NEW JERSEY INSTITUTE OF TECHNOLOGY

Financial Statements and
Management's Discussion and Analysis

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

NEW JERSEY INSTITUTE OF TECHNOLOGY

June 30, 2005 and 2004

Table of Contents

NEW JERSEY INSTITUTE OF TECHNOLOGY

Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2005 and 2004

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, 2005 and 2004. 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 8,200 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-one specialties, and thirty-four baccalaureate degree programs.

Established pursuant to an 1881 New Jersey statute, NJIT was formally recognized 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, 2005 and 2004 was sound, with total assets of $402,856 and $409,370, and total liabilities of $216,062 and $219,481, respectively. Net assets, which represent the excess of the University's assets over its liabilities, totaled $186,794 and $189,889 at June 30, 2005 and 2004, respectively. Net assets decreased $3,095 in fiscal year 2005, principally due to an increase in the operating loss primarily resulting from higher operating costs and depreciation expense, partially offset by an increase in grants and contracts revenues. 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.

(Dollars in thousands)

THE FINANCIAL STATEMENTS

The University's financial statements include a statement of net assets at June 30, 2005 and 2004, 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, 2005 and 2004, and is summarized as follows. The summarized statement of net assets at June 30, 2003 is also presented for comparative purposes.

	June 30, 2005	June 30, 2004	June 30, 2003
Current assets	$ 69,278	$ 66,074	$ 58,700
Endowment investments	56,577	52,713	45,408
Capital assets, net	255,996	246,567	228,561
Other assets	21,005	44,016	16,890
Total assets	402,856	409,370	349,559
Current liabilities	34,294	35,628	40,190
Long term debt	171,955	174,175	152,837
Other liabilities	9,813	9,678	11,145
Total liabilities	216,062	219,481	204,172
Invested in capital assets, net of related debt	94,685	83,560	86,364
Restricted	51,365	60,583	40,774
Unrestricted	40,744	45,746	18,249
Total net assets	$ 186,794	$ 189,889	$ 145,387

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, 2005 as compared to June 30, 2004 of $3,204 relates principally to increases in cash and cash equivalents and deposits held with trustees, which were largely offset by a decrease in short term investments, and an increase in grants and accounts receivable principally caused by the increase in grants and contracts revenues. 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.

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, 2005 as compared to June 30, 2004 of $1,334 principally relates to a reduction in accounts payable and accrued liabilities as a result of a decrease in accounts payable relating to construction projects, offset by increases in all other current liabilities. 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.

Excluding deposits held with trustees, which can only be used for debt service and facilities construction, and deferred revenue, which is associated with certain specific activities, current assets exceeded current liabilities by $40,666 and $37,532 at June 30, 2005 and 2004, respectively. The University had $34,553 and $36,029 in cash and cash equivalents and short term investments to fund current operations at June 30, 2005 and 2004, 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 ($50,312 and $48,790 in fiscal years 2005 and 2004, 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 7.3% and 16.1% during fiscal years 2005 and 2004, respectively, reflecting growth from new gifts and realized expendable investment earnings in both years, and fair value increases at June 30, 2005 and 2004.

Capital assets increased 4.8% and 6.8% at cost during fiscal years 2005 and 2004, respectively, principally related to the University's facilities construction projects. During fiscal year 2005, phase two of the Campus Center, which commenced in fiscal year 2004, was completed and inaugurated, as were extensive landscaping improvements. During fiscal year 2004, phase one of the Campus Center and a multi-purpose building including classrooms and administrative offices were completed and inaugurated, and two additional rehabilitation projects, Cullimore Hall and Eberhardt Hall, with anticipated completion dates in fiscal year 2006, commenced.

(Continued)

Total long term debt at June 30, 2005 and 2004 totaled $173,884 and $175,762, respectively. During fiscal year 2004, the University refunded two series of previously issued revenue bonds, pursuant to an agreement with NJEFA, which issued the 2004 Series B Bonds in the amount of $75,530. 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. Debt issued in prior fiscal years was principally utilized for the construction of new facilities or the acquisition of equipment.

