727,805	1,968,476
Net pension liability:						
University		47,506,184	4,677,151	7,932,882	44,250,453	—
Library		36,129,572	2,061,550	5,765,336	32,425,786	—
Total net pension liability		83,635,756	6,738,701	13,698,218	76,676,239	—
Total	$	86,314,608	10,080,605	16,991,169	79,404,044	1,968,476

(Continued)

(8) Long-Term Debt

For the year ended June 30, 2018, long-term debt activity was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Long-term debt:					
University:					
Banc of America Leasing & Capital, LLC:					
2007 Tax Exempt Lease	$ 386,416	—	70,257	316,159	70,256
TD Bank Finance, Inc.:					
2012 Tax Exempt Lease	5,289,635	—	421,051	4,868,584	421,052
TD Equipment Finance, Inc.:					
2012 Tax Exempt Lease	92,416	—	45,673	46,743	46,742
Capital Improvement Fund:					
102-104 West State Street	403,509	—	15,871	387,638	16,475
Capital Improvement Fund:					
Kelsey/Townhouse Complex	552,574	—	21,733	530,841	22,563
Equipment Leasing Fund:					
Nursing Equipment	92,373	—	13,586	78,787	14,265
PNC Bank:					
Nursing Center	5,390,000	—	685,000	4,705,000	670,000
Capital Improvement Fund:					
Kelsey Entryway	55,399	—	1,175	54,224	1,778
University subtotal	12,262,322	—	1,274,346	10,987,976	1,263,131
Library:					
TD Equipment Finance, Inc.:					
2012 Tax Exempt Lease	161,768	—	79,883	81,885	81,885
Library subtotal	161,768	—	79,883	81,885	81,885
Total	$ 12,424,090	—	1,354,229	11,069,861	1,345,016

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, 2018, the Organization has fully drawn down the funds. 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, 2018, the Organization owes $54,224.

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, 2018, 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, 2018, the Organization owes $4,705,000.

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, 2018, 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, 2018, the Organization owes $387,638.

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, 2018, 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 $593,360 with interest rates ranging from 3.500% to 5.00%. As of June 30, 2018, the Organization owes $530,841.

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, 2018, the Organization has fully drawn down the funds. 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, 2018, the Organization owes $78,787.

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, 2018, 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, 2018, the Organization owes $4,868,584.

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, 2018, 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, 2018, the Organization owes $128,628.

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, 2018, 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, 2018, the Organization owes $316,159.

The following is a schedule, by year, of future minimum payments under long-term debt as of June 30, 2018:

	Principal	Interest
Year ending June 30:		
2019	$ 1,345,016	338,179
2020	1,229,008	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	179,572	10,676
Total	$ 11,069,861	1,857,273

(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 (TIAA), 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/annrprts.shtml or by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

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

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pension and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR), which can be found at http://www.nj.gov/treasury/pensions/financial-reports.shtml.

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

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

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 7.34% of their annual covered salary for the years ended June 30, 2018. 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 $1,909,793 for 2018.

(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, 2018, the Organization reported a liability of $76,676,239, for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability at June 30, 2018 was determined by an actuarial valuation as of July 1, 2016 and rolled forward to the measurement date of June 30, 2017. The June 30, 2017 PERS net pension liability was recorded in the statement of net position as of June 30, 2018. 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, 2017:

	2017		
	University	**Library**	**Total**
Proportionate share of net pension liability	$ 44,250,453	32,425,786	76,676,239
Allocation percentage – State Group	0.1725458313 %	0.1264378981 %	0.2989837294 %
Allocation percentage – Total Plan*	0.0904472875 %	0.0662778388 %	0.1567251263 %
Pension expense for the year ended	$ 4,677,151	2,061,550	6,738,701

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

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

		2018	
	University	Library	Total
Deferred outflows of resources:			
Differences between actual and expected experience	$ 1,013,810	742,899	1,756,709
Changes of assumptions	5,788,242	4,241,500	10,029,742
Net differences between projected and actual investment earnings on pension plan investments	281,054	205,951	487,005
Changes in proportionate share	5,488,710	705,550	6,194,260
Contributions subsequent to the measurement date	1,078,012	831,781	1,909,793
	$ 13,649,828	6,727,681	20,377,509
Deferred inflows of resources:			
Changes in assumptions	$ 6,264,722	4,590,655	10,855,377
Changes in proportionate share	—	1,026,198	1,026,198
	$ 6,264,722	5,616,853	11,881,575

