NEW JERSEY CITY UNIVERSITY

(A Component Unit of the State of New Jersey)

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

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

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Introduction

This section of the financial statements of the New Jersey City University (the University) presents management's discussion and analysis of the financial performance and condition for the years ended June 30, 2005 and 2004, and comparative amounts for the year ended June 30, 2003. This section is designed to assist readers in understanding the accompanying financial statements, and therefore, should be read in conjunction with the financial statements and the related footnote disclosures.

University Overview

Since the date of its charter by the New Jersey Legislature in 1927, New Jersey City University continues to evolve as a reputable institution of higher learning. Although the University was founded as a teacher training institution, its subsequent dynamic growth has been based on its energetic and creative response to public demands for new educational programs. While the University's location in the urban center of the Northeast affords students all of the varied cultural and intellectual stimulation of a city, the campus has retained a quiet atmosphere for study, and a size conducive to a strong relationship between students and faculty which enhances learning. More than thirty degree programs are currently being offered at the University. In addition, graduate programs and teacher certification programs are also available. Computer science, business administration, criminal justice, and health sciences are among some of the newer programs which have joined the traditional programs of study in the liberal arts. The student body of the University is drawn from a broad base of the population and includes the high school graduate pursuing a four-year degree sequences, as well as non-traditional students. These non-traditional students include the older student, the part-time student, and the working student, all of whom are able to avail themselves of flexible class scheduling.

The New Jersey City University Foundation, Inc. (the Foundation) was established as a non-profit corporation to provide an independent instrument of control of funds, from other than state resources, which support the purposes and mission of the University. The Foundation qualifies under Section 501(c)(3) of the Internal Revenue Code and is exempt from both federal and

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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. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*

A summary of the University's assets, liabilities and net assets at June 30, 2005 and 2004, and comparative amounts at June 30, 2003 are as follows:

	2005	2004	2003
		(In millions)	
Assets			
Current assets	$ 28.2	25.2	19.8
Noncurrent assets:			
Capital assets	147.5	120.9	93.6
Other assets	57.9	58.8	78.8
Total assets	233.6	204.9	192.2
Liabilities			
Current liabilities	19.8	18.7	16.6
Noncurrent liabilities	123.9	104.1	99.9
Total liabilities	143.7	122.8	116.5
Net Assets			
Invested in capital assets, net of related debt	60.3	51.2	41.6
Restricted for expendable:			
Renewal and replacement	2.9	2.7	2.5
Capital projects	—	—	3.1
Debt service reserve	3.8	3.8	3.8
Debt service - principal	1.7	1.6	1.5
Perkins loans	0.2	0.1	0.1
Unrestricted	21.0	22.7	23.1
Total net assets	$ 89.9	82.1	75.7

Statement of Net Assets – Financial Highlights

As of June 30, 2005, the University's total assets increased by $28.7 million to $233.6 million from $204.9 million as of June 30, 2004. This significant increase is primarily attributable to an increase in deposits held with bond trustees in conjunction with the New Jersey Educational Facilities Authority (NJEFA) Series 2005 A bond and an increase in capital assets. In addition to these increases, there was a significant negative fluctuation in the University's cash balance as of June 30, 2005, as compared to June 30, 2004. This decrease in cash is due to capital expenses incurred for capital projects which were drawn down at the end of the fiscal year. These drawdowns were in transit as of June 30, 2005. A corresponding positive fluctuation is included in the current portion of deposits held with bond trustees. Also, during fiscal year 2005, the Black Box Theater and Business Development Incubator projects were completed and placed into service. In addition, there is a significant increase in construction in progress as of June 30, 2005, due to the commencement of construction on a number of significant projects. As of June 30, 2004, the University's total assets increased by $12.7 million to $204.9 million from $192.2 million as of June 30, 2003. This increase was primarily attributed to an increase in construction in progress and capital assets.

As of June 30, 2005, the University's total liabilities increased $20.9 million to $143.7 million from $122.8 million as of June 30, 2004. The major component is an increase to the noncurrent portion of long term debt from the NJEFA Series 2005 A debt issuance for $21.6 million. This increase to the noncurrent portion of long term debt is offset by anticipated fiscal 2006 debt service payments, which are included in the current portion of long term debt as of June 30, 2005. In addition to the NJEFA Series 2005 A debt issuance and current year debt service payments, there was a minimal increase in accounts payable and accrued expenses as of June 30, 2005 due to timing of vendor payments and the year end payroll cycle. As of June 30, 2004, the University's total liabilities increased $6.3 million to $122.8 million from $116.5 million as of June 30, 2003. This increase was attributed to increased vendor payables relating to significant capital projects such as the Black Box Theater and the Business Development Incubator that were in progress as of June 30, 2004.