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 University is responsible for one-third of the debt service payments and related program expenses. The HECIF debt matures in fiscal year 2025. The remaining two-thirds was recorded as a capital grant, of which $22,440 was recorded as a receivable in other assets at June 30, 2004.

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, increased $11,125 during fiscal year 2005 principally due to the increase in capital assets resulting from the facilities construction program and capital asset additions offset by depreciation expense. 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.

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; 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 decreased $9,218 during fiscal year 2005, principally due to a decrease in restricted expendable net assets for capital projects as a result of expenditures related to the HECIF grant, largely offset by increases in restricted expendable and nonexpendable net assets for scholarships and fellowships as a result of additions to permanent endowments and investment income and in restricted expendable net assets for instructional and other. 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 investment income.

(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, 2005	June 30, 2004	June 30, 2003
Scholarships and fellowships	$ 4,226	$ 4,007	$ 3,244
Instructional and other	5,838	7,145	3,567
Debt service	3,806	2,784	2,573
Deferred financing costs	7,014	7,418	1,779
Outstanding purchase orders	3,200	2,555	2,906
Construction of new facilities	9,367	15,113	—
	$ 33,451	$ 39,022	$ 14,069

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, 2005 and 2004 are as follows. The components of revenues for the fiscal year ended June 30, 2003 are also presented for comparative purposes:

	2005	2004	2003
Operating revenues:			
Student tuition and fees, net	$ 55,716	$ 55,613	$ 51,422
Federal, State, and other grants and contracts	57,409	53,696	57,184
Auxiliary enterprises, net	8,676	8,351	7,796
Other operating revenues	2,915	2,092	2,442
Total operating revenues	124,716	119,752	118,844
Nonoperating revenues:			
State appropriations	69,435	67,044	67,386
Gift and bequests, including capital, and additions to permanent endowments	5,114	47,529	8,912
Investment income	5,334	6,733	4,161
Other nonoperating revenues	2,163	945	410
Total nonoperating revenues	82,046	122,251	80,869
Total revenues	$ 206,762	$ 242,003	$ 199,713

(Dollars in thousands)

The components of expenses for the fiscal years ended June 30, 2005 and 2004 are as follows. The components of expenses for the fiscal year ended June 30, 2003 are also presented for comparative purposes:

	2005	2004	2003
Operating expenses:			
Instruction	$ 62,274	$ 58,477	$ 56,625
Research and programs	39,039	40,515	44,749
Public service and enterprise development	3,800	3,401	3,236
Academic support	18,546	17,622	17,845
Student services	10,524	9,386	9,035
Institutional support	24,643	22,221	20,669
Operation and maintenance of plant	14,762	12,884	12,970
Scholarships and fellowships	5,270	5,392	5,244
Depreciation	15,937	14,714	13,561
Auxiliary enterprises	5,195	5,001	4,242
Total operating expenses	199,990	189,613	188,176
Nonoperating expenses:			
Disposal of assets expense	2,082	220	255
Interest expense	7,785	7,668	6,133
Total nonoperating expenses	9,867	7,888	6,388
Total expenses	$ 209,857	$ 197,501	$ 194,564

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 $19,460, totaled $55,716 for fiscal year 2005, an increase of 0.2% over the fiscal year 2004 student tuition and fees, net of allowances of $17,265, of $55,613. The fiscal year 2005 increase is principally attributable to a 8.0% increase in tuition and fees, offset by a decrease in student enrollment, principally due to a greater level of state and national competition for computing sciences students, accelerated graduation rates, and an increase in scholarship allowances. 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.

Auxiliary enterprises revenues, net of scholarship allowances of $2,175 and $1,901, increased 3.9% and 7.1% to $8,676 and $8,351 in fiscal years 2005 and 2004, respectively, principally due to increased residence hall charges.

