



NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Financial Statements and
Management's Discussion and Analysis

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Table of Contents

	Page
Management's Discussion and Analysis	1
Independent Auditors' Report	11
Financial Statements:	
New Jersey City University Statements of Net Assets as of June 30, 2004 and 2003	12
New Jersey City University Foundation, Inc. Statements of Financial Position as of June 30, 2004 and 2003	13
New Jersey City University Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2004 and 2003	14
New Jersey City University Foundation, Inc. Statement of Activities for the year ended June 30, 2004	15
New Jersey City University Foundation, Inc. Statement of Activities for the year ended June 30, 2003	16
New Jersey City University Statements of Cash Flows for the years ended June 30, 2004 and 2003	17
Notes to Financial Statements	18

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003

Introduction

The following section, "Management's Discussion and Analysis of Financial Condition and Results of Operations," provides an overview of the financial position and activities of New Jersey City University (the University) for the years ended June 30, 2004 and 2003. This section should be read in conjunction with the financial statements and the notes which follow this section.

Financial Highlights

The University's financial position at June 30, 2004 and 2003 includes assets of \$205.5 million, \$192.2 million, with liabilities of \$122.9 million and \$116.5 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted at June 30, 2004, and 2003, were \$82.1 million and \$75.7 million. Changes in net assets represent the operating activity of the University, resulting from revenues and expenses, and are summarized for the years ended June 30, 2004, and 2003 and comparative amounts for the year ended June 30, 2002 as follows:

	<u>2004</u>	<u>2003</u> <i>(in millions)</i>	<u>2002</u>
Total operating revenues	\$ 61.7	57.2	50.3
Total operating expenses	<u>98.8</u>	<u>90.8</u>	<u>91.8</u>
Operating loss	(37.1)	(33.6)	(41.5)
Nonoperating revenues (expenses)	42.9	42.4	42.7
Capital grants and gifts	<u>0.6</u>	<u>0.2</u>	<u>2.2</u>
Increase in net assets	6.4	9.0	3.4
Net assets – beginning of year	<u>75.7</u>	<u>66.7</u>	<u>63.3</u>
Net assets – end of year	<u>\$ 82.1</u>	<u>75.7</u>	<u>66.7</u>

The increase in net assets of \$6.4 million for fiscal year 2004 was primarily due to an increase of operating revenues attributable to student tuition, fees, and other operating sources. The increase in net assets of \$9.0 million for fiscal 2003 was primarily attributable to student revenue combined with staff vacancies and other cost cutting initiatives. Such initiatives were implemented in response to a deferral of \$1.4 million in the 2003 State of New Jersey's appropriation and an additional \$3.9 million cut proposed by the State administration for 2004.

Undergraduate enrollment for the Fall Semester of each academic year beginning in 2004 and 2003 was 5,900 and 6,040. Graduate enrollment for Fall 2004 was 1,992. This reflects a 7.1% increase from Fall 2003 which was 1,860. The increase in Graduate enrollment is partly due to the New Pathways to Teaching in New Jersey (NPTNJ) program. This program is designed to provide an alternate route for students who want to obtain certification in the teacher-education program.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003

Using the Financial Statements

The University's financial report contains three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. During 2002, the University adopted four pronouncements of GASB which are explained in the notes to the financial statements. One of these 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 requiring that financial statements be presented on a basis to focus on the University as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the University as a whole.

Financial highlights for the year ended June 30, 2004 are as follows:

- The Organization adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*; this is an amendment of GASB statement No. 14, *The Financial Reporting Entity* as of July 1, 2002. GASB Statement No. 39 establishes additional guidance on the application of the existing standards for the assessment of the potential component units in determining the financial reporting entity.
- Nonoperating revenues, which primarily represent appropriations and investment income, totaled \$42.9 million and \$42.4 million for the years ended June 30, 2004, and 2003, and nonoperating expenses, which primarily represent interest expense, totaled \$1.5 million and \$1.8 million, respectively.
- Scholarships and waivers applied to student accounts are now shown as a reduction of tuition and fee revenues. For the years ended June 30, 2004 and 2003 scholarships and waivers applied to student accounts totaled \$14.5 million and \$13.1 million, respectively.
- Total accumulated depreciation at June 30, 2004, and 2003 were \$50.6 million and \$46.2 million and depreciation expenses were \$5.1 million and \$5.3 million, respectively. The University has adopted a strategy of funding depreciation within its budget process.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. A summary comparison of the University's assets, liabilities, and net assets at June 30, 2004 and 2003 and comparative amounts for the year ended June 30, 2002 are as follows:

Current assets consist primarily of cash, short term investments including the State Cash Management Fund, deposits held with the bond trustees, and student and grant receivables. Total current assets increased by \$5.4 million to \$25.2 million at June 30, 2004 due primarily to shifting investments to short term maturities. At June 30, 2003 total current assets decreased by \$0.5 million to \$19.8 million, due primarily to shifting \$10 million in fixed income investments from short to longer term maturities.

Current liabilities consist primarily of trade accounts payable, accrued benefits, deferred revenue, and the current portion of bond obligations. Total current liabilities increased by \$2.0 million to \$18.8 million at June 30, 2004 due primarily to increased vendor payables resulting from major capital construction projects that were in process. At June 30, 2003 total current liabilities increased by \$3.7 million to \$16.8 million at June 30, 2003 due primarily to increased vendor payables resulting from major capital construction projects that were in process.

The University's current ratios of assets to liabilities were 1.3 and 1.2, at June 30, 2004 and 2003, these changes were primarily due to the changes in investment strategy discussed above.

The ratio of unrestricted financial resources to operations is a key indicator of financial strength and flexibility to cover operating expenses without relying on generating additional resources. The University's unrestricted financial resource ratios were 22% and 25.5% at June 30, 2004 and 2003, which are above the median of 12% for institutions rated A3, according to the most recently published Moody's Investors Service's outlook on higher education article for 2004-2005. The University's unrestricted financial resource ratio increased from 15.9% at June 30, 2002 to 25.5% at June 30, 2003, which is above the median of 11.6% for A3 rated public universities per Moody's Investors Service.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003

Capital and Debt Activities

One of the critical factors in continuing the quality of the University's academic and community programs is the development and renewal of its capital assets. The University continues to implement its long-range plan to renovate older facilities, balanced with new construction, acquisition of adjacent properties and development of the surrounding community.

Capital additions totaling \$64.4 million in fiscal year 2004 were primarily comprised of acquisition of the Baldwin Steel Property, demolition of Fries Hall, finalization of the plans to renovate the Gilligan Student Union Building, completion of the Visual Arts Building, completion of the Charter School, the upgrade of fire safety control panels, the implementation of a campus card program, as well as various department renovations. Capital additions totaling \$21.5 in fiscal year 2003 consisted primarily of replacement, renovation, and new construction of academic and administrative facilities, as well as investments in equipment, including information technology.

Current year capital asset additions were funded with tax-exempt debt, taxable debt, grants, gifts, and a \$5.2 million line of credit loan from Fleet Bank, as well as funds from current operations. In May 2003, the University issued \$50.2 million in Series 2003A&B revenue bonds through the Educational Facilities Authority (EFA) to finance the new Arts & Sciences Tower, the Charter High School, the Business Incubator, the Student Union Building Renovation, and other projects including improvements to the fire sprinkler system, parking facilities, and various renovations. With the Series 2003 bonds, the University issued variable rate debt and entered into an interest rate swap transaction for the first time to take advantage of a favorable interest rate climate and to diversify its debt portfolio.

With regard to future capital needs beyond the projects underway, the University is engaged in an ongoing facility planning process to assure that it has an appropriate and well-maintained campus. Approximately \$90 million in additional facilities projects have been identified to meet the needs of the University including a performing arts center, additional student housing, transportation facilities expansion, development of the west side campus, and Science Center renovation and expansion, among other projects. Funding for these projects could come from the State of New Jersey, additional bond issues, and/or private fundraising and grants. A new State of NJ capital bond issue is being planned that may provide some funding for these projects.