The current ratio of the University measures the institution's ability to satisfy current obligations as they come due. The University's current ratio was 1.4, 1.3 and 1.2 at June 30, 2005, 2004, and 2003, respectively. 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 ratio was 21%, 22% and 26% at June 30, 2005, 2004 and 2003, respectively.

Statement of Revenues, Expenses, and Changes in Net Assets

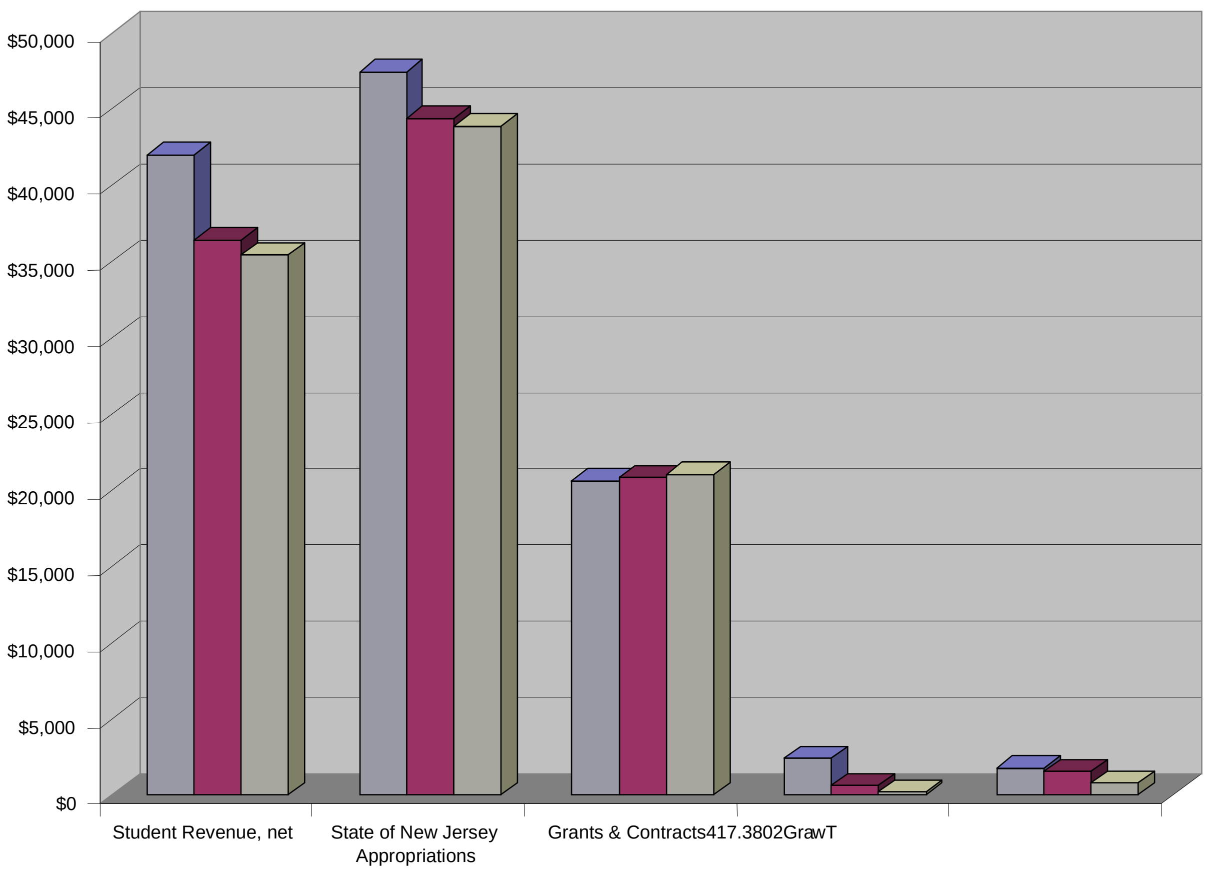
The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenue earned and expenses incurred during the fiscal year.

The Statement of Revenues, Expenses, and Changes in Net Assets is categorized into three sections: operating revenues, operating expenses, and net nonoperating revenues (expenses). The net difference between these three, results in an increase or decrease in the University's net assets. The change in net assets indicates whether the overall financial condition of the University has improved or declined during the year.