(Continued)

(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 are as follows:

	Fiscal Year Ended June 30,		
	2005	2004	2003
Direct appropriations for general operating purposes	$ 50,312	$ 48,790	$ 50,221
FICA and fringe benefits paid by the State for University employees	19,123	18,254	17,165
	$ 69,435	$ 67,044	$ 67,386

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,		
	2005	2004	2003
Federal grants and contracts	$ 38,477	$ 33,744	$ 33,946
State grants and contracts	15,954	16,892	20,247
Other grants and contracts	2,978	3,060	2,991
	$ 57,409	$ 53,696	$ 57,184

Federal grants and contracts revenues increased 14.0% in fiscal year 2005, reflecting their increasing importance to the University. State grants and contracts revenues decreased 5.6% and 16.6% in fiscal years 2005 and 2004, respectively, as a result of the State's continuing difficult economic situation. Other grants and contracts revenues remained relatively constant.

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 2005 and 2004 totaled $3,675 and $3,842, respectively, and capital grants and gifts generated another $314 and $41,813, respectively, for the purchase of capital assets. The HECIF grant was included in capital grants and gifts in fiscal year 2004. Additions to permanent endowments were $1,125 and $1,874, in fiscal years 2005 and 2004, respectively.

(Continued)

Investment income includes interest and dividends income, realized net gain on the sale of investments, and net increase (decrease) in the fair value of investments. Net fiscal year 2005 investment income decreased by $1,399 over fiscal year 2004 principally due to a decrease in the fair value of investments, primarily the result of the instability in market conditions, partially offset by increases in interest and dividends and realized gains on the sale 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 2005 interest and dividends income increased due to a higher interest rate environment than in fiscal year 2004, in which interest and dividends income declined due to a lower interest rate environment over the preceding fiscal year.

Instruction, academic support, student services, and scholarships and fellowships expenses are directly associated with the University's primary mission as an institution of higher education, and totaled $96,614, $90,877, and $88,749 in fiscal years 2005, 2004 and 2003, respectively. The increases of 6.3% and 2.4% in fiscal years 2005 and 2004, respectively, are primarily the result of increased compensation costs for faculty and staff and higher expenditures for student software and supplies.

Research and programs expense declined 3.6% to $39,039 in fiscal year 2005 due to a decrease in noncapitalizable research expenditures, and 9.5% to $40,515 in fiscal year 2004, primarily related to the continuing decline in State grants and contracts.

Operation and maintenance of plant expense increased 14.6% to $14,762 in fiscal year 2005, after remaining relatively stable at $12,884 in fiscal year 2004, primarily due to increases in compensation costs and increased expenses associated with the new facilities placed into service in fiscal years 2003 through 2005.

Auxiliary enterprises expense increased 3.9% to $5,195 in fiscal year 2005, principally due to increased operations and maintenance costs for residence halls, and 17.9% to $5,001 in fiscal year 2004, principally due to the new Campus Center.

During fiscal years 2005 and 2004, the University incurred debt-related interest costs of $7,952 and $8,265, respectively, of which $167 and $545, respectively, was capitalized in conjunction with the facilities construction program and will be amortized over the estimated useful lives of the associated capital assets. The remaining interest costs in fiscal year 2004 of $7,720 was offset by $52 of capitalized interest income.

(Continued)

NEW JERSEY INSTITUTE OF TECHNOLOGY

Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2005 and 2004

SUMMARY AND OUTLOOK

The University finds itself in a sound financial position at June 30, 2005. While student enrollment in certain programs has decreased, the University has developed and implemented strategic plans to increase enrollment for the fiscal 2006 academic year. Notwithstanding the decline in fiscal year 2005 State grants and contracts, the University realized an increase in Federal awards during the fiscal year, and plans to continue to pursue such awards in order to increase its share of them. The University is pursuing 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 relations with its employees are good. New contracts have been negotiated with all labor unions except one. Negotiations with the remaining labor union are being conducted with the assistance of State mediators, and are anticipated to come to a mutually favorable conclusion. All contracts, including the one yet to be finalized, will cover the period through fiscal year 2007.

