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NEW JERSEY INSTITUTE OF TECHNOLOGY

Financial Statements and
Management's Discussion and Analysis

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

NEW JERSEY INSTITUTE OF TECHNOLOGY

June 30, 2004 and 2003

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NEW JERSEY INSTITUTE OF TECHNOLOGY

Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2004 and 2003

INTRODUCTION

The following discussion and analysis provides an analytical overview of the financial position and activities of New Jersey Institute of Technology ("NJIT") and The Foundation at New Jersey Institute of Technology (the "Foundation") (collectively, the "University") at and for the years ended June 30, 2004 and 2003. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Since its founding in 1881, NJIT has been transformed from a local technical school to one of America's top 200 research universities with national rankings and stature. While moving steadily to increasingly higher levels of excellence in educational performance, NJIT has become a research and development hub, participating in entrepreneurial development and building business partnerships through research and development initiatives. NJIT has evolved into an international presence, both in the scope of its educational programs, including on-site and distance learning offerings, attraction of international students to its programs, and through the reach of its educational, scientific and technological influence at international forums and in international research projects.

NJIT is a public, student-centered, urban research university, committed to the pursuit of excellence in undergraduate, graduate, and continuing professional education, in the conduct of research with emphasis on applied and multi-disciplinary areas, in contributing to the economic development of New Jersey (the "State"), and in service to both its local communities and the broader society of the State and the nation. Over 400 full-time faculty members serve the University's approximately 8,800 students. NJIT offers a diverse range of degree programs in an array of engineering and technology disciplines, computer and information science, architecture, applied sciences, management, statistics and actuarial science, including Ph.D. programs in nineteen professional areas, masters programs in forty-five specialties, and thirty-four baccalaureate degree programs.

The University was established as a body corporate and politic by The New Jersey Institute of Technology Act of 1996. The Foundation is a separately incorporated 501(c)(3) resource development organization that encourages private philanthropy on behalf of NJIT and initiates and administers scientific and technical investigations. The Foundation also operates a small business incubator whose mission is to accelerate the successful development of entrepreneurial companies through an array of business support resources and services.

FINANCIAL HIGHLIGHTS

The University's financial position at June 30, 2004 and 2003 was sound, with total assets of $409,370 and $349,559, and total liabilities of $219,481 and $204,172, respectively. Net assets, which represent the excess of the University's assets over its liabilities, totaled $189,889 and $145,387 at June 30, 2004 and 2003, respectively. Net assets increased $44,502 in fiscal year 2004, principally due to increased capital grants and gifts as a result of a grant from the Higher Education Capital Improvement Fund ("HECIF"), increased investment income due to the improvement in market conditions and increased student tuition and fees revenues as a result of increased rates, offset by a decrease in State grants and contracts and an increase in interest expense due to a decline in capitalized interest as a result of the completion of two major construction projects. Net assets increased $5,149 in fiscal year 2003, principally due to increased grants and contracts revenues, net of related expenses, as a result of an increased focus on the University's research program, increased investment income due to the improvement in market conditions, increased student tuition and fees revenues as a result of increased rates, offset by a decrease in State appropriations.

(Dollars in thousands)

THE FINANCIAL STATEMENTS

The University's financial statements include a statement of net assets at June 30, 2004 and 2003, and statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. The financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board ("GASB"), as well as with the pronouncements of the Financial Accounting Standards Board ("FASB") and its predecessor entities issued on or before November 30, 1989. GASB pronouncements take precedence when there is a conflict or contradiction between pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

STATEMENT OF NET ASSETS

The statement of net assets presents the University's financial position at June 30, 2004 and 2003, and is summarized as follows. The summarized statement of net assets at June 30, 2002 is also presented for comparative purposes.

	June 30, 2004	June 30, 2003	June 30, 2002
Current assets	$ 66,074	$ 58,700	$ 97,077
Endowment investments	52,713	45,408	39,526
Capital assets, net	246,567	228,561	188,725
Other assets	44,016	16,890	16,227
Total assets	409,370	349,559	341,555
Current liabilities	35,628	40,190	35,005
Long term debt	174,175	152,837	156,229
Other liabilities	9,678	11,145	10,083
Total liabilities	219,481	204,172	201,317
Invested in capital assets, net of related debt	83,560	86,364	74,596
Restricted	60,583	40,774	38,930
Unrestricted	45,746	18,249	26,712
Total net assets	$ 189,889	$ 145,387	$ 140,238

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Current assets consist principally of cash and cash equivalents, short term investments, grants and accounts receivable, and deposits held with trustees. The increase in current assets at June 30, 2004 as compared to June 30, 2003 of $7,374 relates principally to an increase in cash and cash equivalents and short term investments, principally related to the receipt of capital grants and gifts, offset by a decrease in deposits held with trustees as a result of their use for facilities construction and a decrease in grants and accounts receivable. The decrease in current assets at June 30, 2003 as compared to June 30, 2002 of $38,377 relates principally to a reduction in deposits held with trustees as a result of their use for facilities construction.

Current liabilities are comprised of accounts payable and accrued liabilities, the current portion of long term debt, deferred revenue, and amounts due to affiliates. The decrease in current liabilities at June 30, 2004 as compared to June 30, 2003 of $4,562 principally relates to a reduction in deferred revenue, reflecting a decrease in advance payments for grants and contracts. The increase in current liabilities at June 30, 2003 as compared to June 30, 2002 of $5,185 relates principally to an increase in accounts payable, reflecting both increases in facilities construction and research program expenditures and an increased attention to cash management activities.

Excluding deposits held with trustees, which can only be used for facilities construction and debt service, and deferred revenue, which is associated with certain specific activities, current assets exceeded current liabilities by $37,532 and $27,042 at June 30, 2004 and 2003, respectively. The University had $36,029 and $21,751 in cash and cash equivalents and short term investments to fund current operations at June 30, 2004 and 2003, respectively. The fiscal year end is traditionally a low point in the University's cash position because the timing of receipts of tuition and fees generally occurs consistent with the fall and spring terms. However, the University receives its State appropriations for general operating purposes ($48,790 and $50,221 in fiscal years 2004 and 2003, respectively) on a monthly basis.

Endowment investments include gifts from donors that are to be invested in perpetuity and the related income and appreciation. Only the income and appreciation can be spent for the purposes specified by the donors in the gift documents. Endowment investments grew approximately 16.1% and 14.9% during fiscal years 2004 and 2003, respectively, reflecting growth from new gifts and realized expendable investment earnings in both years, and fair value increases at June 30, 2004 and 2003.