Generally, operating revenues are earned in exchange for providing goods or services. Operating revenues of the University consist of net tuition and fees revenue, as well as federal, State of New Jersey, and local grant revenue. Operating expenses are expenses incurred to produce goods or services in return for operating revenue, as well as expenses incurred to carry out the mission of the University. Nonoperating revenue is

Financial Highlights - Revenues

The University derives its revenue from a variety of sources. The following is an illustration of revenues by source, both operating and nonoperating, which are used to fund the University's activities for the years ended June 30, 2005 and 2004, and comparative amounts for the year ended June 30, 2003 (amounts in thousands):



For 2005, 2004 and 2003, State of New Jersey appropriations and student tuition and fees were the primary sources of funding for the University's academic programs. The State of New Jersey appropriations for the fiscal years ending June 30, 2005, 2004 and 2003 were $47.4 million, $44.3 million and $43.8 million, respectively. The State of New Jersey appropriations continue to be affected by the economic climate in New Jersey. With cuts to many state programs, the appropriation has remained flat in 2004 and 2005 with only partial funding of the salary program for wage increases that the University is contractually obligated to meet. Total student revenue, net for fiscal years ending June 30, 2005, 2004 and 2003 were $42.0 million, $39.4 million and $35.4 million, respectively. This comprised 36.8%, 36.9% and 35% of the revenue received by the University for the fiscal years ending June 30,

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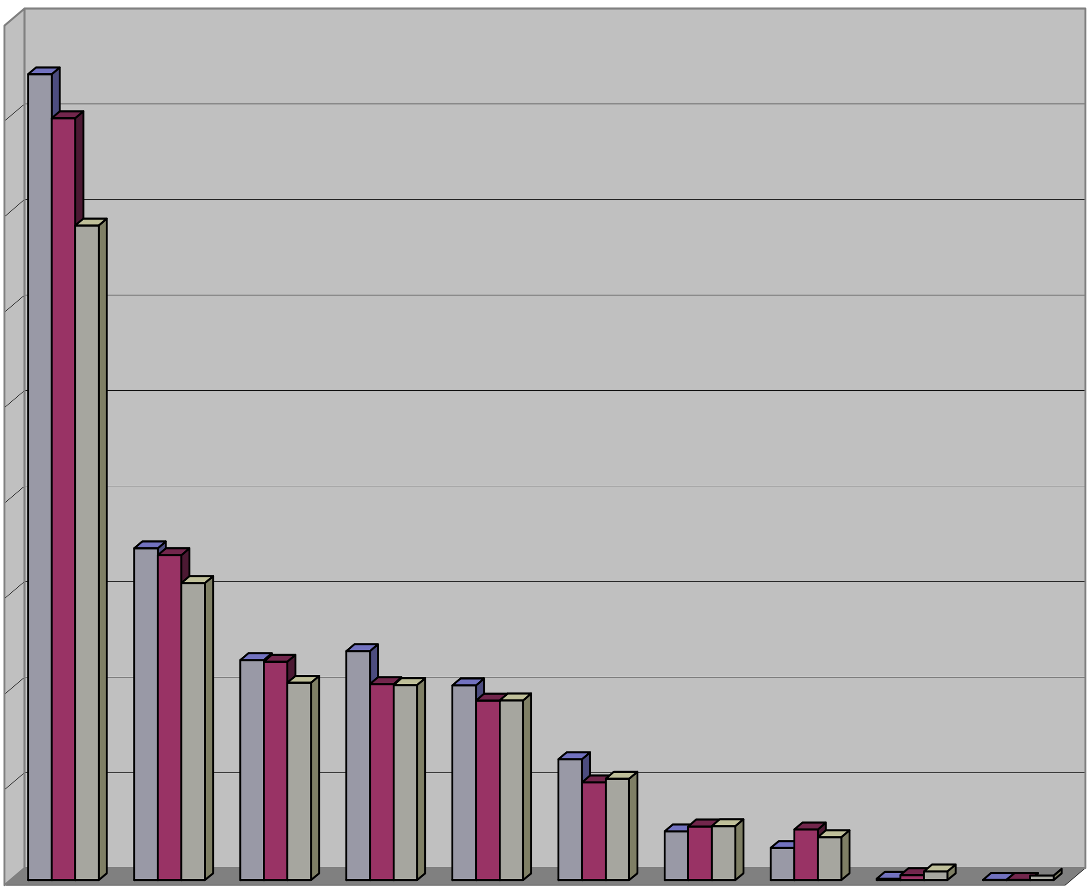
Financial Highlights - Expenses