As part of its long range plan, the University expects that its activities will continue to 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. As a result of the State's economic conditions over the past several fiscal years, 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 University's strategic plan to increase student enrollment, which includes a greater emphasis on expanded outreach programs, increased scholarships for desirable students, and the establishment of new programs and extension sites. 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.

All in all, the University's management is of the opinion that the University's financial condition is sound, it is positioned to continue to weather the State's 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, 2005 and 2004, 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 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 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, 2005 and 2004, 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 9 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

September 2, 2005

NEW JERSEY INSTITUTE OF TECHNOLOGY

Statement of Net Assets

(Dollars in thousands)

at June 30,

		2005		2004
Assets				
Current assets:				
Cash and cash equivalents	$	28,072	$	25,555
Short term investments, at fair value		6,481		10,474
Grants and accounts receivable, net		27,940		25,616
Deposits held with trustees, at fair value		5,196		3,287
Other current assets		1,589		1,142
Total current assets		69,278		66,074
Noncurrent assets:				
Endowment investments, at fair value		56,577		52,713
Deposits held with trustees, at fair value		11,450		11,882
Other assets		9,555		32,134
Capital assets, net of accumulated depreciation of $179,269 and $168,705, respectively		255,996		246,567
Total noncurrent assets		333,578		343,296
Total assets	$	402,856	$	409,370
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	$	17,964	$	21,392
Long term debt, current portion		1,929		1,587
Deferred revenue		10,878		10,373
Due to affiliates		3,523		2,276
Total current liabilities		34,294		35,628
Noncurrent liabilities:				
Long term debt		171,955		174,175
Other noncurrent liabilities		8,085		7,965
U.S. government grants refundable		1,728		1,713
Total noncurrent liabilities		181,768		183,853
Total liabilities	$	216,062	$	219,481
Net Assets				
Invested in capital assets, net of related debt	$	94,685	$	83,560
Restricted for:				
Nonexpendable:				
Scholarships and fellowships		29,020		27,920
Instructional and other		4,528		4,503
Expendable:				
Scholarships and fellowships		9,434		7,353
Research and programs		1,528		2,167
Instructional and other		5,918		3,917
Loans		937		926
Capital projects		—		13,797
Unrestricted (see note 10)		40,744		45,746
Total net assets	$	186,794	$	189,889

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,

	2005	2004
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $19,460 and $17,265, respectively	$ 55,716	$ 55,613
Federal grants and contracts	38,477	33,744
State grants and contracts	15,954	16,892
Other grants and contracts	2,978	3,060
Auxiliary enterprises, net of scholarship allowances of $2,175 and $1,901, respectively	8,676	8,351
Other operating revenues	2,915	2,092
Total operating revenues	124,716	119,752
Operating expenses:		
Instruction	62,274	58,477
Research and programs	39,039	40,515
Public service and enterprise development	3,800	3,401
Academic support	18,546	17,622
Student services	10,524	9,386
Institutional support	24,643	22,221
Operation and maintenance of plant	14,762	12,884
Scholarships and fellowships	5,270	5,392
Depreciation	15,937	14,714
Auxiliary enterprises	5,195	5,001
Total operating expenses	199,990	189,613
Operating loss	(75,274)	(69,861)
Nonoperating revenues (expenses):		
State appropriations	69,435	67,044
Gifts and bequests	3,675	3,842
Disposal of assets expense	(2,082)	(220)
Interest expense	(7,785)	(7,668)
Investment income	5,334	6,733
Other nonoperating revenues	2,163	945
Net nonoperating revenues	70,740	70,676
(Loss) income before other revenues	(4,534)	815
Other revenues:		
Capital grants and gifts	314	41,813
Additions to permanent endowments	1,125	1,874
Total other revenues	1,439	43,687
(Decrease) increase in net assets	(3,095)	44,502
Net assets, beginning of year	189,889	145,387
Net assets, end of year	$ 186,794	$ 189,889