Moody's Investors Service and Standard & Poor's Ratings Services have assigned debt ratings of "A3" and "A-", respectively, to the University. Bonds that are rated "A" possess many favorable attributes and are considered upper-medium-grade obligations. Factors providing security to principle and interest are considered adequate, while the resources to absorb future financial challenges are not as strong as Aaa or Aa rated institutions.

Long term debt totaled \$104.6 million and \$100.4 million for the years ended June 30, 2004 and 2003. An institution's ratio of unrestricted financial resources to debt is a key indicator of financial strength. The University's ratio was 21.7%, and 23.0% at June 30, 2004 and 2003, which are better than the median of 12% for A3 rated public-Universities. Additionally, the University's ratio of debt to total capitalization which is an indication of capacity to support additional debt for fiscal years ending June 30, 2004 and 2003 was 56.0% and 57.0%.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003

Net Assets

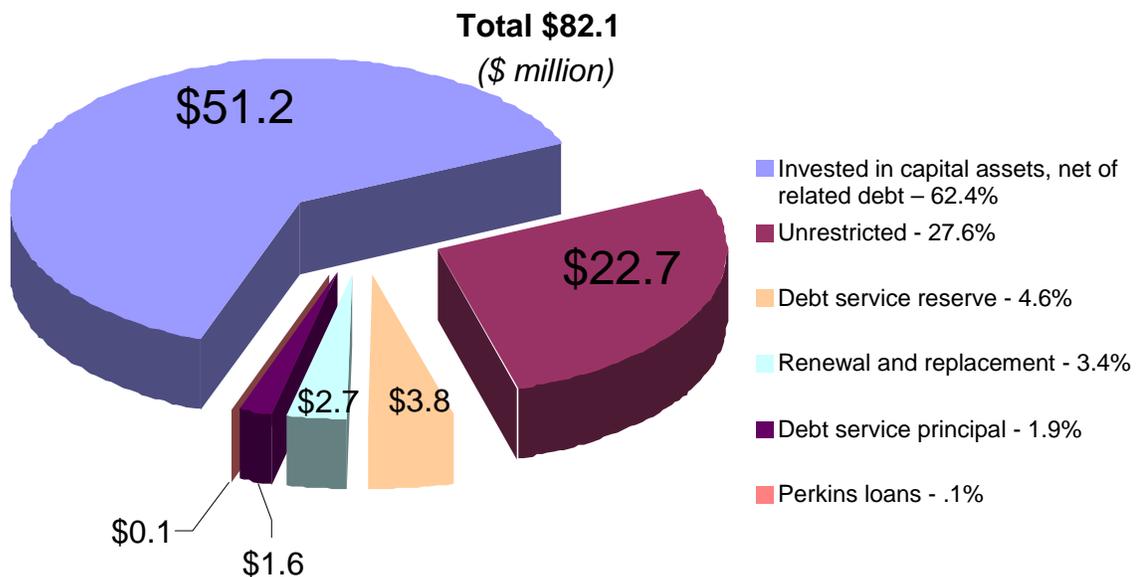
Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2004 and 2003 and comparative amounts for the year ended June 30, 2002 are summarized as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
		<i>(In millions)</i>	
Invested in capital assets, net	\$ 51.2	41.5	39.6
Restricted:			
Expendable	8.2	11.1	10.9
Unrestricted	22.7	23.1	16.2
Total net assets	\$ 82.1	75.7	66.7

Investment in capital assets, net of related debt as of June 30, 2004 and 2003 were \$51.2 million and \$41.5 million, this represents the University's capital assets net of accumulated depreciation and outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted expendable net assets of June 30, 2004 and 2003 were 8.2 million and \$11.1 million; these assets are subject to externally imposed restrictions governing their use including debt service and other bond covenant requirements and capital grant funds. The University's unrestricted net assets of \$22.7 million at June 30, 2004 and \$23.1 million at June 30, 2003 are not subject to externally imposed stipulations and are designated for operational use, as well as capital projects.

Net Assets By Category FY 2004



NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenue, Expenses, and Changes in Net Assets represent the University's results of operations. A summarization of this statement for the years ended June 30, 2004 and 2003 and comparative amounts for the year ended June 30, 2002 are as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
		<i>(In millions)</i>	
Operating revenues:			
Student revenue (less scholarships)	\$ 39.4	35.4	31.4
Grants and contracts	20.8	21.0	18.4
Other	1.5	0.8	0.5
Total operating revenues	<u>61.7</u>	<u>57.2</u>	<u>50.3</u>
Instruction	39.9	34.3	33.6
Research and programs	—	0.2	1.2
Public service and enterprise development	0.3	0.5	0.5
Academic support	9.3	9.4	8.4
Student services	10.2	10.2	10.3
Institutional support	17.0	15.5	17.7
Operation and maintenance of plant	11.6	10.3	10.7
Auxiliary enterprise	2.6	2.2	2.1
Student aid	2.8	2.8	2.5
Depreciation	5.1	5.3	4.9
Total operating expenses	<u>98.8</u>	<u>90.8</u>	<u>91.8</u>
Operating loss	<u>(37.1)</u>	<u>(33.6)</u>	<u>(41.5)</u>
Nonoperating revenues (expenses):			
State of New Jersey appropriations	30.4	31.0	32.1
State of New Jersey fringe benefit appropriations	13.9	12.9	12.5
Investment income	0.2	0.9	1.0
Interest expense	(1.5)	(1.8)	(2.7)
Loss on disposal of assets	—	(0.2)	(0.1)
Other	(0.1)	(0.3)	—
Nonoperating revenues	<u>42.9</u>	<u>42.5</u>	<u>42.8</u>
Capital grants and gifts	<u>0.6</u>	<u>0.2</u>	<u>2.2</u>
Increase in net assets	6.4	9.0	3.4
Net assets, beginning of year	<u>75.7</u>	<u>66.7</u>	<u>63.3</u>
Net assets, end of year	<u>\$ 82.1</u>	<u>75.7</u>	<u>66.7</u>

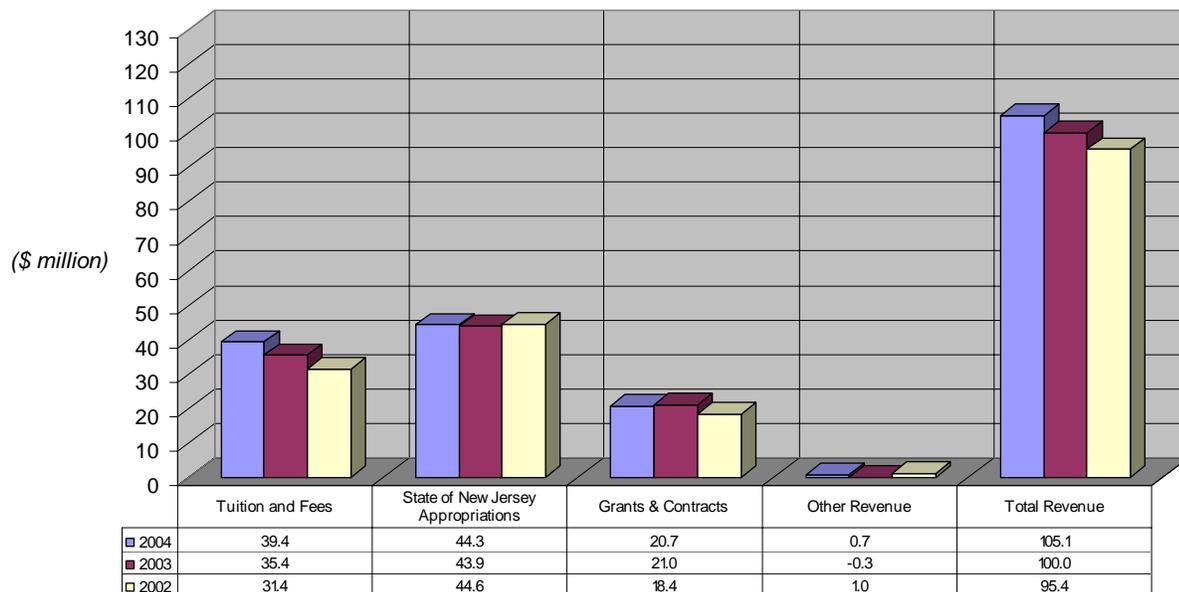
NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003

The University derives its revenue from a variety of sources. The following are graphical illustrations of revenues by source, both operating and non-operating, which are used to fund the University's activities for the years ended June 30, 2004 and 2003 and comparative amounts for the year ended June 30, 2002. A significant portion of the University's revenues, such as state appropriations, are considered nonoperating, as defined by GASB.