Capital assets increased 6.8% and 15.1% at cost during fiscal years 2004 and 2003, respectively, principally related to the University's facilities construction projects. During fiscal year 2004, a new campus center and a joint use building including classrooms and administrative offices were completed and inaugurated. In addition, phase two of the campus center commenced, and is expected to be completed during the first half of fiscal year 2005. Two additional rehabilitation projects, Cullimore Hall and Eberhardt Hall, commenced in fiscal year 2004, with anticipated completion dates in fiscal years 2005 and 2006, respectively. During fiscal year 2003, a new small business incubator building was completed and inaugurated.

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During fiscal year 2004, the University was allocated $60,938 of the proceeds of bonds issued by the New Jersey Educational Facilities Authority ("NJEFA") to provide funds for HECIF, which provides funds for certain construction and facilities improvements at the State's public institutions of higher education. The bonds mature on various dates through fiscal year 2025. The University is responsible for one-third of the debt service payments and related program expenses. The remaining two-thirds was recorded as a capital grant, of which $22,440 is recorded as a receivable in other assets.

In addition during fiscal year 2004, the University currently refunded the 1994 Series A Bonds and advance refunded the 1995 Series E Bonds, pursuant to an agreement with NJEFA, which issued the 2004 Series B Bonds in the amount of $73,530. The 2004 Series B Bonds consist of serial bonds bearing interest rates between 2.0% and 5.25% and maturing on various dates through fiscal year 2026.

Total long term debt at June 30, 2004 and 2003 totaled $175,762 and $156,233, respectively. Debt issued in prior fiscal years was principally utilized for the construction of new facilities or the acquisition of equipment.

Net assets invested in capital assets, net of related debt, represents the University's interests in land and land improvements, buildings and building improvements, equipment and other assets, and construction in progress, less the debt incurred to finance their acquisition. Net assets invested in capital assets, net of related debt, decreased $2,804 during fiscal year 2004 as the increase in capital assets resulting from the facilities construction program and capital asset additions was more than offset by depreciation expense and an increase in construction-related debt. Net assets invested in capital assets increased $11,768 during fiscal year 2003 as a result of the facilities construction program and capital asset additions, offset by depreciation expense.

Restricted net assets represents the original value of additions to the University's endowment and the remainder of life income and annuity funds, gifts that are restricted to use for specific purposes by the donor, grants, appropriations, endowment income, and other restricted sources. As discussed above, endowment funds represent gifts from donors that are to be invested in perpetuity. Life income and annuity funds are given to the University to be invested with the stipulation that an agreed-upon sum be paid to the donor for a stipulated period of time or for the beneficiary's lifetime, after which period the remaining funds become part of the University's endowment or are used for the purpose designated by the donor. Restricted net assets increased $19,809 during fiscal year 2004, principally due to an increase in restricted expendable net assets for capital projects as a result of the HECIF grant, and an increase in restricted expendable and nonexpendable net assets for scholarships and fellowships as a result of additions to permanent endowments and increased investment income. Restricted net assets increased $1,844 during fiscal year 2003, principally due to an increase in restricted nonexpendable net assets for scholarships and fellowships as a result of additions to permanent endowments and an increase in restricted expendable net assets for scholarships and fellowships due to investment earnings during fiscal year 2003 and fair value increases at June 30, 2003.

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(Dollars in thousands)

Unrestricted net assets are all other net assets that are available for general operations. Even though unrestricted net assets are not subject to external restrictions, management has designated the following unrestricted net assets in order to set them aside to be used for the stated specified purposes:

	June 30, 2004	June 30, 2003	June 30, 2002
Scholarships and fellowships	$ 4,007	$ 3,244	$ 1,725
Instructional and other	7,145	3,567	254
Research and programs	—	—	1,588
Outstanding purchase orders	2,555	2,906	2,964
Debt service	9,172	4,352	—
Construction of new facilities	16,143	—	9,598
	$ 39,022	$ 14,069	$ 16,129

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The statement of revenues, expenses, and changes in net assets presents both the operating results and the nonoperating revenues and expenses of the University.

The components of revenues for the fiscal years ended June 30, 2004 and 2003 are as follows. The components of revenues for the fiscal year ended June 30, 2002 are also presented for comparative purposes:

	2004	2003	2002
Operating revenues:			
Student tuition and fees, net	$ 55,613	$ 51,422	$ 49,745
Federal, State, and other grants and contracts	53,696	57,184	50,136
Auxiliary enterprises, net	8,351	7,796	7,481
Other operating revenues	2,092	2,442	2,614
Total operating revenues	119,752	118,844	109,976
Nonoperating revenues:			
State appropriations, including capital	67,044	67,386	68,743
Gift and bequests, including capital, and additions to permanent endowments	47,529	8,912	12,961
Investment income (loss)	6,733	4,161	(930)
Other nonoperating revenues	945	410	537
Total nonoperating revenues	122,251	80,869	81,311
Total revenues	$ 242,003	$ 199,713	$ 191,287

(Continued)

(Dollars in thousands)

The components of expenses for the fiscal years ended June 30, 2004 and 2003 are as follows. The components of expenses for the fiscal year ended June 30, 2002 are also presented for comparative purposes:

	2004	2003	2002
Operating expenses:			
Instruction	$ 58,477	$ 56,625	$ 55,289
Research and programs	40,515	44,749	40,961
Public service and enterprise development	3,401	3,236	4,443
Academic support	17,622	17,845	18,615
Student services	9,386	9,035	8,745
Institutional support	22,221	20,669	20,873
Operation and maintenance of plant	12,884	12,970	14,666
Scholarships and fellowships	5,392	5,244	5,180
Depreciation	14,714	13,561	12,995
Auxiliary enterprises	5,001	4,242	3,304
Total operating expenses	189,613	188,176	185,071
Nonoperating expenses:			
Disposal of assets expense	220	255	1,308
Interest expense	7,668	6,133	5,809
Total nonoperating expenses	7,888	6,388	7,117
Total expenses	$ 197,501	$ 194,564	$ 192,188

Student tuition and fees, auxiliary enterprises, and State appropriations are the primary sources of funding for the University's academic programs.

Student tuition and fees, net of scholarship allowances of $17,265, totaled $55,613 for fiscal year 2004, an increase of 8.2% over the fiscal year 2003 student tuition and fees, net of allowances of $16,873, of $51,422. The fiscal year 2004 increase is principally attributable to a 7.5% increase in tuition and fees. Fiscal year 2003 student tuition and fees increased 3.4% from fiscal year 2002 student tuition and fees, net of allowances of $15,265, of $49,745. The fiscal year 2003 increase is attributable to a 9.8% increase in tuition and fees, offset by a decrease in graduate enrollments due to greater difficulty for foreign nationals to obtain student visas, a decline in demand for continuing professional education due to the weak economy, and lower summer session attendance. Tuition and fees have grown to provide needed resources because direct State support for University operations has not kept pace with the increases in the overall University budget.

Auxiliary enterprises revenues, net of scholarship allowances of $1,901 and $1,861, increased 7.1% and 4.2% to $8,351 and $7,796 in fiscal years 2004 and 2003, respectively, principally due to increased charges for dormitory rooms.