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,

	2005	2004
Operating activities:		
Student tuition and fees	$ 55,205	$ 54,756
Grants and contracts	56,205	49,527
Payments for salaries and benefits	(115,375)	(110,650)
Payments to suppliers	(44,819)	(42,390)
Payments for scholarships and fellowships	(5,270)	(5,392)
Loans issued to students	(543)	(420)
Loans collected from students	335	321
Auxiliary enterprises	3,481	3,350
University programs	2,916	2,388
Affiliates	1,247	1,514
Other (payments) receipts	(75)	216
Net cash used by operating activities	(46,693)	(46,780)
Noncapital financing activities:		
State appropriations	57,551	56,626
Gifts and bequests for other than capital purposes	2,130	2,239
Additions to permanent endowments	923	1,179
Direct lending and NJCLASS loan receipts	17,431	17,221
Direct lending and NJCLASS loan disbursements	(17,349)	(17,344)
Other	554	707
Net cash provided by noncapital financing activities	61,240	60,628
Capital financing activities:		
Proceeds from capital debt	—	99,981
Capital grants and gifts	22,705	21,819
Purchase of capital assets	(31,525)	(31,257)
Prepaid bond issuance costs	—	(1,134)
Retirement of bonds	—	(81,652)
Principal paid on long term debt	(1,692)	(3,565)
Interest paid on long term debt	(6,256)	(9,576)
Deposits held with trustees	(1,460)	5,069
Net cash used by capital financing activities	(18,228)	(315)
Investing activities:		
Proceeds from sales and maturities of investments	31,542	19,022
Interest and dividends on investments	2,423	1,712
Purchase of investments	(27,767)	(25,661)
Net cash provided (used) by investing activities	6,198	(4,927)
Net increase in cash and cash equivalents	2,517	8,606
Cash and cash equivalents, beginning of year	25,555	16,949
Cash and cash equivalents, end of year	$ 28,072	$ 25,555
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (75,274)	$ (69,861)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	15,937	14,714
Noncash operating expenses	12,819	12,012
Changes in assets and liabilities:		
Grants and accounts receivable	(2,234)	681
Other assets, current and noncurrent	21	(398)
Accounts payable and accrued liabilities	350	(176)
Deferred revenue	441	(5,266)
Due to affiliates	1,247	1,514
Net cash used by operating activities	$ (46,693)	$ (46,780)
Noncash transactions:		
State appropriations for fringe benefits	$ 11,607	$ 10,853
Gifts and bequests	1,564	1,229
Interest expense	1,034	—
Additions to permanent endowments	37	994
Interest and dividends on investments	36	—
Investments	(199)	(1,064)

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. NJIT has its origins in the 1881 New Jersey statutes.

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, 2005	June 30, 2004
NJEDge.Net	$ 1,855	$ 718
Student organizations	871	817
New Jersey Manufacturing Extension Program, Inc.	793	737
Council for Higher Education in Newark	(3)	(3)
Other organizations	7	7
	$ 3,523	$ 2,276

(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 ($19,123 and $18,254 in fiscal years 2005 and 2004, 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) Accounting Changes

In fiscal year 2005, the University adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* which updates custodial credit risk disclosure requirements and establishes more comprehensive disclosure requirements addressing other common risks associated with deposits and investments.

(Continued)

(Dollars in thousands)

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.