Revenue by Category 2002 to 2004



For 2004 and 2003 State appropriations and student tuition were the primary sources of funding for the University's academic programs. The State appropriations for the fiscal years ending June 30, 2004 and 2003 were \$44.3 million and \$43.9 million. Tuition and fees (net of scholarships allowance) for fiscal years ending June 30, 2004 and 2003 were \$39.4 million and \$35.4 million. This comprised 37.5% and 43.9% of the revenue received by the University for the fiscal years ending June 30, 2004 and 2003. Tuition rates were increased by 9.0% and 9.0%, for the academic years beginning in Fall 2004 and 2003.

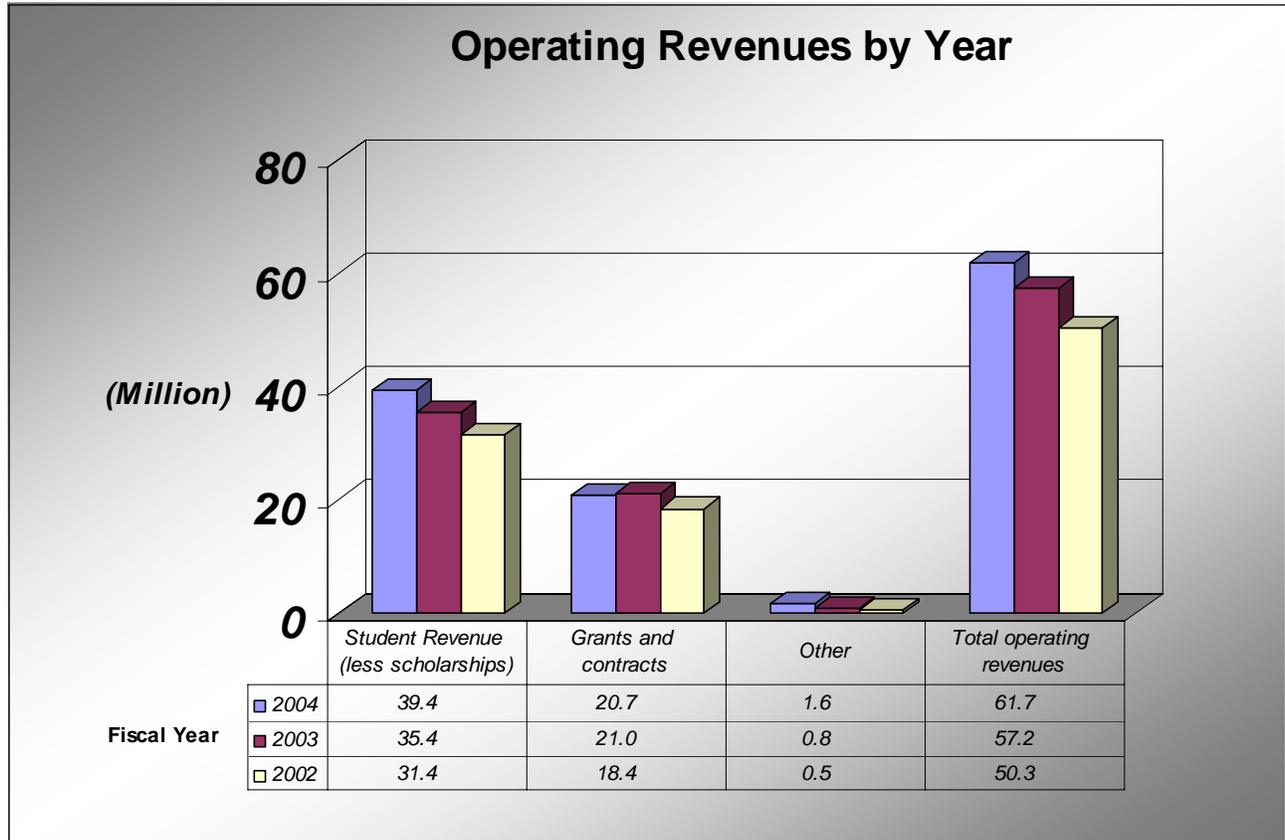
The State appropriations of \$44.5 million for fiscal year 2002 and \$43.8 million for 2003 were adversely impacted by a weakened economic climate in New Jersey.

The State appropriation to the University was cut mid-year 2002 by \$2.3 million or 6.7%, including cuts to the salary program for wage increases that the University is contractually obligated to meet. No salary program funding was provided by the State in 2003. This has placed a greater burden on tuition and fees to fund the operational costs of the University. Tuition and fees of \$44.1 million were 43.2% of total revenues in the year ended June 30, 2003 compared to \$38.5 million and 39.3% in 2002. Tuition rates were increased 9.7% in the 2002-2003 academic year and were increased an additional 9.0% in the 2003-2004 academic year.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003



Revenues from Federal and State grants were \$20.7 million, \$21.0 million and \$18.4 million for the years ended June 30, 2004 and 2003 and comparative amounts for the year ended June 30, 2002. The major grant programs and sponsors at the Federal level include Pell, College Work Study, Trio-Upward Bound, Hispanic Serving Institutions – Title V, and Americorps, among others. Major State grant programs include Tuition Aid Grant (TAG), Educational Opportunity Fund, Teacher Preparation Quality & Capacity, Teacher Effectiveness, GEAR UP, and Youth Corps. Financial aid grants including Pell and TAG increased by \$3.3 million and \$2.1 million, for fiscal years ending June 30, 2004 and 2003. Such increases have been in proportion to the increase in tuition and fees.

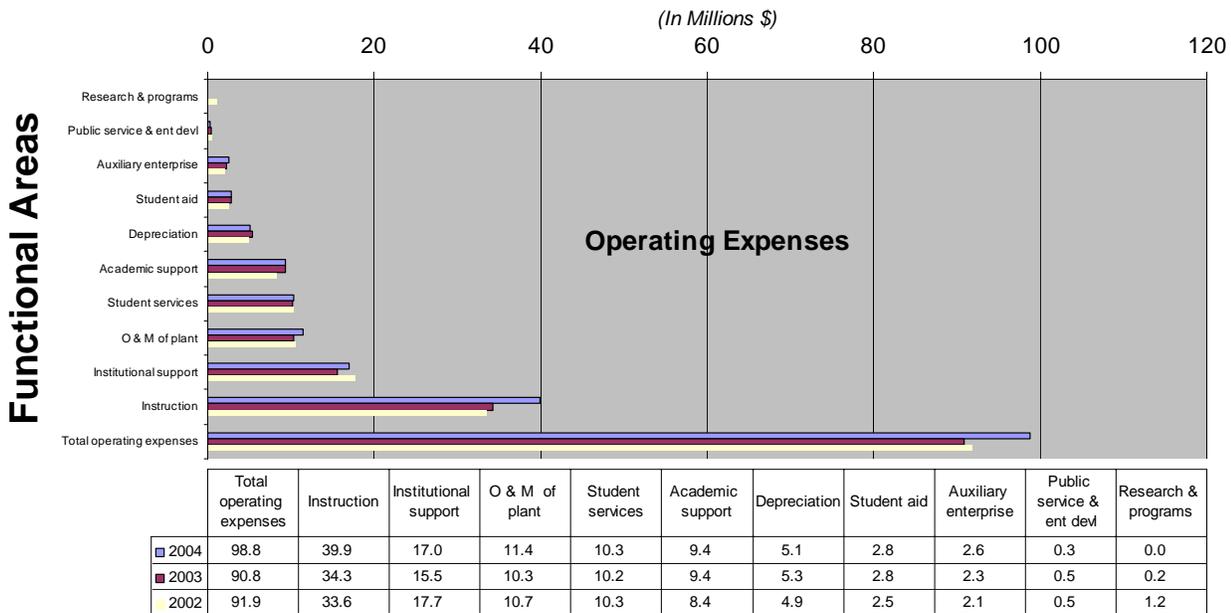
At June 30, 2004 and 2003 investment income was \$0.2 million and \$0.9 million, primarily from short-to-intermediate term fixed income investments and investments of bond proceeds deposited with the trustees. The investment income decline from fiscal year 2003 was primarily due to the decline in short term interest rates.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003