(Dollars in thousands)

In accordance with GASB requirements, State appropriations are reported as nonoperating revenues despite the fact that their purpose is to fund operating activities. The components of State appropriations were as follows:

	Fiscal Year Ended June 30,		
	2004	**2003**	**2002**
Direct appropriations for general operating purposes	$ 48,790	$ 50,221	$ 52,383
FICA and fringe benefits paid by the State for University employees	18,254	17,165	15,660
Capital appropriations	—	—	700
	$ 67,044	$ 67,386	$ 68,743

Federal, State, and other grants and contracts revenues primarily fund the University's research and development activities, and are composed of the following:

	Fiscal Year Ended June 30,		
	2004	**2003**	**2002**
Federal grants and contracts	$ 33,744	$ 33,946	$ 29,777
State grants and contracts	16,892	20,247	17,675
Other grants and contracts	3,060	2,991	2,684
	$ 53,696	$ 57,184	$ 50,136

In fiscal year 2004, State grants and contracts revenue declined 16.6% as a result of the State's difficult economic situation. In fiscal year 2003, Federal, State and other grants and contracts revenues grew 14.0%, 14.6% and 11.4%, respectively, over the prior fiscal year, as the result of an increased focus pursuant to the University's stated objective of increasing its research program.

Private support from corporations, foundations, alumni and other donors is an important factor in the University's growth and development. Gifts and bequests during fiscal years 2004 and 2003 totaled $3,842 and $3,975, respectively, and capital grants and gifts generated another $41,813 and $2,663, respectively, for the purchase of capital assets. The increase in capital grants and gifts was principally due to the receipt of the HECIF grant. Additions to permanent endowments were $1,874 and $2,274, respectively.

Investment income includes interest and dividends income, realized gain (loss) on the sale of investments, and net increase in the fair value of investments. Fiscal year 2004 investment income increased by $2,572 over fiscal year 2003, principally due to an improvement in market conditions, resulting in an increase in the fair value of investments as well as realized gains on the sale of investments. Fiscal year 2003 investment income increased by $5,091 over fiscal year 2002, principally due to an improvement in market conditions, resulting in an increase in the fair value of investments and a reduction in realized loss on the sale of investments. Fiscal year 2004 and 2003 interest and dividends income declined due to a lower interest rate environment in each year over the preceding fiscal year. The fiscal year 2003 decline was largely offset by a decrease in the amount of interest income capitalized.

The two largest components of the University's operating expenses are instruction expense of $58,477 and $56,625 and research and programs expense of $40,515 and $44,749 in fiscal years 2004 and 2003, respectively. While instruction expense increased 3.3% in fiscal year 2004, research and programs expense decreased by 9.5% over fiscal year 2003, consistent with the decreases in the University's State grants and contracts revenue. During fiscal year 2003, research and programs expense increased by 9.2% over fiscal year 2002, consistent with the increases in the University's Federal, State and other grants and contracts revenues.

Public service and enterprise development expense increased 5.1% to $3,401 in fiscal year 2004 from $3,236 in fiscal year 2003. Public service and enterprise development declined 27.2% to $3,236 in fiscal year 2003, reflecting a decline in the demand for continuing professional education services.

Operation and maintenance of plant expense was relatively stable in fiscal year 2004 and declined 11.6% in fiscal year 2003 as the progress of the University's facilities construction program into its later stages resulted in a shift away from non-capitalizable construction expenditures. Depreciation expense increased 8.5% to $14,714 in fiscal year 2004 and 4.4% to $13,561 in fiscal year 2003, primarily due to the increase in capital assets resulting from the completed portions of the facilities construction program.

Auxiliary enterprises expense increased 17.9% to $5,001 in fiscal year 2004, principally due to the new campus center, and 28.4% to $4,242 in fiscal year 2003, principally due to the 300-bed residence hall addition to Laurel Hall.

During fiscal years 2004 and 2003, the University incurred debt-related interest costs of $8,265 and $8,538, respectively, of which $545 and $1,929, respectively, was capitalized in conjunction with the current construction program and will be amortized over the estimated useful lives of the associated capital assets. The remaining interest costs of $7,720 and $6,609, offset by $52 and $476 of capitalized interest income, was a current fiscal year expense in fiscal years 2004 and 2003, respectively.

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SUMMARY AND OUTLOOK

The University finds itself in a sound financial position at June 30, 2004. Student enrollment is stable and the quality of the student body is improving, as the University's commitment to excellence becomes more widely known. Notwithstanding the decline in fiscal year 2004 State grants and contracts, the University has received Federal and State awards that will be realized in fiscal year 2005 and beyond. The University is implementing a strategy to capitalize on the results of its research and development activities by licensing agreements and other commercial affiliations. The University's fundraising activities are successful, and have generated a significant endowment.

The University's debt is rated A2 by Moody's Investors Service and A+ by Standard & Poor's. Moody's rating is based on the University's "modest enrollment growth despite some fluctuation in demand; consistently balanced operating results, including solid growth of research revenues; and high leverage, with moderate financial resources that should continue modest growth from fundraising and investment returns." Standard & Poor's rating reflects the University's "third-place position in the State funding hierarchy, coupled with the involvement of the school in the State's economic development as well as community outreach; niche as an engineering school and a research university; conservative fiscal management, demonstrated by a history of stable and balanced operating performance; and continued success in institutional development and fundraising efforts."

The University's contracts with its labor unions expired at the end of fiscal year 2003. Negotiations for new contracts are in progress, and are anticipated to come to mutually favorable conclusions. The economic provisions of the expired contracts will continue to prevail until new contracts are finalized. The University's relations with its employees are good.

As part of its long range plan, the University expects that its activities, including research, will increase the total operating budget. Management has been and will continue to be an active participant in the State's planning process, in order to ensure that its voice is heard and the University's needs are properly presented and considered in the State's financial deliberations. However, because of its poor current economic situation, the State decreased its funding of the University's operations in fiscal year 2004, and may have to do so again in fiscal year 2005. Accordingly, management has taken steps to increase the funding available from other sources. Such steps include higher tuition and fees in order to generate greater student tuition and fees revenues, a more aggressive research and development program, and a more intensive fundraising initiative. The University believes that its efforts in these resource-generating activities will continue to be successful because of favorable circumstances that exist or can be made to exist. In the former category is the positive trend in the number of high school graduates, which is anticipated to result in a greater demand for admission and University services. In the latter category is the University's placement of emphasis on the hiring of new faculty members who have a stronger inclination to become involved in research activities in addition to their teaching responsibilities. Management is also focusing on cost control and cash management initiatives.