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

	June 30, 2005		June 30, 2004	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash and cash equivalents:				
Cash	$ 905	$ 905	$ 693	$ 693
Money market funds	3,184	3,184	6,059	6,059
Repurchase agreements	23,983	23,983	18,803	18,803
	28,072	28,072	25,555	25,555
Investments:				
Money market funds	2,988	2,988	2,762	2,762
Certificates of deposit	596	594	548	548
U.S. Treasury and agency obligations	9,440	9,548	8,712	8,735
Corporate equity securities	22,127	26,888	21,177	26,671
Corporate debt securities	1,087	1,133	5,906	5,878
Mutual equity funds	2,862	4,082	3,144	3,852
Mutual bond funds	14,371	14,265	15,637	15,241
Hedge funds	4,000	4,060	—	—
	57,471	63,558	57,886	63,687
Deposits held with trustees:				
Money market funds	9,269	9,269	11,841	11,841
U.S. Treasury and agency obligations	7,401	7,377	3,369	3,328
	16,670	16,646	15,210	15,169
Total cash and cash equivalents, investments, and deposits held with trustees	$ 102,213	$ 108,276	$ 98,651	$ 104,411

Cash and cash equivalents and endowment investments totaling $3,157 and $3,203 at cost ($3,646 and $3,205 at fair value) at June 30, 2005 and 2004, respectively, are held and administered by external trustees, while the remainder are held and administered by NJIT.

(Dollars in thousands)

Deposits held with trustees represent restricted funds held by Wachovia Bank N.A. (the "Trustee") under terms of the 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, 2005, $11,385 is required to be maintained in accordance with the mortgage bond indenture agreements.

Cash and cash equivalents, which have a bank balance of $30,738 and $31,580 at June 30, 2005 and 2004, respectively, are insured up to Federal Deposit Insurance Corporation ("FDIC") coverage limits, but amounts in excess are uncollateralized. Investments and deposits held with trustees are either insured, registered, or held by the University or its agent in the University's name, except for money market and mutual funds, which are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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. 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, 2005 and 2004, this equates to an effective 6.3% rate of return, the arbitrage rebate limit.

In order to limit the risks associated with changes in interest rates, the University's endowment investment policy calls for a weighted average portfolio duration of not more than seven and one-half years for fixed income securities. At June 30, 2005, fixed income investments included in cash and cash equivalents, investments, and deposits held with trustees have the following maturities:

		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 to 5**	**6 to 10**	**More Than 10**
Money market funds	$ 15,441	$ 15,441	$ —	$ —	$ —
Repurchase agreements	23,983	23,983	—	—	—
Certificates of deposit	594	529	65	—	—
U.S. Treasury and agency obligations	16,925	13,861	1,020	1,955	89
Corporate debt securities	1,133	283	299	338	213
Mutual bond funds (weighted average maturity of 6.5 years)	14,265	—	—	14,265	—
Total fixed income investments	$ 72,341	$ 54,097	$ 1,384	$ 16,558	$ 302

(Dollars in thousands)

The University invests only in investment grade bonds rated at least BBB (or equivalent) at the time of purchase and in repurchase agreements rated at least A1 (or equivalent) at the time of purchase. There is no limitation placed on the ownership of U.S. Treasury or government agency bonds, but no more than 50% of the University's fixed income investments may be invested in mortgage-backed securities at any one time. The endowment investment policy establishes as an objective that the aggregate fixed income portfolio have an average rating of A or better.

In order to achieve a prudent level of portfolio diversification, the University limits its investments to 5% of the securities of any one company and 15% of the securities of any one industry.

A portion of the University's endowment is invested in an endowment investment pool, which 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, 2005		June 30, 2004	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Money market funds (including cash and cash equivalents)	$ 2,586	$ 2,586	$ 1,973	$ 1,973
Corporate equity securities	19,825	24,207	18,940	24,493
Mutual equity funds	2,426	3,534	2,553	3,296
Mutual bond funds	13,866	13,800	15,224	14,837
Hedge funds	4,000	4,060	—	—
Total endowment investment pool	$ 42,703	$ 48,187	$ 38,690	$ 44,599

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 261,809 and 258,244 pool units at June 30, 2005 and 2004, with a fair unit value of $184.05 and $172.70, respectively. For the years ended June 30, 2005 and 2004, the average return per unit was 8.14% and 15.80%, respectively.