The University's operating expenses are primarily incurred for instructional purposes, as well as student services, academic and institutional support, and operations and maintenance of plant. The following is a graphic illustration of expenses by function for the years ended June 30, 2004 and 2003 and comparative amounts for the year ended June 30, 2002.



Total operating expenses for the years ended June 30, 2004 and 2003 were \$98.8 and \$90.8 million. Total operating expenses increased by \$8.0 million primarily due to increases in salaries, benefits, utilities and the restoration of various expense lines that were frozen during the prior year.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Management Discussion and Analysis

June 30, 2004 and 2003

Economic Factors that will affect the Future

Looking toward the future, management believes that the University will be able to maintain its financial condition and continue to provide a high level of service to its students, the surrounding community and the State of New Jersey.

With approximately 42.0% and 44.0% of revenues coming from State appropriations in fiscal year ending June 30, 2004 and 2003, the financial condition of the University is closely linked to that of the State of New Jersey. Because of slow economic growth in the State and competing demands for resources, it is possible that cuts may be necessary in the current as well as next fiscal year, should the State's budgetary picture not improve.

Reduced appropriations are likely to continue to place a greater burden on tuition and fees to fund the operating costs of the University and on cost reduction initiatives to keep expenses in line with revenues. Tuition increase for Fall 2004 and 2003 were 9.0% and 9.0%, and are likely to continue at a similar order of magnitude. The State is concerned that its colleges and universities keep future tuition increases at moderate levels in the interest of student accessibility. The University's tuition and fees remain one of the most affordable in the State among four year institutions.

With changing demographics and persistent economic weakness, the outlook for enrollment continues to remain stable particularly with graduate, continuing education, and online programs. This fall total enrollment was 7,990 compared to 7,805 last year. The increase in enrollment reflects the increase in demand for higher education among the Universities in the region which is also evidence by an increasing high school student population.



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Independent Auditors' Report

The Board of Trustees
New Jersey City University:

We have audited the accompanying financial statements of New Jersey City University (the University), a component unit of the State of New Jersey, and the discretely presented component unit of the University as of and for the years ended June 30, 2004 and 2003, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of New Jersey City University Foundation, Inc., a component unit of New Jersey City University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for New Jersey City University Foundation, Inc., are based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of New Jersey City University and the discretely presented component unit of the University as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 12, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, as of July 1, 2002.

The management's discussion and analysis on pages 1 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 4, 2004

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Statements of Net Assets
June 30, 2004 and 2003

Assets	2004	2003
Current assets:		
Cash and cash equivalents	\$ 7,952,703	10,668,799
Investments, current portion	7,398,311	1,384,448
Student receivables, net of allowance in 2004 and 2003 of \$1,094,000 and \$945,000, respectively	1,297,181	907,701
Grants receivables	1,848,694	1,178,267
Other receivables	3,206,095	2,236,742
Deposits held with bond trustees	3,466,708	3,462,272
Other current assets	2,950	7,185
Total current assets	25,172,642	19,845,414
Noncurrent assets:		
Deposits held with bond trustees	47,115,201	67,422,371
Investments, noncurrent portion	9,516,876	9,043,037
Student loans, net of allowance in 2004 and 2003 of \$616,000 and \$631,000, respectively	770,506	783,548
Deferred financing costs, net	1,517,326	1,476,119
Capital assets, net of accumulated depreciation in 2004 and 2003 of \$50,629,000 and \$46,240,000, respectively	120,855,251	93,614,994
Total noncurrent assets	179,775,160	172,340,069
Total assets	204,947,802	192,185,483
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses:		
Vendor	8,172,007	6,729,117
Payroll	3,566,488	3,056,540
Compensated absences, current portion	1,704,800	1,442,190
Accrued interest	1,259,719	1,240,861
Total accounts payable and accrued expenses	14,703,014	12,468,708
Long term debt, current portion	2,123,537	1,819,778
Deferred student tuition and fees	1,561,431	2,136,478
Deferred grant revenue	292,136	154,009
Total current liabilities	18,680,118	16,578,973
Noncurrent liabilities:		
Long term debt, noncurrent portion	102,543,317	98,587,804
Other noncurrent liabilities	1,602,847	1,348,930
Total noncurrent liabilities	104,146,164	99,936,734
Total liabilities	122,826,282	116,515,707
Net Assets		
Invested in capital assets, net of related debt	51,249,331	41,548,355
Restricted for:		
Expendable:		
Renewal and replacement	2,710,770	2,485,000
Capital projects	—	3,036,159
Debt service reserve	3,814,213	3,815,914
Debt service - principal	1,591,767	1,515,000
Perkins loans	63,471	147,245
Unrestricted	22,691,968	23,122,103
Total net assets	\$ 82,121,520	75,669,776

See accompanying notes to financial statements.

NEW JERSEY CITY UNIVERSITY FOUNDATION, INC.

(A Component Unit of the New Jersey City University)

STATEMENTS OF FINANCIAL POSITION

June 30,	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents	\$ 172,253	\$ 232,741
Investments	1,818,476	1,902,299
Prepaid event expenses, net of advance payments of \$25,000 in 2004	11,500	15,000
Reimbursements and other current assets	59,584	91,054
Unconditional promises to give, net of unamortized discount, current	52,665	
Total current assets	<u>2,114,478</u>	<u>2,241,094</u>
Computer equipment	<u>22,000</u>	<u>-</u>
Unconditional promises to give, net of unamortized discount, less current portion	<u>651,956</u>	<u>471,272</u>
Endowment investments		
Cash and cash equivalents	136,456	125,322
Investments	<u>1,436,400</u>	<u>1,031,105</u>
Total endowment investments	<u>1,572,856</u>	<u>1,156,427</u>
Total assets	<u>\$ 4,361,290</u>	<u>\$ 3,868,793</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	<u>\$ 134,284</u>	<u>\$ 49,588</u>
Net assets		
Unrestricted:		
Operating	1,487,218	1,496,006
Board designated	119,638	255,296
Fixed assets	<u>22,000</u>	
Total unrestricted net assets	<u>1,628,856</u>	<u>1,751,302</u>
Donor restricted:		
Temporarily	1,025,294	911,476
Permanently	<u>1,572,856</u>	<u>1,156,427</u>
Total net assets	<u>4,227,006</u>	<u>3,819,205</u>
Total liabilities and net assets	<u>\$ 4,361,290</u>	<u>\$ 3,868,793</u>