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Governor James McGreevey's March 2002 Executive Order 14 created the Commission on Health Science, Education and Training (the "Commission"), which recommended in October 2002 that the current institutional structure be realigned by restructuring the University, the University of Medicine and Dentistry of New Jersey, and Rutgers, the State University of New Jersey into a single research university. In December 2003, Governor McGreevy announced that the proposal was too complicated and expensive to pursue at this time, and that he was therefore putting it on hold.

All in all, the University's management is of the opinion that the University's financial condition is sound, it is positioned to weather the currently poor economic situation, and it will continue to serve the needs of its constituencies for many years to come.

KPMG LLP
Princeton Pike Corporate Center
PO Box 7348
Princeton, NJ 08543-7348

Independent Auditors' Report

The Board of Trustees
New Jersey Institute of Technology:

We have audited the accompanying basic financial statements of New Jersey Institute of Technology (the "University"), a component unit of the State of New Jersey, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Institute of Technology as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows 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 10 is not a required part of the basic financial statements but is supplemental 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

August 27, 2004

NEW JERSEY INSTITUTE OF TECHNOLOGY

Statement of Net Assets

(Dollars in thousands)

at June 30,

		2004		2003
Assets				
Current assets:				
Cash and cash equivalents	$	25,555	$	16,949
Short term investments		10,474		4,802
Grants and accounts receivable, net		25,616		29,120
Deposits held with trustees, at fair value		3,287		7,194
Other current assets		1,142		635
Total current assets		66,074		58,700
Noncurrent assets:				
Endowment investments, at fair value		52,713		45,408
Deposits held with trustees, at fair value		11,882		13,070
Other assets		32,134		3,820
Capital assets, net of accumulated depreciation of $168,705 and $160,102, respectively		246,567		228,561
Total noncurrent assets		343,296		290,859
Total assets	$	409,370	$	349,559
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	$	21,392	$	20,306
Long term debt, current portion		1,587		3,396
Deferred revenue		10,373		15,726
Due to affiliates		2,276		762
Total current liabilities		35,628		40,190
Noncurrent liabilities:				
Long term debt		174,175		152,837
Other noncurrent liabilities		7,965		9,493
U.S. government grants refundable		1,713		1,652
Total noncurrent liabilities		183,853		163,982
Total liabilities	$	219,481	$	204,172
Net Assets				
Invested in capital assets, net of related debt	$	83,560	$	86,364
Restricted for:				
Nonexpendable:				
Scholarships and fellowships		27,920		26,088
Instructional and other		4,503		4,453
Expendable:				
Scholarships and fellowships		7,353		4,476
Research and programs		2,167		1,767
Instructional and other		3,917		3,069
Loans		926		921
Capital projects		13,797		—
Unrestricted (see note 10)		45,746		18,249
Total net assets	$	189,889	$	145,387

The accompanying notes are an integral part of the financial statements.

NEW JERSEY INSTITUTE OF TECHNOLOGY

Statement of Revenues, Expenses, and Changes in Net Assets

(Dollars in thousands)

For the years ended June 30,

	2004	2003
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $17,265 and $16,873, respectively	$ 55,613	$ 51,422
Federal grants and contracts	33,744	33,946
State grants and contracts	16,892	20,247
Other grants and contracts	3,060	2,991
Auxiliary enterprises, net of scholarship allowances of $1,901 and $1,861, respectively	8,351	7,796
Other operating revenues	2,092	2,442
Total operating revenues	119,752	118,844
Operating expenses:		
Instruction	58,477	56,625
Research and programs	40,515	44,749
Public service and enterprise development	3,401	3,236
Academic support	17,622	17,845
Student services	9,386	9,035
Institutional support	22,221	20,669
Operation and maintenance of plant	12,884	12,970
Scholarships and fellowships	5,392	5,244
Depreciation	14,714	13,561
Auxiliary enterprises	5,001	4,242
Total operating expenses	189,613	188,176
Operating loss	(69,861)	(69,332)
Nonoperating revenues (expenses):		
State appropriations	67,044	67,386
Gifts and bequests	3,842	3,975
Disposal of assets expense	(220)	(255)
Interest expense	(7,668)	(6,133)
Investment income	6,733	4,161
Other nonoperating revenues	945	410
Net nonoperating revenues	70,676	69,544
Income before other revenues	815	212
Other revenues:		
Capital grants and gifts	41,813	2,663
Additions to permanent endowments	1,874	2,274
Total other revenues	43,687	4,937
Increase in net assets	44,502	5,149
Net assets, beginning of year	145,387	140,238
Net assets, end of year	$ 189,889	$ 145,387

The accompanying notes are an integral part of the financial statements.

NEW JERSEY INSTITUTE OF TECHNOLOGY

Statement of Cash Flows

(Dollars in thousands)

For the years ended June 30,

	2004	2003
Operating activities:		
Student tuition and fees	$ 54,756	$ 52,113
Grants and contracts	49,527	57,407
Payments for salaries and benefits	(110,650)	(110,326)
Payments to suppliers	(42,390)	(42,276)
Payments for scholarships and fellowships	(5,392)	(5,244)
Loans issued to students	(420)	(444)
Loans collected from students	321	357
Auxiliary enterprises	3,350	3,554
University programs	2,388	2,423
Affiliates	1,514	(386)
Other receipts	216	523
Net cash used by operating activities	(46,780)	(42,299)
Noncapital financing activities:		
State appropriations	56,626	57,121
Gifts and bequests for other than capital purposes	2,239	3,277
Additions to permanent endowments	1,179	1,064
Direct lending and NJCLASS loan receipts	17,221	15,397
Direct lending and NJCLASS loan disbursements	(17,344)	(15,342)
Other	707	442
Net cash provided by noncapital financing activities	60,628	61,959
Capital financing activities:		
Proceeds from capital debt	99,981	—
Capital grants and gifts	21,819	1,639
Purchase of capital assets	(31,257)	(48,831)
Prepaid bond issuance costs	(1,134)	—
Retirement of bonds	(81,652)	—
Principal paid on long term debt	(3,565)	(3,209)
Interest paid on long term debt	(9,576)	(8,437)
Deposits held with trustees	5,069	35,185
Net cash used by capital financing activities	(315)	(23,653)
Investing activities:		
Proceeds from sales and maturities of investments	19,022	63,040
Interest and dividends on investments	1,712	3,068
Purchase of investments	(25,661)	(64,792)
Net cash (used) provided by investing activities	(4,927)	1,316
Net increase (decrease) in cash and cash equivalents	8,606	(2,677)
Cash and cash equivalents, beginning of year	16,949	19,626
Cash and cash equivalents, end of year	$ 25,555	$ 16,949
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (69,861)	$ (69,332)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	14,714	13,561
Noncash operating expenses	12,012	10,528
Changes in assets and liabilities:		
Grants and accounts receivable	681	393
Other assets, current and noncurrent	(398)	224
Accounts payable and accrued liabilities	(176)	1,476
Deferred revenue	(5,266)	1,237
Due to affiliates	1,514	(386)
Net cash used by operating activities	$ (46,780)	$ (42,299)
Noncash transactions:		
State appropriations for fringe benefits	$ 10,853	$ 9,693
Gifts and bequests	1,229	898
Additions to permanent endowments	994	1,210
Interest and dividends on investments	—	290
Investments	(1,064)	(1,563)

The accompanying notes are an integral part of the financial statements.

