

NEW JERSEY CITY UNIVERSITY

Financial Statements and
Management's Discussion and Analysis

June 30, 2002

(With Independent Auditors' Report Thereon)

NEW JERSEY CITY UNIVERSITY

June 30, 2002

Table of Contents

	Page
Management's Discussion and Analysis	1
Independent Auditors' Report	7
Financial Statements:	
Statement of Net Assets as of June 30, 2002	8
Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2002	9
Statement of Cash Flows for the year ended June 30, 2002	10
Notes to Financial Statements	11

NEW JERSEY CITY UNIVERSITY

Management's Discussion and Analysis

June 30, 2002

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of New Jersey City University (the "University") for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes which follow this section.

FINANCIAL HIGHLIGHTS

The University's financial position at June 30, 2002 includes assets of \$133.3 million and liabilities of \$66.6 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased \$3.4 million in fiscal 2002 to \$66.7 million at June 30, 2002. Changes in net assets represent the operating activity of the University, resulting from revenues and expenses, and are summarized by unrestricted and restricted categories for the year ended June 30, 2002 as follows:

	2002		
	Unrestricted	Restricted	Total
		<i>(in millions)</i>	
Total operating revenues	\$ 31.9	\$ 18.4	\$ 50.3
Total operating expenses	73.8	18.4	92.2
Operating loss	(41.9)	(0.0)	(41.9)
Nonoperating revenues (expenses)	43.1	-	43.1
Capital grants and gifts	-	2.2	2.2
Increase in net assets	1.2	2.2	3.4
Net assets - beginning of year	15.0	48.3	63.3
Net assets - end of year	\$ 16.2	\$ 50.5	\$ 66.7

Restricted resources are subject to externally-imposed stipulations such as certain operating and capital grants and gifts, including investments in capital assets. Unrestricted resources are not subject to externally-imposed stipulations and are substantially designated for academic programs and initiatives. The increase in net assets of \$3.4 million for fiscal 2002 was primarily attributable to a capital grant from the State Equipment Leasing Fund (ELF) of \$1.9 million which was recorded as restricted revenue, while the related expenditures were capitalized. The increase in unrestricted net assets of \$1.2 million for the year was primarily attributable to cost savings initiatives implemented in response to the cut of \$2.3 million in the State of New Jersey's appropriation, offset by the cost to the University for the State of New Jersey's early retirement incentive program.

Student enrollment increased during the year with growth in the graduate, continuing education and online programs. Undergraduate enrollment increased from 8,044 in the 2000/01 academic year to 8,137 in 2001/02. Graduate enrollment increased 17% from 2,282 in 2000/01 to 2,660 in 2001/02, resulting in increased revenue from tuition.

USING THE FINANCIAL STATEMENTS

The University's financial report contains three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. During 2002, the University adopted four pronouncements of the GASB which are explained in the notes to the financial statements. One of these pronouncements, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, establishes standards for external financial reporting for public colleges and universities requiring that financial statements be presented on a basis to focus on the University as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the University as a whole.

Significant changes to the financial statements are as follows:

- Revenues and expenses are now categorized as either operating or nonoperating. Previously, a measure of operations was not presented. Significant recurring sources of the University's revenues, including state appropriations, gifts and investment income (loss) are considered nonoperating, as defined by GASB Statement No. 35. For the year ended June 30, 2002, nonoperating revenues, which primarily represent appropriations and investment income, totaled \$45.8 million, and nonoperating expenses, which primarily represent interest expense, totaled \$2.7 million.
- Scholarships and waivers applied to student accounts are now shown as a reduction of tuition and fee revenues. Previously, all scholarships and waivers were presented as expenditures. For the year ended June 30, 2002, scholarships and waivers applied to student accounts totaled \$11.1 million.
- Depreciation expense on capital assets is now provided for in the Statement of Revenues, Expenses and Changes in Net Assets, and an allowance for depreciation is reported in the Statement of Net Assets. Additionally, capital assets were restated on the Statement of Net Assets to reflect total accumulated depreciation through June 30, 2002 of \$42.5 million from the year of acquisition of the asset. Depreciation expense for the year ended June 30, 2002 was \$4.9 million. Previously, depreciation was not reported. The University has adopted a strategy of funding depreciation within its budget process.

STATEMENT OF NET ASSETS

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

	<u>2002</u>
	<i>(in millions)</i>
Current assets	\$ 20.3
Noncurrent assets:	
Capital Assets	77.6
Other Assets	35.4
Total assets	<u>133.3</u>
Current liabilities	13.1
Noncurrent liabilities	<u>53.6</u>
Total liabilities	<u>66.7</u>

Current assets consist primarily of cash, investments in the State Cash Management Fund, deposits held with the bond trustees, and student and grant receivables. Current liabilities consist primarily of trade accounts payable, accrued benefits, deferred revenue, and the current portion of bond obligations. The University's current ratio of assets to liabilities was 1.5.

The ratio of unrestricted financial resources to operations is a key indicator of financial strength and flexibility to cover operating expenses without relying on generating additional resources. The University's unrestricted financial resource ratio was 17.1%, which is above the median of 11.6% for A3 rated public universities per Moody's Investors Service.