For the year ended June 30, 2005, the University's total operating expenses increased $5.1 million to $103.9 million from $98.8 million for the year ended June 30, 2004. The following is an illustration of operating expenses by functional classification for the operating years ended June 30, 2005 and 2004, and comparative amounts for the year ended June 30, 2003 (amounts in thousands):



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Management Discussion and Analysis

June 30, 2005 and 2004

	Instruction	Institutional Support	O & M of Plant	Student Services	Academic Support	Depreciation	Student Aid	Auxiliary Enterprises	Public Service & Development	Research & Programs
	$ 42,181	17,368	11,514	11,990	10,199	6,331	2,558	1,680	72	8
Percent										

Fries Hall, preliminary costs associated with renovation of the Gilligan Student Union Building, completion of the Charter School, the upgrade of the fire safety control panels, the implementation of the Campus Card program, as well as various department renovations. Capital additions totaling $21.5 million 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, as well as funds from current operations. In January 2005, the University issued $21.6 million in Series 2005 A revenue bonds through the New Jersey Educational Facilities Authority (NJEFA) to finance capital projects such as the Gilligan Student Union Building Renovations, Campus Roadway Upgrade, Cogeneration Plant, and Information Technology Equipment. In May 2003, the University issued $50.2 million in Series 2003 A & B revenue bonds through the NJEFA to finance the new

NEW JERSEY CITY UNIVERSITY

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Independent Auditors' Report

The Board of Trustees
New Jersey City University:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of New Jersey City University (the University), a component unit of the State of New Jersey, as of and for the years ended June 30, 2005 and 2004, 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 opinion, insofar as it relates to the amounts included for New Jersey City University Foundation, Inc., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. 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 the business-type activities and the discretely presented component unit of New Jersey City University as of June 30, 2005 and 2004, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 11 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 7, 2005

NEW JERSEY CITY UNIVERSITY
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Statements of Net Assets

June 30, 2005 and 2004

Assets		**2005**	**2004**
Current assets:			
Cash and cash equivalents	$	548,980	7,952,703
Investments, current portion		6,318,629	7,398,311

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

		2005	**2004**
Operating revenues:			
Student revenue:			
Tuition and fees	$	51,576,513	49,191,496
Auxiliary enterprises		5,246,800	4,683,828
Less scholarship allowance		(14,815,437)	(14,492,685)
Total student revenue, net		42,007,876	39,382,639
Federal grants		12,061,378	12,260,582
State of New Jersey grants		8,492,757	8,443,791
Private grants		52,072	123,646
Other operating revenues		1,765,599	1,545,871

NEW JERSEY CITY UNIVERSITY FOUNDATION, INC.
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Statement of Activities and Changes in Net Assets

Year ended June 30, 2005

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:					
Support from public contributions	$	692,225	140,451	125,872	958,548
Development grants and contracts		167,125	100,000	—	267,125
Charitable annuity remainder trust		—	1,334,093	—	1,334,093
Contributed services and facilities		728,650	—	—	728,650
Interest and dividend income		95,491	—	—	95,491
Rental income		104,290	—	—	104,290
Events		437,802	—	—	437,802
Appreciation in market value of investments		174,801	—	—	174,801
Net assets released from restrictions in satisfaction of program restrictions		90,084	(90,084)	—	—
Total support and revenues		2,490,468	1,484,460	125,872	4,100,800
Expenses:					
Program services		1,022,853	—	—	1,022,853
Management and general		160,483	—	—	160,483
Fund-raising		414,608	—	—	414,608
Events		222,582	—	—	222,582
Total expenses		1,820,526	—	—	1,820,526
Change in net assets		669,942	1,484,460	125,872	2,280,274
Net assets, beginning of year		1,628,856	1,025,294	1,572,856	4,227,006
Net assets, end of year	$	2,298,798	2,509,754	1,698,728	6,507,280

See accompanying notes to financial statements.

NEW JERSEY CITY UNIVERSITY FOUNDATION, INC.