1. Organization and Summary of Significant Accounting Policies

New Jersey Institute of Technology ("NJIT"), a public research university, includes six collegiate units: Newark College of Engineering, The College of Computing Sciences, New Jersey School of Architecture, The College of Science and Liberal Arts, The School of Management, and The Albert Dorman Honors College; a graduate division; a continuing education program; and a number of research centers. Fields of study include engineering, computer science, architecture, applied sciences, management, statistics, and actuarial science. NJIT offers programs and courses leading to bachelors, masters and doctoral degrees, and also conducts an extensive research program.

The New Jersey Institute of Technology Act of 1996 established NJIT as a body corporate and politic and determined that the exercise of NJIT's powers was a public and essential government function.

The Foundation at New Jersey Institute of Technology (the "Foundation") is a component unit of NJIT. The Foundation has as its goal the support of excellence in instruction, research, and enterprise development programs at NJIT. The Foundation initiates and administers scientific and technical investigations, primarily utilizing the personnel and facilities of NJIT. Because of the significance of its operational and financial relationships with NJIT, the Foundation's financial statements are combined and reported on a blended basis with those of NJIT. Copies of the Foundation's financial statements can be obtained by writing to The Foundation at New Jersey Institute of Technology, University Heights, Newark, New Jersey 07102, Attention: University Advancement Office.

Pursuant to the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, NJIT, which is financially dependent on the State of New Jersey (the "State"), is considered to be a component unit of the State for financial reporting purposes. Accordingly, the financial statements of NJIT and the Foundation (collectively, the "University") are included in the State's Comprehensive Annual Financial Report.

(a) Basis of Presentation

The University's financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus, in accordance with *Governmental Accounting Standards*. All significant transactions between NJIT and the Foundation have been eliminated.

In addition to complying with all applicable GASB pronouncements, the University's financial statements comply with the guidance provided by the Financial Accounting Standards Board ("FASB"), the Accounting Principles Board and the Committee on Accounting Procedure issued on or before November 30, 1989. GASB pronouncements take precedence when there is a conflict or contradiction between pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

(Dollars in thousands)

(b) Use of Estimates

The financial statements include estimates and assumptions that affect the reported amounts of assets and liabilities at the statement of net assets dates, as well as the reported amounts of revenues and expenses for the fiscal years then ended. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

The University considers money market funds and investments with original maturities of three months or less to be cash equivalents, except for those included in endowment investments and those deposits held with trustees that are not expected to be expended within the succeeding fiscal year.

(d) Investments and Deposits Held with Trustees

Investments in equity securities, debt instruments, and mutual funds are carried at fair value, based on quoted market prices.

(e) Deferred Financing Costs

Deferred financing costs are included in other current assets and other assets, and are amortized over the life of the related long term debt.

(f) Capital Assets

Capital assets are carried at cost, or fair value at date of donation in the case of gifts. Expenditures for replacements are capitalized, and the replaced items are retired. Expenses resulting from disposal of property are included in nonoperating revenues (expenses). Depreciation is calculated on the straight-line basis over the following estimated useful lives:

Land improvements	20 years
Buildings and building improvements	20 to 40 years
Equipment and other assets	3 to 10 years

(g) Due to Affiliates

Due to affiliates consists of amounts the University is holding as agent for the following affiliated entities:

	June 30, 2004	June 30, 2003
Student organizations	$ 817	$ 759
New Jersey Manufacturing Extension Program, Inc.	737	(51)
NJEDge.Net	718	46
Council for Higher Education in Newark	(3)	1
Other affiliates	7	7
	$ 2,276	$ 762

(Continued)

(h) Classification of Net Assets

The University classifies its resources into three net asset categories:

- Invested in capital assets, net of related debt, contain the land, buildings, equipment, furnishings, and other facilities of the University and the indebtedness incurred to finance their acquisition and construction. Title to capital assets acquired through research grants and contracts remains with the University at the conclusion of the grant or contract period with the permission of the grantor.

- Restricted nonexpendable net assets are comprised of endowment, life income and annuity funds. Endowments are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the income and appreciation be utilized.

  Life income and annuity funds consist of annuity and unitrust funds which are given to the University to be invested with the stipulation that the University pay an agreed-upon sum to designated individuals for a period of time or for the beneficiary's lifetime. At the termination of the agreement, the remaining funds either become part of the University's endowment or are used for the purpose designated by the donor.

  Restricted expendable net assets include gifts that are restricted to use for specific purposes by the donor, grants and contracts, appropriations, endowment income and appreciation, and other restricted resources. Funds that are restricted are utilized only for the purposes specified by the donor.

- Unrestricted net assets are derived principally from State appropriations, student tuition and fees, gifts and bequests, and investment income, and are spent to meet the objectives of the University.

The University's policy is to first utilize available restricted, and then unrestricted, resources in the conduct of its operations.

(i) Classification of Revenue

Operating revenues are those that result from the provision of services related to the University's principal purposes of instruction and research, and are generally associated with exchange transactions. Nonoperating revenues result from activities that are not directly related to the University's principal purposes, but that exist in order to support them, and generally consist of nonexchange transactions. Other revenues arise from nonexchange transactions which provide funding for acquisitions of capital assets and additions to permanent endowments.

(j) Revenue Recognition

Grants and contracts revenues are recognized when the related expenditures are incurred. The unexpended portion of advance grant payments is recorded as deferred revenue in the statement of net assets.

Investment income, which includes interest, dividends, and realized and unrealized gains and losses, is recognized on the accrual basis. Gains and losses on investments are determined using specific identification, except for mutual funds, for which they are based on average cost.

Gifts and bequests are recorded upon their donation to the University. Pledges, other than endowment, are recognized as gift income and recorded at their present value. Additions to permanent endowments are recognized upon their receipt.

(k) Facilities and Administrative Costs Recovery

Facilities and administrative costs are recovered at rates specified under the various grants and contracts or at a predetermined rate negotiated with the U.S. Department of Health and Human Services, the University's cognizant federal agency, and are recorded as grants and contracts revenues.

(l) Auxiliary Activities

Auxiliary activities consist primarily of residence hall and parking operations.

(m) Fringe Benefits Paid by the State

Certain fringe benefits for the University's employees are paid by the State. Such amounts ($18,254 and $17,165 in fiscal years 2004 and 2003, respectively) are included in State appropriations. The offsetting expenses are recorded within the appropriate operating expense categories.