$1,909,793 reported as deferred outflows of resources at June 30, 2018 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2018 will be recognized in pension expense as follows:

	University	Library	Total
Years ending:			
2019	$ 2,228,498	267,224	2,495,722
2020	2,492,001	460,313	2,952,314
2021	1,931,434	346,465	2,277,899
2022	77,458	(391,689)	(314,231)
2023	(422,297)	(403,266)	(825,563)
	$ 6,307,094	279,047	6,586,141

(iii) Actuarial Assumptions

The total pension liability as of June 30, 2018 is measured as of June 30, 2017 (based on the July 1, 2016 actuarial valuation rolled forward to June 30, 2017) was determined using the following actuarial assumptions:

Inflation rate	2.25% (2017)
Salary increases:	
Through 2026	1.65–4.15% based on age
Thereafter	2.65–5.15% based on age
Investment rate of return	7.00 %

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Postretirement 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 approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2016 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 (7.00% at June 30, 2017 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, 2017 are summarized in the following table:

	2017	
Asset class	**Target allocation**	**Long-term expected real rate of return**
Absolute return/risk mitigation	5.00 %	5.51 %
Cash	5.50	1.00
U.S. Treasuries	3.00	1.87
Investment grade credit	10.00	3.78
Public high yield	2.50	6.82
Global diversified credit	5.00	7.10
Credit oriented hedge funds	1.00	6.60
Debt related private equity	2.00	10.63
Debt related real estate	1.00	6.61
Private real asset	2.50	11.83
Equity related real estate	6.25	9.23
U.S. equities	30.00	8.19
Non-US developed markets equity	11.50	9.00
Emerging market equities	6.50	11.64
Buyouts/venture capital	8.25	13.08

(v) Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% as of June 30, 2017, and a municipal bond rate of 3.58% as of June 30, 2017, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position as of June 30, 2017 was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

(Continued)

(vi) Change in Assumption

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

(vii) 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, 2017 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:

		2017		
		At 1% decrease (4.00%)	**At current discount rate (5.00%)**	**At 1% increase (6.00%)**
University	$	51,450,720	44,250,453	38,269,938
Library		37,701,988	32,425,786	28,043,399
Total	$	89,152,708	76,676,239	66,313,337

(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 year ended June 30, 2018, ABP received employer and employee contributions as follows:

		2018		
		University	**Library**	**Total**
Employer contributions	$	1,658,989	43,234	1,702,223
Employee contributions		1,036,868	27,021	1,063,889
Basis for contributions:				
Participating employee salaries		20,737,360	540,420	21,277,780

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 employee contributions during fiscal year 2018. The employer contributions made during fiscal year 2018 were $74,627.

(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 2018. The employer contributions made during fiscal year 2018 were $13,679.

(c) Postemployment benefits other than pensions

The Organization’s retirees participate in the State Health Benefit State Retired Employees Plan (the Plan).

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

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

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

Total OPEB Liability and OPEB expense

As of June 30, 2018, the State recorded a liability of $92,565,771, which represents the portion of the State’s total proportionate share of the collective total OPEB liability that is associated with the Organization (the Organization’s share). The Organization’s share was based on the ratio of its members to the total members of the Plan. At June 30, 2018, the Organization's share was 1.131767% and 0.329359% of the special funding situation and of the Plan, respectively.

For the year ended June 30, 2018, the University recognized OPEB expense of $5,445,517. As the State is legally obligated for benefit payments on behalf of the Organization, the Organization recognized revenue related to the support provided by the State of $5,445,517.

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

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

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

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

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

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

(10) Commitments

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 $143,578 and $62,810, respectively, in 2018. The University and Library have accrued amounts of $466,592 and $292,737, respectively, as of June 30, 2018, 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 $292,737 has been recorded as of June 30, 2018 in the accompanying statements of net position for Library sick accrual reimbursable from the State. At the current time, it is 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, 2017, 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, 2018, the Foundation distributed $1,149,517 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.

(Continued)

The Foundation is a private not-for-profit organization that reports under FASB accounting standards. 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 $2,000,000,000. Money and securities coverage provides for the actual loss in excess of $100,000 with a per loss limit of $5,000,000.

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.