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Student revenue:		
Tuition and fees	\$ 49,191,496	44,053,669
Auxiliary enterprises	4,683,828	4,463,206
Less scholarship allowance	(14,492,685)	(13,074,888)
Total student revenue, net	<u>39,382,639</u>	<u>35,441,987</u>
Federal grants	12,260,582	12,160,704
State of New Jersey grants	8,443,791	8,852,707
Private grants	123,646	17,320
Other operating revenues	1,545,871	798,540
Total operating revenues	<u>61,756,529</u>	<u>57,271,258</u>
Operating expenses:		
Instruction	39,887,068	34,263,438
Research and programs	7,853	239,050
Public service and enterprise development	255,945	456,639
Academic support	9,392,862	9,402,608
Student services	10,259,170	10,204,265
Institutional support	17,007,495	15,546,556
Operation and maintenance of plant	11,431,083	10,328,633
Auxiliary enterprises	2,645,151	2,250,773
Student aid	2,806,002	2,833,593
Depreciation	5,120,077	5,307,129
Total operating expenses	<u>98,812,706</u>	<u>90,832,684</u>
Operating loss	<u>(37,056,177)</u>	<u>(33,561,426)</u>
Nonoperating revenues (expenses):		
State of New Jersey appropriations	30,442,000	30,971,334
State of New Jersey fringe benefit appropriations	13,923,934	12,897,695
Gifts to affiliates	(274,566)	(343,150)
Interest income	261,287	894,666
Interest expense	(1,466,112)	(1,825,166)
Loss on disposal of capital assets	—	(222,354)
Other nonoperating revenues (expenses)	30,628	(12,816)
Net nonoperating revenues	<u>42,917,171</u>	<u>42,360,209</u>
Income before other revenues	5,860,994	8,798,783
Other revenues:		
Capital grants and gifts	590,750	201,338
Increase in net assets	6,451,744	9,000,121
Net assets as of beginning of year	<u>75,669,776</u>	<u>66,669,655</u>
Net assets as of end of year	<u>\$ 82,121,520</u>	<u>75,669,776</u>

See accompanying notes to financial statements.

NEW JERSEY CITY UNIVERSITY FOUNDATION, INC.

(A Component Unit of the New Jersey City University)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30,	2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Support from public contributions	\$ 213,821	\$ 111,354	\$ 293,082	\$ 618,257
Development grants and contracts	105,513			105,513
Contributed services	274,565			274,565
Interest and dividend income	41,564	21,522	32,659	95,745
Rental income	12,500			12,500
Credit card commissions	10,141			10,141
Events	75,380			75,380
Net assets released from restrictions in satisfaction of program restrictions	83,412	(83,412)		
Appreciation in market value of investments	124,284	64,354	90,688	279,326
Total support and revenues	941,180	113,818	416,429	1,471,427
Expenses				
Program services	801,091			801,091
Management and general	93,366			93,366
Fund-raising	119,000			119,000
Events	50,169			50,169
Total expenses	1,063,626			1,063,626
Change in net assets	(122,446)	113,818	416,429	407,801
Net assets, beginning of year,	1,751,302	911,476	1,156,427	3,819,205
Net assets, end of year	\$ 1,628,856	\$ 1,025,294	\$ 1,572,856	\$ 4,227,006

NEW JERSEY CITY UNIVERSITY FOUNDATION, INC.

(A Component Unit of the New Jersey City University)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30,	2003			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Support from public contributions	\$ 184,968	\$ 109,993	\$ 163,836	\$ 458,797
Development grants and contracts		185,292		185,292
Contributed services	343,151			343,151
Interest and dividend income	67,648	25,273	3,255	96,176
Credit card commissions	13,641			13,641
Events	87,792			87,792
Net assets released from restrictions in satisfaction of program restrictions	257,160	(257,160)		
Appreciation in market value of investments	165,355			165,355
Total support and revenues	1,119,715	63,398	167,091	1,350,204
Expenses				
Program services	593,446			593,446
Management and general	80,782			80,782
Fund-raising	207,881			207,881
Events	43,057			43,057
Depreciation in market value of investments				
Total expenses	925,166			925,166
Change in net assets	194,549	63,398	167,091	425,038
Net assets, beginning of year,	1,556,753	848,078	989,336	3,394,167
Net assets, end of year	\$ 1,751,302	\$ 911,476	\$ 1,156,427	\$ 3,819,205

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

(University Only)

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Student receipts	\$ 32,615,909	28,098,476
Grants and contracts	20,295,719	21,304,727
Payments for salaries and benefits	(62,506,309)	(57,810,261)
Payments to suppliers	(11,920,330)	(9,748,155)
Payments for utilities	(3,021,244)	(2,095,738)
Payments to students	(2,891,453)	(2,833,593)
Loans issued to students	(135,074)	(148,925)
Collection of loans to students	163,141	166,099
Auxiliary enterprises	3,759,768	2,202,907
Other receipts	2,071,611	798,540
Net cash used by operating activities	<u>(21,568,262)</u>	<u>(20,065,923)</u>
Cash flows from noncapital financing activities:		
State of New Jersey appropriations	34,665,449	36,112,737
Federal Family Education Loan Program receipts	15,710,362	13,337,092
Federal Family Education Loan Program disbursements	(15,710,362)	(13,337,092)
Net cash provided by noncapital financing activities	<u>34,665,449</u>	<u>36,112,737</u>
Cash flows from capital financing activities:		
Proceeds from capital debt	5,200,000	49,701,498
Defeasement of debt	—	(2,222,586)
Capital grants and gifts	590,750	88,750
Purchase of capital assets	(30,673,500)	(19,766,371)
Bond issuance costs	(116,512)	(647,044)
Principal paid on capital debt	(2,088,090)	(1,260,000)
Interest paid on capital debt	(3,457,502)	(2,483,686)
Drawdowns on deposits held with trustees	20,302,733	13,525,622
Deposits made with trustees	—	(47,836,872)
Net cash used by capital financing activities	<u>(10,242,121)</u>	<u>(10,900,689)</u>
Cash flows from investing activities:		
Purchases of investments	(6,483,467)	(10,000,000)
Interest on investments	912,305	1,143,086
Net cash used by investing activities	<u>(5,571,162)</u>	<u>(8,856,914)</u>
Net decrease in cash and cash equivalents	<u>(2,716,096)</u>	<u>(3,710,789)</u>
Cash and cash equivalents as of beginning of year	<u>10,668,799</u>	<u>14,379,588</u>
Cash and cash equivalents as of end of year	<u>\$ 7,952,703</u>	<u>10,668,799</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (37,056,177)	(33,561,426)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Bad debt expense	48,564	235,700
Amortization expense	75,306	178,407
State of New Jersey paid fringe benefits	9,673,051	7,364,426
Depreciation expense	5,120,077	5,307,129
Changes in assets and liabilities:		
Receivables, net	(1,813,355)	(1,197,646)
Other assets, current and noncurrent	6,631,506	(154,516)
Accounts payable and accrued expenses	(3,810,314)	974,616
Deferred revenue	(436,920)	787,387
Net cash used by operating activities	<u>\$ (21,568,262)</u>	<u>(20,065,923)</u>
Noncash transactions:		
Gifts	\$ 1,035,026	—
State of New Jersey paid fringe benefits	9,673,051	7,364,426

See accompanying notes to financial statements.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

(1) Organization and Summary of Significant Accounting Policies

Organization

New Jersey City University (the University), formerly Jersey City State College, is a public institution of higher education in the State of New Jersey (the State). Effective May 29, 1998, the New Jersey Commission on Higher Education approved the name change and university status. Under the law, the University is an instrumentality of the State of New Jersey with a high degree of autonomy. However, under Governmental Accounting Standards Board (GASB) Statement No. 14, the University is considered a component unit of the State of New Jersey for financial reporting purposes. Accordingly, the University's financial statements are included in the State of New Jersey's Comprehensive Annual Financial Report.

The University, located in Hudson County, is dedicated to urban programs designed to meet the complex economic, social, and educational problems of the "inner" cities of metropolitan New Jersey. The urban mission is unique among the State Colleges and Universities of New Jersey, and in order to strengthen this mission, the University has embarked on a plan designed to make it the premier Cooperative Education University in the State. The University serves thousands of residents of the northeast corner of the State. Approximately 10% of the student population is comprised of men and women from other areas of New Jersey, adjacent states, and foreign countries. The operation and management of the University is vested in its nine-member board of trustees.