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Statements of Cash Flows
(University Only)

Years ended June 30, 2005 and 2004

		2005	**2004**
Cash flows from operating activities:			
Student receipts	$	35,989,868	32,615,909
Grants and contracts		20,471,190	20,295,719
Payments for salaries and benefits		(64,911,503)	(62,506,309)
Payments to suppliers		(15,692,537)	(11,920,330)
Payments for utilities		(2,431,600)	(3,021,244)
Payments to students		(2,557,657)	(2,891,453)
Loans issued to students		(132,316)	(135,074)
Collection of loans from students		166,672	163,141
Auxiliary enterprises		3,666,331	3,759,768
Other receipts		319,630	2,071,611
Net cash used by operating activities		(25,111,922)	(21,568,262)
Cash flows from noncapital financing activities:			
State of New Jersey appropriations		36,379,103	34,665,449
Net cash provided by noncapital financing activities		36,379,103	34,665,449
Cash flows from capital financing activities:			
Proceeds from capital debt		21,575,000	5,200,000
Capital grants and gifts		45,375	590,750
Purchase of capital assets		(30,658,904)	(30,673,500)
Bond issuance costs		(456,581)	(116,512)
Principal paid on capital debt		(2,218,590)	(2,088,090)
Interest paid on capital debt		(3,019,867)	(3,457,502)
Drawdowns on deposits held with trustees		17,067,761	20,302,733
Deposits made with trustees		(21,348,611)	—
Net cash used by capital financing activities		(19,014,417)	(10,242,121)
Cash flows from investing activities:			
Purchases of investments		(143,475)	(6,483,467)
Interest on investments		486,988	912,305
Net cash provided by (used by) investing activities		343,513	(5,571,162)
Net decrease in cash and cash equivalents		(7,403,723)	(2,716,096)
Cash and cash equivalents as of beginning of year		7,952,703	10,668,799
Cash and cash equivalents as of end of year	$	548,980	7,952,703

Reconciliation of operating loss to net cash used by operating activities:

(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 Incubator. The University's John J. Moore Athletic and Fitness Center has 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.

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

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Notes to Financial Statements

June 30, 2005 and 2004

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 source of nonoperating revenue. The University is economically dependent on these appropriations to carry on its operations.

(2) Cash and Cash Equivalents and Investments

Effective July 1, 2004, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures", an amendment of GASB Statement No. 3 and, accordingly, the University has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its cash and cash equivalents and investments. Comparative information as of June 30, 2004 is presented for

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.

Investments

Investments consist of the following as of June 30, 2005 and 2004:

		2005	2004
Money market accounts	$	924,519	1,751,149
U.S. Treasury notes		3,469,324	8,504,712
Corporate notes and bonds		12,890,810	6,659,326
		17,284,653	16,915,187
Less noncurrent portion		(10,966,024)	(9,516,876)
Investments, current portion	$	6,318,629	7,398,311

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB 40 requires that disclosure be made as to the credit rating of all fixed income securities except obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's). As of June 30, 2005 the University's investment quality ratings as rated by Moody's were as follows:

Investment type	Quality rating		Amount
Money market accounts and U.S. Treasury notes	—	$	4,393,843
Corporate notes and bonds	AAA		2,220,287
Corporate notes and bonds	AA3		2,109,025
Corporate notes and bonds	AA2		1,609,779
Corporate notes and bonds	AA1		356,123
Corporate notes and bonds	A3 and lower		6,595,596
		$	17,284,653

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 cash management fund is unrated.

Concentration of credit risk is the risk associated with the amount of investments the University has with any one issuer that exceed five percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The University's investment policy provides limitations pertaining to the diversification of the investment portfolio.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's investment policy provides limitations in the maturities of the various types of investments as a means of managing its exposure to fair value losses arising from interest rate fluctuations. The following table summarizes i

(Continued)

(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. Deposits held with bond trustees are carried in the financial statements at fair value and consist of the following:

	2005	**2004**

NEW JERSEY CITY UNIVERSITY

On May 7, 2003, the University issued through the Authority $50,150,000 of Revenue Bonds, which consist of $47,850,000 Series 2003 A and $2,300,000 Series 2003 B bonds. The Series 2003 A bonds are floating rate bonds. The Series 2003 B bonds are fixed at a rate of 5.45%. The purpose of the Series 2003 A bonds was to defease the University

The bonds and the related swap agreement mature on July 1, 2035, and the swap's notional amount of $21,575,000 matches the principal amount of the Series 2005 A floating rate bonds. The swap was entered at the same time the bonds were issued. Under the swap, the Authority pays the counterparty a fixed payment of 3.355% and receives a variable payment e

Using rates as of June 30, 2005, 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 Principal	Floating rate bonds Interest	Interest rate swap, net	Total
2006	$ —	473,000	236,500	709,500
2007	550,000	461,175	230,588	1,241,763
2008	775,000	444,513	222,256	1,441,769
2009	800,000	427,313	213,656	1,440,969
2010	825,000	409,575	204,788	1,439,363
2011-2032	18,625,000	5,322,863	2,661,431	26,609,294
	$ 21,575,000	7,538,439	3,769,219	32,882,658

Basis Swap

In January 2005, the Authority entered into a Basis Swap in order to hedge interest rate risk by converting its remaining Series 2003 A variable rate bonds, which trades based on BMA, into variable rate debt based on 78.05% of LIBOR.