The spending policy for endowment funds requires an annual calculation based on a three year rolling average of the market value per unit. The spending rate for the years ended June 30, 2005 and 2004 was 4.30% and 3.90%, respectively.

(Continued)

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2005 and 2004

3. Capital Assets

The activity in capital assets and accumulated depreciation for the years ended June 30, 2005 and 2004 was as follows:

	June 30, 2004	Additions	Retirements	Placed into service	June 30, 2005
Depreciable assets:					
Land improvements	$ 1,904	$ —	$ —	$ 3,287	$ 5,191
Buildings and building improvements	317,214	—	(6,513)	22,669	333,370
Equipment and other assets	67,150	3,339	(942)	2,036	71,583
	386,268	3,339	(7,455)	27,992	410,144
Accumulated depreciation:					
Land improvements	349	177	—	—	526
Buildings and improvements	117,798	11,320	(4,431)	—	124,687
Equipment and other assets	50,558	4,440	(942)	—	54,056
	168,705	15,937	(5,373)	—	179,269
	217,563	(12,598)	(2,082)	27,992	230,875
Non-depreciable assets:					
Land	8,699	—	—	—	8,699
Construction in progress	20,305	24,109	—	(27,992)	16,422
	$ 246,567	$ 11,511	$ (2,082)	$ —	$ 255,996

	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

(Dollars in thousands)

4. Supplementary Statement of Net Assets Detail

	June 30, 2005	June 30, 2004
Grants and Accounts Receivable:		
Federal and State grants and accounts receivable	$ 18,674	$ 16,728
Student accounts receivable	7,059	6,444
Program services accounts receivable	2,310	1,964
Other grants and accounts receivable	462	1,212
Pledges receivable, current portion	724	644
Student loans receivable, current portion	325	320
Accrued interest receivable	229	124
	29,783	27,436
Less: allowance for doubtful accounts	1,843	1,820
	$ 27,940	$ 25,616
Other Assets, Noncurrent:		
Higher Education Capital Improvement Fund proceeds receivable	$ —	$ 22,440
Deferred financing costs	6,589	7,316
Student loans receivable	1,817	1,614
Other investments	500	500
Pledges receivable	567	241
Other	82	23
	$ 9,555	$ 32,134
Accounts Payable and Accrued Liabilities:		
Salaries and fringe benefits	$ 6,740	$ 5,446
Accrued interest expense	3,547	2,699
Accounts payable - construction	2,729	7,200
Accounts payable - other	3,929	4,676
Other noncurrent liabilities, current portion	1,019	1,371
	$ 17,964	$ 21,392

(Dollars in thousands)

5. Noncurrent Liabilities

The activity in noncurrent liabilities for the years ended June 30, 2005 and 2004 was as follows:

	June 30, 2004	Additions	Reductions	June 30, 2005	Current portion
Long term debt	$ 171,198	$ —	$ (1,692)	$ 169,506	$ 1,741
Unamortized premium (discounts)	4,564	—	(186)	4,378	188
Total long term debt	175,762	—	(1,878)	173,884	1,929
Retirement incentive programs	3,075	496	(767)	2,804	397
Annuity funds liability	2,946	762	(797)	2,911	549
Insurance liability reserve	1,492	—	(28)	1,464	—
Compensated absences	1,461	175	(66)	1,570	67
Other	362	69	(76)	355	6
Total other noncurrent liabilities	9,336	1,502	(1,734)	9,104	1,019
U.S. government grants refundable	1,713	83	(68)	1,728	—
Total noncurrent liabilities	$ 186,811	$ 1,585	$ (3,680)	$ 184,716	$ 2,948

	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 programs	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

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

Included in annuity funds liability is unrealized gain of $414 and $106 at June 30, 2005 and 2004, respectively.