Special features of the campus include the A. Harry Moore Laboratory School for Special Education, the Peter W. Rodino, Jr. Institute of Criminal Justice, the Center for the Advancement of Teaching and Learning (CATALYST), the Center for Occupational Education, the Adult Education Center, the Media Arts Center, the Margaret Williams Theater for the Performing Arts, the Black Box Theater, and the Small Business Development Centers' business incubator. The University has an athletic building consisting of a gymnasium, fitness center, swimming pool, and modern dance studio. The University has three auditoriums, in addition to its approximately 110 classrooms and laboratories.

Summary of Significant Accounting Policies

Basis of Presentation

The accounting policies of the University conform to accounting principles generally accepted in the United States of America as applicable to public colleges and universities. The University reports are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires resources be classified for accounting and reporting purposes into the following net asset categories.

- *Invested in capital assets, net of related debt:* Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted – expendable:* Net assets whose use by the University is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to the stipulations or that expire by the passage of time.
- *Unrestricted:* Net assets not subject to externally-imposed stipulations that may be designated for specific purposes by action of management or the board of trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic programs, initiatives, and capital programs.

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

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 University reports as a business type activity, as defined by GASB Statement No. 34. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Use of Estimates

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

Cash and Cash Equivalents

The University classifies as cash equivalents, funds that are in short-term, highly liquid investments and are readily convertible to known amounts of cash. These funds mature in three months or less.

The University invests portions of its cash in two funds, a money market fund which permits the overnight sweep of available cash balances directly into a short term investment, and the State of New Jersey Cash Management fund wherein amounts also contributed by other state entities are combined into a large scale investment program. Both are interest bearing accounts from which the funds are available upon demand.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

Investments

Investments are recorded in the financial statements at fair value, which is based on quoted market price. 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.

Deposits Held with Bond Trustees

Deposits held with bond trustees are recorded in the financial statements at fair value, which is based on quoted market price and consist of cash and cash equivalents, money market funds, U.S. Treasury notes and government securities, New Jersey Cash Management Fund and guaranteed investment contract. Deposits held with bond trustees that are externally restricted to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the statements of net assets.

Capital Assets

Capital assets are carried at historical cost or if the asset is donated, at fair market value on the date the asset was donated. The costs for replacements are capitalized and the replaced items are retired. Gain or losses resulting from disposal of capital assets are included in nonoperating revenues (expenses). Depreciation is calculated on the straight-line basis over the following estimated useful lives:

Land improvements	10 years
Buildings and building improvements	20 to 40 years
Equipment and other assets	5 to 15 years

Deferred Financing Costs

The University capitalizes costs incurred in connection with its long term debt and amortizes these costs over the life of the respective obligations.

Revenue Recognition

Revenues from student tuition and fees and auxiliary enterprises are presented net of scholarships applied to student accounts and are recognized in the period earned. Other payments made directly to students are presented as scholarships and are included in operating expenses in the period incurred. Student tuition and fees and deposits collected in advance of the fiscal year are recorded as deferred revenue in the accompanying statements of net assets.

Grant revenue is comprised mainly of funds received from grants from Federal and State of New Jersey sources and is recognized as the related expenses are incurred. Amounts received from grants which have not yet been earned under the terms of the agreements are included in deferred revenue in the accompanying statements of net assets.

Revenue from State of New Jersey appropriations is recognized in the fiscal year during which the State of New Jersey appropriates the funds to the University.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

Classification of Revenue

The University's policy for defining operating activities in the statements of revenues, expenses, and changes in net assets are those that serve the University's principal purpose and generally result from exchange transactions such as the payment received for services. Examples include (1) student tuition and fees, net of scholarship allowances, (2) auxiliary enterprises, and (3) most Federal and State grants. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as operating appropriations from the State, net investment income, and gifts and capital grants and gifts.

Income Taxes

The University is exempt from Federal income taxes under Internal Revenue Code Section 115.

Financial Dependency

Appropriations from the State of New Jersey are the University's largest sources of nonoperating revenue. The University is economically dependent on these appropriations to carry on its operations.

(2) Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

The carrying amount of cash as of June 30, 2004 and 2003 was \$282,917 and \$4,558,722, respectively, while the amount on deposit with banks was \$2,538,368 and \$5,079,616, respectively. The University's bank deposits as of June 30, 2004 and 2003 were partially insured by Federal Depository Insurance in the amount of \$100,000. Bank balances in excess of insured amounts totaling \$2,438,368 in 2004 and \$4,979,616 in 2003, are collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes.

The University 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 carrying amount and fair value as of June 30, 2004 and 2003 were \$7,669,786 and \$6,110,077, respectively.

Statutes of the State of New Jersey and Regulations of the State Investment Council authorize the New Jersey Division of Investment to invest in obligations of the U.S. Treasury, agencies and municipal or political subdivisions of the State, commercial paper, bankers acceptances, revenue obligations of public authorities, debt instruments of banks, collateralized notes, and mortgages, certificates of deposit, repurchase agreements, equity, and convertible equity securities, and other common types of investment securities. Investee institutions and organizations are prescribed by the statutes and regulations based on such criteria as minimum capital, dividend paying history, credit history, and other evaluation factors.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

GASB No. 3 requires disclosure of the level of custodial credit risk assumed by the University as of June 30, 2004 and June 30, 2003. Category 3 includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the University's name. As of June 30, 2004 and 2003 all cash and cash equivalents are classified as Category 3.

Investments

During fiscal year 2004 and 2003, the University transferred \$1.4 million and \$10 million, respectively, from the State of New Jersey Cash Management Fund and invested it with Fleet Bank. Investments consist of the following as of June 30, 2004 and 2003:

	2004	2003
Money market	\$ 1,751,149	329,599
U.S. Treasury notes	8,504,712	1,540,230
Corporate notes and bonds	6,659,326	8,557,656
	16,915,187	10,427,485
Less noncurrent portion	(9,516,876)	(9,043,037)
Investments, current portion	\$ 7,398,311	1,384,448

(3) Deposits Held With Bond Trustees

Deposits held with bond trustees include funds held by The Bank of New York, Wachovia Bank, and Trust Company of NJ under the terms of various long term debt agreements. As of June 30, 2004 and 2003, all deposits held with bond trustees are classified as Category 1. This Category includes investments that are insured or registered or for which the securities are held by the institution or its agent in the institution's name. Deposits held with bond trustees are carried in the financial statements at fair value and consist of the following:

	2004	2003
Cash and cash equivalents	\$ 760	4,845
Money market funds	3,884,328	3,889,766
U.S. Treasury notes and government securities	8,007,356	10,165,011
New Jersey Cash Management Fund	38,689,465	56,825,021
	50,581,909	70,884,643
Less noncurrent portion	(47,115,201)	(67,422,371)
Deposits held with bond trustees, current portion	\$ 3,466,708	3,462,272

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

(4) Capital Assets

The detail of capital assets activity for the years ended June 30, 2004 and 2003 follows:

	<u>June 30,</u> <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2004</u>
Depreciable assets:				
Land improvements	\$ 796,133	—	—	796,133
Buildings and building improvements	77,009,308	32,063,426	—	109,072,734
Equipment and other assets	28,348,999	2,963,179	(757,302)	30,554,876
	<u>106,154,440</u>	<u>35,026,605</u>	<u>(757,302)</u>	<u>140,423,743</u>
Less accumulated depreciation	<u>(46,240,268)</u>	<u>(5,120,077)</u>	<u>731,015</u>	<u>(50,629,330)</u>
	59,914,172	29,906,528	(26,287)	89,794,413
Nondepreciable assets:				
Land	8,041,374	5,478,102	—	13,519,476
Construction in progress	25,659,448	23,945,340	(32,063,426)	17,541,362
	<u>\$ 93,614,994</u>	<u>59,329,970</u>	<u>(32,089,713)</u>	<u>120,855,251</u>
	<u>June 30,</u> <u>2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2003</u>
Depreciable assets:				
Land improvements	\$ 796,133	—	—	796,133
Buildings and building improvements	73,578,141	3,431,167	—	77,009,308
Equipment and other assets	27,950,317	2,214,838	(1,816,156)	28,348,999
	<u>102,324,591</u>	<u>5,646,005</u>	<u>(1,816,156)</u>	<u>106,154,440</u>
Less accumulated depreciation	<u>(42,526,941)</u>	<u>(5,307,129)</u>	<u>1,593,802</u>	<u>(46,240,268)</u>
	59,797,650	338,876	(222,354)	59,914,172
Nondepreciable assets:				
Land	8,041,374	—	—	8,041,374
Construction in progress	9,762,925	15,896,523	—	25,659,448
	<u>\$ 77,601,949</u>	<u>16,235,399</u>	<u>(222,354)</u>	<u>93,614,994</u>