(n) Tax Status

NJIT and the Foundation have received determination letters from the Internal Revenue Service stating that they are organizations as described in Sections 501(c)(1) and 501(c)(3), respectively, of the Internal Revenue Code (the "Code") and, therefore, are exempt from Federal income taxes under Section 501(a) of the Code.

(o) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation.

2. Cash and Cash Equivalents, Investments, and Deposits Held with Trustees

The University invests its endowment funds in accordance with applicable limitations set forth in gift instruments or guidelines established by NJIT's Board of Trustees or the Foundation's Board of Overseers, as appropriate.

Cash and cash equivalents and endowment investments totaling $3,203 and $3,316 at cost ($3,205 and $2,945 at fair value) at June 30, 2004 and 2003, respectively, are held and administered by external trustees, while the remainder are held and administered by NJIT.

(Continued)

(Dollars in thousands)

The cost and fair value of cash and cash equivalents, investments, and deposits held with trustees are as follows:

	June 30, 2004		June 30, 2003	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash and cash equivalents:				
Cash	$ 693	$ 693	$ 596	$ 596
Money market funds	6,059	6,059	8,258	8,258
Repurchase agreements	18,803	18,803	8,095	8,095
	25,555	25,555	16,949	16,949
Investments:				
Money market funds	2,762	2,762	3,521	3,521
Repurchase agreements	—	—	149	149
Certificates of deposit	548	548	500	500
U.S. Treasury and agency obligations	8,712	8,735	3,050	3,276
Corporate equity securities	21,177	26,671	20,794	21,920
Corporate debt securities	5,906	5,878	4,108	4,142
Mutual funds	18,781	19,093	17,105	17,202
	57,886	63,687	49,227	50,710
Deposits held with trustees:				
Money market funds	11,841	11,841	12,900	12,900
U.S. Treasury and agency obligations	3,369	3,328	7,345	7,364
	15,210	15,169	20,245	20,264
Total cash and cash equivalents, investments, and deposits held with trustees	$ 98,651	$ 104,411	$ 86,421	$ 87,923

Deposits held with trustees represent restricted funds held by Wachovia Bank N.A. (the "Trustee") under terms of the 1994 Series A, 1995 Series E, 2001 Series G and H, and 2004 Series B agreements with the New Jersey Educational Facilities Authority ("NJEFA") (see note 6). The funds consist principally of cash and cash equivalents and U.S. government securities. Of the total deposits held at June 30, 2004, $11,635 is required to be maintained in accordance with the mortgage bond indenture agreements.

(Continued)

(Dollars in thousands)

The University, NJEFA, the Trustee, and Credit Suisse First Boston International ("CSFBI") have entered into an agreement for the investment of the University's debt service reserve for the 2004 Series B Bonds, incorporating the same provisions as the previous agreement for the 1994 Series A Bonds. Under this agreement, the University is committed to purchase U.S. Treasury Securities at maturity value from CSFBI up to the amount required to be held in the debt service reserve fund on an annual basis. The annual funding requirement approximates $4,100 per year through fiscal year 2024. For these commitments, CSFBI has guaranteed the University an annual payment of $257. For each of the years ended June 30, 2004 and 2003, this equates to an effective 6.3% rate of return, the arbitrage rebate limit.

The University's endowment investment pool is included in the cash and cash equivalents and investments presented above. The cost and fair value of the pooled funds are as follows:

	June 30, 2004		June 30, 2003	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Money market funds (including cash and cash equivalents)	$ 1,973	$ 1,973	$ 1,430	$ 1,430
Repurchase agreements	—	—	149	149
Mutual funds	17,777	18,133	16,021	16,241
Corporate equity securities	18,940	24,493	18,105	19,561
Total endowment investment pool	$ 38,690	$ 44,599	$ 35,705	$ 37,381

Pool units are assigned to new gifts based upon the value of the pool at the end of the quarter in which the gifts are received. There were 258,244 and 246,774 pool units at June 30, 2004 and 2003, with a fair unit value of $172.70 and $151.48, respectively. For the years ended June 30, 2004 and 2003, the average return per unit was 15.80% and 7.85%, respectively.

The spending policy for endowment funds requires an annual calculation based on a three year rolling average of the market value per unit (3.90% and 3.73% for the years ended June 30, 2004 and 2003, respectively).

Cash and cash equivalents, which have a bank balance of $31,580 and $19,059 at June 30, 2004 and 2003, respectively, are uncollateralized. The University categorizes its investments and deposits held with trustees to give an indication of the level of risk assumed. The three categories of credit risk are (1) insured or registered, or securities held by the University or its agent in the University's name, (2) uninsured and unregistered, with securities held by a party other than the University or its agent, but in the University's name, and (3) uninsured and unregistered securities held by a party other than the University or its agent, and not in the University's name. All of the University's investments fall into the first category of credit risk except for money market and mutual funds, which are noncategorized investments because they are not evidenced by securities that exist in physical or book entry form.

(Continued)

(Dollars in thousands)

3. Capital Assets

The activity in capital assets and accumulated depreciation for the years ended June 30, 2004 and 2003 was as follows:

	June 30, 2003	Additions	Retirements	Placed into service	June 30, 2004
Depreciable assets:					
Land improvements	$ 1,904	$ —	$ —	$ —	$ 1,904
Buildings and building improvements	256,020	107	—	61,087	317,214
Equipment and other assets	66,080	2,276	(6,331)	5,125	67,150
	324,004	2,383	(6,331)	66,212	386,268
Accumulated depreciation:					
Land improvements	254	95	—	—	349
Buildings and improvements	107,621	10,177	—	—	117,798
Equipment and other assets	52,227	4,442	(6,111)	—	50,558
	160,102	14,714	(6,111)	—	168,705
	163,902	(12,331)	(220)	66,212	217,563
Non-depreciable assets:					
Land	8,699	—	—	—	8,699
Construction in progress	55,960	30,557	—	(66,212)	20,305
	$ 228,561	$ 18,226	$ (220)	$ —	$ 246,567

	June 30, 2002	Additions	Retirements	Placed into service	June 30, 2003
Depreciable assets:					
Land improvements	$ 478	$ —	$ —	$ 1,426	$ 1,904
Buildings and building improvements	238,701	14	—	17,305	256,020
Equipment and other assets	64,582	3,914	(2,416)	—	66,080
	303,761	3,928	(2,416)	18,731	324,004
Accumulated depreciation:					
Land improvements	213	59	(18)	—	254
Buildings and improvements	98,739	8,882	—	—	107,621
Equipment and other assets	50,005	4,620	(2,398)	—	52,227
	148,957	13,561	(2,416)	—	160,102
	154,804	(9,633)	—	18,731	163,902
Non-depreciable assets:					
Land	8,699	—	—	—	8,699
Construction in progress	25,222	49,724	(255)	(18,731)	55,960
	$ 188,725	$ 40,091	$ (255)	$ —	$ 228,561