The bonds and the related Basis Swap agreement mature on July 1, 2032, and the swap's notional amount of $25,850,000 match the variable rate bonds. Beginning in fiscal year 2005, the notional value of the swap and the principal amount of the associated debt will decline. Under the Basis Swap agreement, the Authority pays the counterparty a variable payment based on The Bond Market Association Municipal Swap Index (BMA) and receives a variable payment computed as 78.05% of one-month London Interbank Offered Rate (LIBOR).

Because BMA/LIBOR ratios have increased based on the average life of the Basis Swap, the Basis Swap had a negative fair value of ($501,432) as of June 30, 2005. The fair value was calculated 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 further net settlement on the swap.

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The Basis Swap exposes the Authority to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic variable rate on the bonds. The effect of this difference in basis is indicated by the difference between BMA and 78.05% of LIBOR. 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, 2005, the BMA rate was 2.28%, whereas 78.05% of LIBOR was 2.607%.

The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for that payment.

Using rates as of June 30, 2005, 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 Principal	Floating rate bonds Interest	Interest rate swap, net	Total
2006	$	5,000	555,668	(85,289)	475,379
2007		5,000	555,560	(85,272)	475,288
2008		55,000	554,378	(85,091)	524,287
2009		55,000	553,195	(84,909)	523,286
2010		70,000	551,690	(84,678)	537,012
2011-2032		25,660,000	8,457,455	(1,298,121)	32,819,334
	$	25,850,000	11,227,946	(1,723,360)	35,354,586

Capital Leases

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, 2005, the net present value of the aggregate capitalized lease obligation associated with these agreements, which excludes future interest payments, is approximately $771,563. The fiscal year 2005 payments for these capitalized lease obligations was $274,341.

(Continued)

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, 2005:

		Principal	Interest
Year ending June 30:			
2006	$	2,490,194	4,566,291
2007		2,934,798	4,436,479
2008		3,169,005	4,299,606
2009		3,038,018	4,163,250
2010		3,180,660	4,025,382
2006-2010 subtotal		14,812,675	21,491,008
2011-2015		16,080,998	16,555,579
2016-2020		19,685,238	14,269,264
2021-2025		20,969,742	9,914,334
2026-2030		24,000,000	5,540,978
2031-2032		23,365,000	1,133,725
	$	118,913,653	68,904,888

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, 2005 and 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.

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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

Employees holding classified position are enrolled into the PERS pension plan. For permanent employees, PERS enrollment begins after the employee completes their probationary period, which is normally four months. All temporary employees must be enrolled after one year of continuous employment. Currently, PERS members are required to contribute 5% of their annual covered salary for the years ended June 30, 2005 and 2004. This amount changes with negotiations of each new union contract. 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 2005 or 2004 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

Employees enrolled in the ABP pension program are faculty members, administrators and managers of the University. Enrollment into the pension program begins the first date of hire for all permanent employees. Temporary employees are enrolled after one year of continuous temporary employment. ABP provides the choice of six investment carriers all of which are privT6ae9o-1.8(der.1491 -aistratorssfacu)TJu3428 Tw(choiceT7c7.2

Participating University employees are required to contribute 5% of their base annual salary 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, 2005 and 2004, ABP received employer and employee contributions that approximated the following from the University:

		2005	2004
Employer contribution	$	2,363,000	2,204,000
Employee contribution		1,477,000	1,378,000
Basis for contributions:			
Participating employee salaries		29,538,000	27,552,000

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, the 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, 2005 and 2004, such benefits amounted to approximately $15.3 million and $13.9 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 $3,361,375 and $2,736,410 as of June 30, 2005 and 2004, 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 2005, the State did not make such reimbursements. The University paid approximately $77,621 and $31,349 in sick leave payments for employees who retired during the years ended June 30, 2005 and 2004, respectively.

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