Schedule 1

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

(A Component Unit of the State of New Jersey)

Required Supplementary Information (Unaudited)

Schedules of Employer Contributions

State of New Jersey Public Employees' Retirement System

Thomas Edison State University

		2018	2017	2016	2015
Contractually required contribution	$	1,078,012	807,305	527,950	328,993
Contributions in relation to the contractually required contribution		1,078,012	807,305	527,950	328,993
Contribution deficiency (excess)	$	—	—	—	—
Organization employee covered–payroll	$	7,109,582	7,481,975	7,349,168	7,555,305
Contributions as a percentage of employee covered payroll		15.16 %	10.79 %	7.18 %	4.35 %

New Jersey State Library

		2018	2017	2016	2015
Contractually required contribution	$	831,781	626,220	444,325	276,882
Contributions in relation to the contractually required contribution		831,781	626,220	444,325	276,882
Contribution deficiency (excess)	$	—	—	—	—
Organization employee covered–payroll	$	5,229,833	5,454,972	5,313,407	5,592,606
Contributions as a percentage of employee covered payroll		15.90 %	11.48 %	8.36 %	4.95 %

Total

		2018	2017	2016	2015
Contractually required contribution	$	1,909,793	1,433,525	972,275	605,875
Contributions in relation to the contractually required contribution		1,909,793	1,433,525	972,275	605,875
Contribution deficiency (excess)	$	—	—	—	—
Organization employee covered–payroll	$	12,339,415	12,936,947	12,662,575	13,147,911
Contributions as a percentage of employee covered payroll		15.48 %	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.

Schedule 2

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

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

		2018	2017	2016	2015
Organization proportion of the net pension liability – State Group		0.173 %	0.162 %	0.146 %	0.136 %
Organization proportion of the net pension liability – Total Plan		0.090	0.081	0.075	0.071
Organization proportionate share of the net pension liability	$	44,250,453	47,406,184	34,608,556	27,459,799
Organization employee covered–payroll		7,481,975	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		591.43 %	634.94 %	458.07 %	393.50 %
Plan fiduciary net position as a percentage of the total pension liability		36.78	31.20	38.21	42.74

New Jersey State Library

		2018	2017	2016	2015
Organization proportion of the net pension liability – State Group		0.126 %	0.123 %	0.123 %	0.127 %
Organization proportion of the net pension liability – Total Plan		0.066	0.061	0.063	0.066
Organization proportionate share of the net pension liability	$	32,425,786	36,129,572	29,126,717	25,544,272
Organization employee covered–payroll		5,454,972	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		594.43 %	662.32 %	520.81 %	462.13 %
Plan fiduciary net position as a percentage of the total pension liability		36.78	31.20	38.21	42.74

Total

		2018	2017	2016	2015
Organization proportion of the net pension liability – State Group		0.299 %	0.285 %	0.269 %	0.263 %
Organization proportion of the net pension liability – Total Plan		0.156	0.142	0.138	0.136
Organization proportionate share of the net pension liability	$	76,676,239	83,635,756	63,735,273	53,004,071
Organization employee covered–payroll		12,936,947	12,662,575	13,147,911	12,505,869
Organization proportionate share of the net pension liability as a percentage of the employee covered-payroll		592.70 %	646.49 %	484.76 %	423.83 %
Plan fiduciary net position as a percentage of the total pension liability		36.78	31.20	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.

Notes to Required Supplementary Information

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

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

PERS

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

See accompanying independent auditors' report.

Schedule 3

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

Required Supplementary Information (Unaudited)

Schedule of Proportionate Share of the Total OPEB Liability

Total		
		2018
Organization proportion of the collective total OPEB liability		— %
Organization proportionate share of the collective total OPEB liability		— %
State's proportionate share of the total OPEB liability associted with the Organization	$	92,565,771
Total OPEB Liability		92,565,771
Organization employee covered–payroll		29,528,781
Organization proportionate share of the collective total OPEB liability as a percentage of the employee covered-payroll		— %

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

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

See accompanying independent auditors' report.