Estimated costs to complete the projects classified as construction in progress as of June 30, 2004 approximated \$35.2 million and are anticipated to be funded primarily from State of New Jersey financial assistance, bond financing, and other unrestricted resources. During 2004 and 2003, the University capitalized interest income of approximately \$297,000 and \$248,000, respectively and interest expense of approximately \$2,010,000 and \$1,196,000 which is included in construction in progress as of June 30, 2004 and 2003, respectively.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

(5) Long Term Debt

The University has financed capital assets through various revenue bonds issued by the New Jersey Educational Facilities Authority (the Authority). The University has pledged all net revenue derived from the operation of the dormitories, student center, recreation center, academic building and athletic and recreation facilities as security. Estimated costs in connection with these capital assets of approximately \$90.7 million and \$73 million as of June 30, 2004 and 2003, respectively, are included in the accompanying statements of net assets. The following obligations to the Authority were outstanding as of June 30, 2004 and 2003:

	<u>Interest rate</u>	<u>2004</u>	<u>2003</u>
Bonds payable:			
New Jersey Educational Facility Authority Revenue Bonds:			
Series 1977 C Revenue Bonds, due serially to 2010	6.29%	\$ 3,370,000	3,745,000
Series 1995 C Revenue Bonds, due serially to 2007	3.80 - 4.90%	965,000	1,180,000
Series 1998 E Revenue Bonds, due serially to 2028	4.40 - 9.00%	6,455,000	6,585,000
Series 1999 B Revenue Bonds, due serially to 2018	4.40 - 5.00%	11,390,000	11,920,000
Series 1999 B Revenue Bonds, due July 1, 2020, 2022, and 2025	4.75 - 5.00%	5,075,000	5,075,000
Series 2002 A Revenue Bonds, due serially to 2032	3.00 - 5.00%	14,850,000	15,115,000
Series 2003 A Revenue Bonds, due July 1, 2032	1.06%	47,850,000	47,850,000
Series 2003 B Revenue Bonds, due July 1, 2018	5.45%	<u>2,300,000</u>	<u>2,300,000</u>
Total bonds payable		<u>92,255,000</u>	<u>93,770,000</u>
Other long term debt:			
New Jersey Educational Facility Authority Higher Education Capital Improvement Fund Series 2000 B	4.13 - 5.75%	5,225,001	5,411,668
New Jersey Educational Facility Authority Equipment Leasing Fund Series 2001 A	3.50 - 5.00%	390,214	508,325
New Jersey Educational Facility Authority Dorm Safety 2001 A and B	4.50%	662,393	717,589
Various capital lease obligations	5.00%	<u>934,246</u>	<u>—</u>
Total other long term debt		<u>7,211,854</u>	<u>6,637,582</u>
Total long term debt		99,466,854	100,407,582
Less noncurrent portion		<u>(97,343,317)</u>	<u>(98,587,804)</u>
Total long term debt, current portion		<u>\$ 2,123,537</u>	<u>1,819,778</u>

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

On May 7, 2003, the University issued through the Authority \$50,150,000 of Revenue Bonds, which consist of \$47,850,000 Series 2003A and \$2,300,000 Series 2003B bonds. The Series 2003A bonds are floating rate bonds. The Series 2003B bonds are fixed at a rate of 5.45 percent. The purpose of the Series 2003A bonds was to defease the University's outstanding Series 1993H bonds, as well as for capital projects including the arts and science tower, charter school, fine arts building equipment, student union renovation, expansion and improvement of the parking facilities and well as other major capital improvement projects. The purpose of the Series 2003B bonds was for the business incubator project.

Interest Rate Swap

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2003, the Authority entered into an interest rate swap in connection with its \$47,850,000 Series 2003A floating rate revenue bonds. The intention of the swap was to effectively change the Authority's floating interest rate on the bonds to a synthetic fixed rate of 3.245 percent.

The bonds and the related swap agreement mature on July 1, 2032, and the swap's notional amount of \$22,000,000 matches a portion of the \$47,850,000 floating rate bonds. The swap was entered at the same time the bonds were issued. Starting in fiscal year 2005, the notional value of the swap and the principal amount of the associated debt will decline per their respective schedules. Under the swap, the Authority pays the counterparty a fixed payment of 3.245 percent and receives a variable payment computed as 67 percent of the one-month London Interbank Offered Rate (LIBOR). Conversely, the bond's floating rate coupons are based on the R-FLOATs rate which is a market rate that correlates to The Bond Market Association Municipal Swap Index (BMA).

The swap had a fair value of (\$614,000) as of June 30, 2003, because interest rates have increased above rates since execution of the swap, the swap had a fair value of \$1,033,128 as of June 30, 2004. Because the coupons on the University's floating rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase or decrease for 2004. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

As of June 30, 2004, the Authority was exposed to credit risk because the swap had a favorable fair value in the amount of the derivative's fair value of \$1,033,128. As of June 30, 2003, the Authority was exposed to reduced credit risk because the swap had a negative fair value. The swap counterparty was rated AA- by Fitch Ratings, A+ by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2004 and 2003. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA-/Aa3 by at least one rating agency, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

The swap exposes the University to basis risk should the relationship between LIBOR and R-FLOATs converge, changing the overall synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.245 percent) and the overall synthetic rate as of June 30, 2004 (3.234 percent) and 3.495 as of June 30, 2003. If a change occurs that results in the rates' moving to convergence, the expected cost of savings may not be realized. As of June 30, 2004, the R-FLOATs rate was 1.06 percent, whereas 67 percent of LIBOR was 0.92 percent. As of June 30, 2003, the R-FLOATs rate was 1.0 percent, whereas 67 percent of LIBOR was 0.75 percent.

The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Authority if the counterparty's credit quality rating falls below "BBB-" as issued by Standard & Poor's or "Baa3" as issued by Moody's Investors Service. If the swap is terminated, the floating rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Using rates as of June 30, 2004, debt service requirements of the swapped portion of variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, floating rate bond interest payments and net swap payments will vary.

Fiscal year ending June 30	Floating rate bonds		Interest rate swap, net	Total
	Principal	Interest		
2005	\$ 45,000	220,000	548,900	813,900
2006	45,000	219,550	547,777	812,327
2007	45,000	219,100	546,655	810,755
2008	120,000	218,650	545,532	884,182
2009	130,000	217,900	543,661	891,561
2010-2032	21,615,000	3,379,250	8,431,228	33,425,478
	<u>\$ 22,000,000</u>	<u>4,474,450</u>	<u>11,163,753</u>	<u>37,638,203</u>

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

Capital Lease

The University has entered into various capital lease purchase agreements for equipment which are principally for the duration of one to five years depending on the application and financial advantage to the University. Such agreements are essential to the normal operation of the University, and it is expected that these arrangements, where applicable, would be renegotiated when financially advantageous. The payments of these agreements include a 5% charge for interest. As of June 30, 2004, the net present value of the aggregate capitalized lease obligation associated with these agreements, which excludes future interest payments, is approximately \$934,246. The fiscal year 2004 payments for these capitalized lease obligations was \$213,212.