(Continued)

(Dollars in thousands)

4. Supplementary Statement of Net Assets Detail

		June 30, 2004		June 30, 2003
Grants and Accounts Receivable:				
Federal and State grants and accounts receivable	$	16,728	$	20,641
Student accounts receivable		6,444		6,275
Program services accounts receivable		1,964		2,128
Other grants and accounts receivable		1,212		849
Pledges receivable, current portion		644		391
Student loans receivable, current portion		320		355
Accrued interest receivable		124		195
		27,436		30,834
Less: allowance for doubtful accounts		1,820		1,714
	$	25,616	$	29,120
Other Assets, Noncurrent:				
Higher Education Capital Improvement Fund proceeds receivable	$	22,440	$	—
Deferred financing costs		7,316		1,702
Student loans receivable		1,614		1,480
Other investments		500		500
Pledges receivable		241		110
Other		23		28
	$	32,134	$	3,820
Accounts Payable and Accrued Liabilities:				
Salaries and fringe benefits	$	5,446	$	5,058
Accrued interest expense		2,699		4,163
Accounts payable - construction		7,200		6,086
Accounts payable - other		4,676		4,061
Other noncurrent liabilities, current portion		1,371		938
	$	21,392	$	20,306

(Dollars in thousands)

5. Noncurrent Liabilities

The activity in noncurrent liabilities for the years ended June 30, 2004 and 2003 was as follows:

	June 30, 2003	Additions	Reductions	June 30, 2004	Current portion
Long term debt	$ 159,202	$ 93,866	$ (81,870)	$ 171,198	$ 1,694
Unamortized premium (discounts)	(2,969)	6,138	1,395	4,564	(107)
Total long term debt	156,233	100,004	(80,475)	175,762	1,587
Retirement incentive program	4,393	675	(1,993)	3,075	730
Annuity funds liability	2,862	618	(534)	2,946	536
Insurance liability reserve	1,496	—	(4)	1,492	—
Compensated absences	1,321	221	(81)	1,461	80
Other	359	463	(460)	362	25
Total other noncurrent liabilities	10,431	1,977	(3,072)	9,336	1,371
U.S. government grants refundable	1,652	76	(15)	1,713	—
Total noncurrent liabilities	$ 168,316	$ 102,057	$ (83,562)	$ 186,811	$ 2,958

	June 30, 2002	Additions	Reductions	June 30, 2003	Current portion
Long term debt	$ 162,411	$ —	$ (3,209)	$ 159,202	$ 3,564
Unamortized discounts	(3,142)	—	173	(2,969)	(168)
Total long term debt	159,269	—	(3,036)	156,233	3,396
Retirement incentive program	4,834	684	(1,125)	4,393	408
Annuity funds liability	2,142	1,286	(566)	2,862	450
Insurance liability reserve	1,500	—	(4)	1,496	—
Compensated absences	1,354	145	(178)	1,321	80
Other	377	45	(63)	359	—
Total other noncurrent liabilities	10,207	2,160	(1,936)	10,431	938
U.S. government grants refundable	1,565	88	(1)	1,652	—
Total noncurrent liabilities	$ 171,041	$ 2,248	$ (4,973)	$ 168,316	$ 4,334

The current portion of other noncurrent liabilities is included in accounts payable and accrued liabilities.

During fiscal year 2004, a retirement incentive accrual of $1,510 was reversed due to its assumption by the State.

Included in annuity funds liability is unrealized gain of $106 and $210 at June 30, 2004 and 2003, respectively.

(Continued)

(Dollars in thousands)

6. Long Term Debt

Long term debt at June 30, 2004 and 2003 is composed of:

	June 30, 2004	June 30, 2003
Revenue Bonds:		
2004 Series B issue:		
Serial bonds (interest rates between 2.00% to 5.25%, due on various dates through fiscal year 2026)	$ 73,530	$ —
2001 Series G issue:		
Serial bonds (interest rates between 2.40% to 5.25%, due on various dates through fiscal year 2022)	23,290	23,910
Term bonds (interest rate at 5.00%, final maturity in fiscal year 2027)	16,710	16,710
Term bonds (interest rate at 4.75%, final maturity in fiscal year 2032)	21,215	21,215
2001 Series H issue:		
Term bonds (interest rate at 6.05%, final maturity in fiscal year 2017)	11,545	12,120
1995 Series E issue	—	30,705
1994 Series A issue	—	49,465
Capital Lease Obligations:		
Higher Education Capital Improvement Fund	20,313	—
Equipment Leasing Fund	1,212	1,480
Other	46	120
Other Long Term Debt:		
New Jersey Economic Development Authority note	3,337	3,477
	171,198	159,202
Unamortized premium (discounts) on obligations	4,564	(2,969)
	175,762	156,233
Less: current portion	1,587	3,396
Long term debt	$ 174,175	$ 152,837

(Continued)

The 2004 Series B Bonds were issued by NJEFA pursuant to an agreement with the University for the purpose of currently refunding the 1994 Series A Bonds and advance refunding the 1995 Series E Bonds. Government obligations were purchased and deposited with a trustee under an irrevocable escrow deposit agreement, effectively creating an in-substance defeasance. The agreement with NJEFA requires the pledging of certain revenues to meet the sinking fund requirements of the issue. The University's mortgage obligation to NJEFA is collateralized by certain land, buildings and building improvements, and equipment.

The 2004 Series B Bonds were issued at a premium of $6,138, which is being amortized against interest expense over the life of the bonds.

Except for extraordinary optional redemption as described in the debt agreement, the 2004 Series B Bonds maturing on or prior to July 1, 2013 are not subject to redemption prior to maturity. The 2004 Series B Bonds maturing on or after July 1, 2014 are subject to redemption prior to maturity on or after January 1, 2014 at a price of 100%.

The 2001 Series G Bonds and the 2001 Series H Bonds were issued by NJEFA pursuant to an agreement with the University to provide funds to finance a portion of the costs of constructing, upgrading, rehabilitating, and expanding certain educational and small business incubator facilities, respectively. The agreement with NJEFA requires the pledging of certain revenues to meet the sinking fund requirements of the issues. The University's mortgage obligations to NJEFA are collateralized by certain land, buildings and building improvements, and equipment.

Except for extraordinary optional redemption as described in the debt agreement, the 2001 Series G Bonds are not subject to redemption prior to July 1, 2011, and are redeemable thereafter at a price of 100%. The 2001 Series H Bonds are not subject to optional redemption, except for extraordinary optional redemption as described in the debt agreement.

The 5.00% and 4.75% 2001 Series G Term Bonds mature annually from fiscal years 2023 through 2027 and 2028 through 2032, respectively. The 2001 Series H Term Bonds mature annually through fiscal year 2017.