(Dollars in thousands)

6. Long Term Debt

Long term debt is composed of:

	June 30, 2005	June 30, 2004
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	$ 73,530
2001 Series G issue:		
Serial bonds (interest rates between 2.40% to 5.25%, due on various dates through fiscal year 2022)	22,655	23,290
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)	10,935	11,545
Capital Lease Obligations:		
Higher Education Capital Improvement Fund	20,313	20,313
Equipment Leasing Fund	931	1,212
Other	21	46
Other Long Term Debt:		
New Jersey Economic Development Authority note	3,196	3,337
	169,506	171,198
Unamortized premium (discounts) on obligations	4,378	4,564
	173,884	175,762
Less: current portion	1,929	1,587
Long term debt	$ 171,955	$ 174,175

The 2004 Series B Bonds were issued by NJEFA pursuant to an agreement with the University for the purpose of refunding two prior issues of revenue bonds. 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. Principal payments will begin in fiscal year 2009.

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. Principal payments will begin in fiscal year 2007. 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.

(Continued)

(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 $103 and $105 in fiscal years 2005 and 2004, respectively.

At June 30, 2005, deposits held with trustees included $1,300 for principal payments on revenue bonds due on July 1, 2005. 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
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	5,665	7,708	13,373
2011 to 2015	32,895	32,678	65,573
2016 to 2020	41,792	23,904	65,696
2021 to 2025	49,230	12,554	61,784
2026 to 2030	20,642	4,087	24,729
2031 to 2032	4,645	221	4,866
	$ 168,206	$ 112,447	$ 280,653

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, 2005, there were no outstanding borrowings against these agreements.

Deferred financing costs, net of accumulated amortization, associated with the University's long term debt totaled $7,014 and $7,418 at June 30, 2005 and 2004, respectively.

Interest charges incurred in fiscal years 2005 and 2004 totaled $7,952 and $8,265, respectively, of which $167 and $545, 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, 2005 and 2004, accounts payable and accrued liabilities include accrued vacation and related fringe benefits of $3,896 and $3,066, respectively, and unused sick time of $67 and $80, respectively. At June 30, 2005 and 2004, other noncurrent liabilities include $1,503 and $1,381, respectively, of unused sick time. In fiscal years 2005 and 2004, payments for unused sick time totaled $66 and $81, respectively.

(Continued)

8. Retirement Programs

Eligible full-time employees and certain part-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. The University is considered to be a State employer for pension contribution purposes, and bears none of the normal costs of its employees' participation, all of which are borne by the State. However, the University is responsible for certain retirement incentive program contributions.

PERS is a defined benefit retirement program which provides coverage, including post-retirement health care, to substantially all full-time employees and certain part-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, 2005 and 2004 were $116 and $109, 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 contribution to PFRS for the year ended June 30, 2004 was $42.

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, 2005 and 2004 were $44 and $43, respectively.

ABP is a defined contribution retirement program for eligible full-time employees, providing retirement, disability, and death benefits for professionals and faculty members. Membership is mandatory for such employees. 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, 2005 and 2004, the University's contributions to ABP were $5,189 and $4,856, and employee contributions were $3,240 and $3,026, respectively.

(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 is comprised of the following for the fiscal years ended June 30:

	2005	2004
Interest and dividends	$ 2,230	$ 1,676
Net (decrease) increase in the fair value of investments	(111)	4,152
Realized net gain on sale of investments	3,215	957
	5,334	6,785
Less: interest income capitalized	—	52
Investment income	$ 5,334	$ 6,733

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, 2005	June 30, 2004
Scholarships and fellowships	$ 4,226	$ 4,007
Instructional and other	5,838	7,145
Debt service	3,806	2,784
Deferred financing costs	7,014	7,418
Outstanding purchase orders	3,200	2,555
Construction of new facilities	9,367	15,113
Designated unrestricted net assets	33,451	39,022
Undesignated unrestricted net assets	7,293	6,724
Unrestricted net assets	$ 40,744	$ 45,746

11. Commitments and Contingencies

Commitments at June 30, 2005 totaled $17,025, primarily representing open purchase orders for research and construction 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.