Schedule 4

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

Schedule of Net Position

June 30, 2018

Assets		University	Library	Total
Current assets:				
Cash	$	3,969,938	4,653,909	8,623,847
Investments		14,072,890	1,880,059	15,952,949
Receivables:				
Students, net		7,733,375	—	7,733,375
State of New Jersey		466,667	626,957	1,093,624
Federal		38,023	1,579,553	1,617,576
Corporate accounts, net		350,289	—	350,289
Other receivables		176,642	3,994	180,636
Total receivables		8,764,996	2,210,504	10,975,500
Prepaid expenses and other assets		177,393	267,326	444,719
Due to University from Library		152,143	(152,143)	—
Total current assets		27,137,360	8,859,655	35,997,015
Noncurrent assets:				
Investments		7,184,820	437,192	7,622,012
Restricted investments		1,261,239	1,112,380	2,373,619
Trustee held investments – restricted		—	1,043,763	1,043,763
Rare books, artwork, and historical documents		566,597	1,564,050	2,130,647
Capital assets		58,549,134	6,753,591	65,302,725
Total noncurrent assets		67,561,790	10,910,976	78,472,766
Total assets		94,699,150	19,770,631	114,469,781
Deferred Outflows of Resources				
Deferred outflows of resources:				
Pensions related		13,649,828	6,727,681	20,377,509
Total assets and deferred outflows of resources		108,348,978	26,498,312	134,847,290
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses		6,965,580	854,381	7,819,961
Unearned tuition and fees		6,041,474	—	6,041,474
Unearned grants and contracts		264,868	1,104,355	1,369,223
Deposits held in custody for others		23,784	—	23,784
Long-term debt – current portion		1,263,131	81,885	1,345,016
Total current liabilities		14,558,837	2,040,621	16,599,458
Noncurrent liabilities:				
Compensated absences – noncurrent portion		466,592	292,737	759,329
Long-term debt		9,724,845	—	9,724,845
Net pension liability		44,250,453	32,425,786	76,676,239
Total noncurrent liabilities		54,441,890	32,718,523	87,160,413
Total liabilities		69,000,727	34,759,144	103,759,871
Deferred Inflows of Resources				
Deferred inflows of resources:				
Pensions related		6,264,722	5,616,853	11,881,575
Total liabilities and deferred inflows of resources		75,265,449	40,375,997	115,641,446
Net Position				
Net investment in capital assets		48,127,755	8,235,756	56,363,511
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		—	289,120	289,120
Library for the Blind and Handicapped		—	1,193,708	1,193,708
Public policy		1,261,239	(76,400)	1,184,839
Unrestricted		(16,305,465)	(24,269,584)	(40,575,049)
Total net position	$	33,083,529	(13,877,685)	19,205,844

See accompanying independent auditors' report.

Schedule 5

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, 2018

	University	Library	Total
Operating revenues:			
Student tuition and fees, net	$ 47,471,334	—	47,471,334
Federal grants and contracts	4,363,162	4,254,762	8,617,924
Federal indirect cost recovery	32,292	55,264	87,556
State of New Jersey grants and contracts	120,832	8,547,834	8,668,666
Noncollegiate sponsored programs	47,875	—	47,875
Other operating revenues	235,877	6,850	242,727
Total operating revenues	52,271,372	12,864,710	65,136,082
Operating expenses:			
Academic support	27,290,127	—	27,290,127
Student services	7,825,918	—	7,825,918
Public services	2,096,666	3,616,619	5,713,285
General institutional	12,384,664		12,384,664
Operations and maintenance	3,905,529	47,636	3,953,165
General administration	19,731,256	2,737,116	22,468,372
Other sponsored programs	567,439	—	567,439
Scholarships	1,848,294	—	1,848,294
State of New Jersey Library	—	6,405,543	6,405,543
Talking Book and Braille Center	—	3,216,815	3,216,815
Grants to libraries	—	5,745,818	5,745,818
Collections and exhibits	—	1,138,934	1,138,934
Depreciation	2,114,186	378,019	2,492,205
Total operating expenses	77,764,079	23,286,500	101,050,579
Operating loss	(25,492,707)	(10,421,790)	(35,914,497)
Nonoperating revenues (expenses):			
State of New Jersey appropriations	4,292,000	5,193,701	9,485,701
State of New Jersey paid fringe benefits	12,221,956	2,195,232	14,417,188
State of New Jersey paid other post employment benefits	4,145,764	1,299,753	5,445,517
Contributed U.S. Postal Service	—	815,590	815,590
Private gifts – restricted	956,963	55,050	1,012,013
Investment income	346,860	103,529	450,389
Interest on indebtedness	(369,640)	(3,203)	(372,843)
Loss on disposal of equipment	(75,572)	(3,083)	(78,655)
Net nonoperating revenues	21,518,331	9,656,569	31,174,900
Decrease before other revenues	(3,974,376)	(765,221)	(4,739,597)
State of New Jersey capital grants	16,173	217,924	234,097
Decrease in net position	(3,958,203)	(547,297)	(4,505,500)
Net position as of beginning of year	37,041,732	(13,330,388)	23,711,344
Net position as of end of year	$ 33,083,529	(13,877,685)	19,205,844

See accompanying independent auditors’ report.