Future Minimum Payments

The following is a schedule of future minimum principal and interest payments on the University's long term debt obligations as of June 30, 2004:

	Principal	Interest
Year ending June 30:		
2005	\$ 2,123,537	2,272,528
2006	2,290,789	3,933,970
2007	2,450,536	3,828,508
2008	2,380,482	3,718,115
2009	2,239,252	3,611,662
2005-2009 subtotal	11,484,596	17,364,783
2010-2014	12,341,832	16,438,547
2015-2019	15,799,845	13,439,257
2020-2024	16,488,529	9,773,648
2025-2029	20,293,529	6,163,575
2030-2032	23,058,523	2,180,125
	\$ 99,466,854	65,359,935

Line of Credit

On February 20, 2004 the University entered into a secured commercial revolving credit loan agreement with Fleet National Bank (the Lender) in the amount of \$7,500,000. As of June 30, 2004 the outstanding balance was \$5,200,000. The Lender sends monthly an invoice reflecting the accrued interest and fees due under this agreement. Interest is calculated based on monthly London Interbank Offered Rate (LIBOR). All payments shall be first applied to the payment of fees, expenses and other amounts due to the Lender (excluding principal and interest), then to accrued interest and the balance on account of principal outstanding. The University may prepay, in whole or part, an aggregate minimum amount of the lesser of \$50,000 or the aggregate principal balance outstanding. The University has pledged a security interest in an account held with the Securities Intermediaries as security for this agreement.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

(6) Noncurrent Liabilities

The following table summarizes the changes in noncurrent liabilities during the years ended June 30, 2004 and 2003:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Current portion</u>
Long term debt	\$ 100,407,582	6,347,362	(2,088,090)	104,666,854	2,123,537
Other noncurrent liabilities:					
U.S. government grants refundable	276,981	294,256	—	571,237	—
Compensated absences	<u>2,514,139</u>	<u>253,620</u>	<u>(31,349)</u>	<u>2,736,410</u>	<u>1,704,800</u>
Total noncurrent liabilities	<u>\$ 103,198,702</u>	<u>6,895,238</u>	<u>(2,119,439)</u>	<u>107,974,501</u>	<u>3,828,337</u>
	<u>June 30, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2003</u>	<u>Current portion</u>
Long term debt	\$ 53,635,724	50,150,000	(3,378,142)	100,407,582	1,819,778
Other noncurrent liabilities:					
U.S. government grants refundable	687,038	—	(410,057)	276,981	—
Compensated absences	<u>2,694,299</u>	<u>—</u>	<u>(180,160)</u>	<u>2,514,139</u>	<u>1,442,190</u>
Total noncurrent liabilities	<u>\$ 57,017,061</u>	<u>50,150,000</u>	<u>(3,968,359)</u>	<u>103,198,702</u>	<u>3,261,968</u>

(7) Retirement Plans

Plan Descriptions

The University participates in two major retirement plans for its employees – Public Employees’ Retirement System (PERS) and the Alternate Benefit Program (ABP) which presently makes contributions to Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA/CREF), Aetna Life Insurance, Lincoln Life Insurance, Metropolitan Life Insurance, Travelers Insurance, and VALIC. PERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of New Jersey. ABP alternatives are administered by a separate board of trustees. Generally all employees, except certain part-time employees, participate in one of these plans.

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

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

In addition to the two plans in which the University participates, certain faculty members of the University participate in the Teachers' Pension and Annuity Fund (TPAF) which is a State of New Jersey cost-sharing defined benefit plan. TPAF was established under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirement health care to substantially all full-time public school employees in the State of New Jersey. The State of New Jersey issues a publicly available financial report that includes financial statements and required supplementary information for PERS and TPAF. This report may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

PERS Funding Policy

PERS members are required to contribute 3% of their annual covered salary for the years ended June 30, 2004 and 2003. The State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the University. The State of New Jersey contribution is based upon annual actuarially determined percentages of total compensation of all active members. The State of New Jersey's annual contribution approximates the actuarially determined pension cost for the year. Employers were not required to contribute in 2004 or 2003 due to legislation enacted in 1997 by the State of New Jersey, which fully funded previously existing unfunded accrued liabilities of PERS through State of New Jersey bonds. The contribution requirements of the plan members and the University are established and may be amended by the State of New Jersey.

Alternate Benefit Program Information

ABP provides the choice of six investment carriers all of which are privately operated defined contribution retirement plans. The University 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, is 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 University employees are required to contribute 5% and may contribute, on a pre-tax basis, an additional voluntary contribution of salary up to the maximum Federal statutory limit. Employer contributions are 8%. During the years ended June 30, 2004 and 2003, ABP received employer and employee contributions that approximated the following from the University:

	2004	2003
Employer contribution	\$ 2,204,000	2,122,000
Employee contribution	1,378,000	1,326,000
Basis for contributions:		
Participating employee salaries	27,552,000	26,525,000

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

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

(8) Contingent Liabilities

The University is a party to various legal actions arising in the ordinary course of business. While it is not possible at this time to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the University's financial position.

(9) State of New Jersey Fringe Benefit Appropriations

The State of New Jersey, through separate appropriations, pays certain fringe benefits. Specifically, there is a current matching portion for the pension contribution for active employees, medical and dental benefits, state taxes, and FICA taxes. For the years ended June 30, 2004 and 2003, such benefits amounted to approximately \$13.9 million and \$12.9 million, respectively, and are included in appropriations revenue and expenses in the accompanying financial statements.

(10) Compensated Absences

The University recorded a liability for compensated absences in the amount of approximately \$2,736,000 and \$2,514,000 as of June 30, 2004 and 2003, respectively, which is included in accounts payable and accrued expenses and other noncurrent liabilities in the accompanying statements of net assets. The liability is calculated based upon employees' accrued vacation leave as of year end, as well as an estimated vested amount for accrued sick leave.

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. Prior to 1991, the State reimbursed the University for payments made to retiring employees for accrued sick leave; however, during 1991 through 2003, the State did not make such reimbursements. The University paid approximately \$31,349 and \$147,500 in sick leave payments for employees who retired during the years ended June 30, 2004 and 2003, respectively.

(11) Student Financial Assistance Programs

The University's students receive support from Federal and State of New Jersey student financial assistance programs.

The University's compliance with the requirements of the Federal student financial assistance programs authorized by Title IV of the U.S. Higher Education Act of 1965, as amended (Title IV Programs), is subject to annual audit by an independent auditor. Such compliance audits are subject to review by the U.S. Department of Education (the Department). Management is of the opinion that a liability, if any, resulting from compliance audits would not have a material adverse effect on the University's financial position.

NEW JERSEY CITY UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2004 and 2003

(12) New Jersey City University Foundation, Inc.

The Organization adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*, as of July 1, 2002. GASB Statement 39 establishes additional guidelines in order to determine potential component units of the University.

New Jersey City University Foundation, Inc. (Foundation) is a legally separate tax-exempt component unit of the organization with a fiscal year end of June 30. The Foundation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 504(c)(3) of the Internal Revenue Code. The Foundation acts primarily as a fund-raising entity to supplement the resources available to the University. The Foundation Board of Directors has twenty members with three of the members representing the University. They are the President, Vice President for Administration and Finance and Vice President for University Advancement. Although the University does not control the timing or amount of receipts from the Foundation, the resources or the income thereon, the Foundation holdings and investments are used exclusively for the benefit, support and promotion of the University for its activities. Because the resources held by the Foundation have historically only been used by, or for the benefit of the University, the Foundation is considered a component unit of the Organization and is discretely presented in the University's financial statements.

During the year ended June 30, 2004 and June 30, 2003 the Foundation distributed \$125,348 and \$119,831, respectively to the University in the form of scholarships. The University contributed \$274,565 and \$343,151, respectively in services for the years ended June 30, 2004 and 2003, respectively and contributed facilities of \$12,500 for the year ended June 30, 2004. Complete financial statements for the Foundation can be obtained from the Controllers Office at 2039 Kennedy Boulevard, Jersey City, New Jersey 07305.

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