During 2004, NJEFA issued bonds to provide funds for the Higher Education Capital Improvement Fund ("HECIF"), which provides funds for certain construction and facilities improvements at the State's public institutions of higher education. The University was allocated $60,938 of the proceeds, for which it is responsible for one-third of the debt service payments and related program expenses. The remaining two-thirds was recorded as a capital grant. The HECIF debt matures in fiscal year 2025.

The Equipment Leasing Fund ("ELF") obligation was issued by NJEFA to provide funds to finance certain equipment at the State's public institutions of higher education. The University is responsible for 25% of the debt service payments and related program expenses. The ELF debt matures in fiscal year 2028.

(Dollars in thousands)

The New Jersey Economic Development Authority ("NJEDA") note, which matures in fiscal year 2028, is non-interest bearing and payable monthly. Imputed interest expense totaled $105 and $107 in fiscal years 2004 and 2003, respectively.

At June 30, 2004, deposits held with trustees included $1,245 for principal payments on revenue bonds due on July 1, 2004. Payments due on long term debt, including mandatory sinking fund payments on the revenue bonds, are as follows for the fiscal years ending June 30:

	Principal	Interest	Total
2005	$ 1,747	$ 7,941	$ 9,688
2006	1,801	7,766	9,567
2007	2,532	7,971	10,503
2008	3,601	7,851	11,452
2009	5,403	7,707	13,110
2010 to 2014	31,315	34,247	65,562
2015 to 2019	39,830	25,832	65,662
2020 to 2024	50,848	14,993	65,841
2025 to 2029	23,795	5,162	28,957
2030 to 2032	9,081	652	9,733
	$ 169,953	$ 120,122	$ 290,075

The University has credit agreements with two banks permitting it to borrow up to $6,000 in total, at market-based interest rates at the time of utilization. At June 30, 2004, there were no outstanding borrowings against these agreements.

Deferred financing costs, net of accumulated amortization, associated with the University's long term debt totaled $7,418 and $1,779 at June 30, 2004 and 2003, respectively.

Interest charges incurred in fiscal years 2004 and 2003 totaled $8,265 and $8,538, respectively, of which $545 and $1,929, respectively, was capitalized as construction in progress.

7. Compensated Absences

Eligible employees accrue vacation leave based upon time employed with a maximum accumulation of 15 to 25 days. In addition, eligible employees who retire are paid 50% of their unused sick time up to a maximum of $15 per employee.

At June 30, 2004 and 2003, accounts payable and accrued liabilities include accrued vacation and related fringe benefits of $3,066 and $3,145, respectively, and unused sick time of $80 and $80, respectively. At June 30, 2004 and 2003, other noncurrent liabilities include $1,381 and $1,241, respectively, of unused sick time. In fiscal years 2004 and 2003, payments for unused sick time totaled $81 and $178, respectively.

8. Retirement Programs

Full-time employees of the University participate in one of four retirement systems – the Public Employees’ Retirement System (“PERS”), the Police and Firemen’s Retirement System (“PFRS”), the Teachers’ Pension and Annuity Fund (“TPAF”), or the Alternate Benefits Program (“ABP”). PERS, PFRS, and TPAF are cost-sharing, multiple-employer plans administered by the State of New Jersey. ABP is administered by a separate board of trustees. All employees, except certain part-time employees, participate in one of these plans.

PERS is a defined benefit retirement program which provides coverage, including post-retirement health care, to substantially all full-time employees of the State or public agencies who are not members of another State-administered retirement system. Membership is mandatory for such employees. Vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage. Members are eligible for retirement at age 60, with a benefit generally determined to be 1/55th of the average of the three highest years of compensation for each year of service credit. The current employee contribution rate is 3% of base salary. The University’s contributions to PERS for the years ended June 30, 2004 and 2003 were $109 and $103, respectively.

PFRS is a defined benefit retirement program which provides coverage, including post-retirement health care, to substantially all permanent, full-time police officers and firemen in the State. Membership is mandatory for such employees. Vesting occurs after 10 years of service. The employee contribution rate is 8.5% of base salary. A member may retire at age 55 with a benefit equal to two percent of final compensation for each year of creditable service up to 30 years, plus one percent for each year in excess of 30 years. The University’s contributions to PFRS for the years ended June 30, 2004 and 2003 were $42 and $39, respectively.

TPAF is a defined benefit retirement program which provides coverage, including post-retirement health care, to substantially all full-time public school teachers of the State. The University no longer enrolls new employees in TPAF. Vesting occurs after 10 years of credited service for pension benefits and 25 years for post-retirement health care coverage. The employee contribution rate is 3% of base salary. Members are eligible for retirement at age 60, with a benefit generally determined to be 1/55th of the average of the three highest years of compensation for each year of service credit. The University’s contributions to TPAF for the years ended June 30, 2004 and 2003 were $43 and $42, respectively.

ABP is a defined contribution retirement program for eligible employees, providing retirement, disability, and death benefits for professionals and faculty members electing to participate. Vesting occurs after one year of service. The employee contribution rate is 5% of base salary, and the employer contribution rate is 8% of base salary. Benefits are determined by the amount of individual accumulations and the retirement income option selected. For the years ended June 30, 2004 and 2003, the University’s contributions to ABP were $4,856 and $4,797, and employee contributions were $3,026 and $2,992, respectively.

(Continued)

(Dollars in thousands)

The State issues publicly available financial reports that include financial statements and required supplementary information for PERS, PFRS, and TPAF. These reports 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.

9. Investment Income

Investment income was comprised of the following for the fiscal years ended June 30:

	2004	2003
Interest and dividends	$ 1,676	$ 2,834
Net increase in the fair value of investments	4,152	3,480
Realized net gain (loss) on sale of investments	957	(1,677)
	6,785	4,637
Less: interest income capitalized	52	476
Investment income	$ 6,733	$ 4,161

Interest income capitalized is netted against interest expense in the statement of revenues, expenses, and changes in net assets.

10. Designations of Unrestricted Net Assets

Unrestricted net assets are designated for the following specific purposes by the University:

	June 30, 2004	June 30, 2003
Scholarships and fellowships	$ 4,007	$ 3,244
Instructional and other	7,145	3,567
Outstanding purchase orders	2,555	2,906
Debt service	9,172	4,352
Construction of new facilities	16,143	—
Designated unrestricted net assets	39,022	14,069
Undesignated unrestricted net assets	6,724	4,180
Unrestricted net assets	$ 45,746	$ 18,249

11. Commitments and Contingencies

Commitments at June 30, 2004 totaled $29,679, primarily representing open purchase orders for construction and research expenditures.

In the normal course of business, the University is subject to various lawsuits and claims. Management believes that the ultimate resolution of these matters will not have a significant effect on the University's financial position.