CAPITAL AND DEBT ACTIVITIES

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

Capital additions totaling \$11.2 million in fiscal year 2002 consisted primarily of replacement, renovation and new construction of academic and administrative facilities, as well as investments in equipment, including information technology. Major construction projects included progress on a new 59,000 square foot Fine Arts Building which will be completed in Spring 2003, relocation and renovation of the Medical Services offices, and renovation of the Vodra Hall dormitory. Construction-in-progress of \$6.9 million at June 30, 2002 was primarily comprised of expenditures on the Fine Arts Building.

Current year capital asset additions were funded with tax-exempt debt, grants and gifts, as well as funds from current operations. In February 2002, the University issued \$15 million in Series 2002A revenue bonds through the New Jersey Educational Facilities Authority (EFA) to finance the new Fine Arts Building and several other projects including upgrades to the fire safety control system, parking improvements and renovations to the Student Union Building.

With regard to future capital needs, the University is engaged in an ongoing facilities planning process to assure that it has an appropriate and well-maintained campus. Approximately \$75 million in additional facilities projects have been identified to meet the needs of the University including a performing arts center, additional student housing, a new Arts & Sciences building, transportation facilities expansion, development of the west side campus, and Science Center renovation and expansion, among other projects. Funding for these projects could come from the State of New Jersey, additional EFA bond issues, and/or private fundraising and grants. A new

debt issue of about \$40 million is planned in early 2003 to provide for the funding of some of these major projects.

Moody's Investor Services, Inc. has assigned a debt rating of "A3" to the University. Bonds that are rated "A" possess many favorable attributes and are considered upper-medium-grade obligations. Factors providing security to principle and interest are considered adequate, while the resources to absorb future financial challenges are not as strong as Aaa or Aa rated institutions.

Bonds payable totaled \$53.6 million at June 30, 2002. An institution's ratio of unrestricted financial resources to debt is a key indicator of financial strength. The University's ratio was 30.2% at June 30, 2002, which is better than the median of 14.3% for A3 rated public universities per Moody's Investors Service. Additionally, the University's ratio of debt to total capitalization was 44.6%, which is an indication of capacity to support additional debt.

NET ASSETS

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2002 are as follows:

	<u>2002</u>
	<i>(in millions)</i>
Invested in capital assets, net	\$ 39.6
Restricted:	
Expendable	10.9
Unrestricted	16.2
Total Net assets	<u>\$ 66.7</u>

Investment in capital assets, net of related debt of \$39.6 million represents the University's capital assets net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted expendable net assets of \$10.9 million are subject to externally imposed restrictions governing their use including debt service and other bond covenant requirements, and grant funds. The University's unrestricted net assets of \$16.2 million are not subject to externally imposed stipulations and are designated for operational use, as well as capital projects.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenue, Expenses and Changes in Net Assets presents the University's results of operations. A summarization of this statement for the year ended June 30, 2002 is as follows:

	<u>2002</u>
	<i>(in millions)</i>
Operating revenues:	
Student revenue (less scholarships)	\$ 31.8
Grants and contracts	18.4
Other	<u>0.1</u>
Total operating revenues	<u>50.3</u>
Instruction	34.1
Research and programs	1.2
Public service and enterprise development	0.5
Academic support	9.6
Student services	14.0
Institutional support	13.4
Auxiliary enterprises	2.0
Student aid	2.5
Operation and maintenance of plant	10.0
Depreciation	4.9
Total operating expenses	<u>92.2</u>
Operating loss	<u>(41.9)</u>
Non-operating revenues (expenses):	
State appropriations	44.6
Investment income	1.0
Interest expense	(2.7)
Other	<u>0.2</u>
Non-operating revenues	<u>43.1</u>
Capital grants and gifts	<u>2.2</u>
Increase in net assets	3.4
Net assets, beginning of year	<u>63.3</u>
Net assets, end of year	<u>\$ 66.7</u>

State appropriations and tuition are the primary sources of funding for the University's academic programs. The State appropriations of \$44.6 million for fiscal year 2002 were adversely impacted by a weakened economic climate in New Jersey. The State appropriation to the University was cut mid-year by \$2.3 million or 6.7%, including cuts to the salary program for wage increases that the University is contractually obligated to meet. This has placed a greater burden on tuition and fees to fund the operational costs of the University. Tuition and fees of \$40.7 million were 40.0% of total revenues in the year ended June 30, 2002 compared to 33.4% in 2001. Tuition rates were increased 7.6% in the 2001-2002 academic year and will increase an additional 9.7% in the 2002-2003 academic year.

Revenues from Federal and State grants were \$18.4 million for the year ended June 30, 2002. The major grant programs and sponsors at the Federal level include Pell, College Work Study, Trio-Upward Bound, Hispanic Serving Institutions – Title V, and Americorps, among others. Major State grant programs include Tuition Aid Grant, Educational Opportunity Fund, Teacher Preparation Quality & Capacity, Teacher Effectiveness, GEAR UP and Youth Corps. A grant from the Equipment Leasing Fund (ELF) provided \$1.9 million in restricted revenue for capital equipment acquisitions.

Investment income was \$1.0 million primarily from short-term fixed income investments in the State Cash Management Fund and investments of bond proceeds deposited with the trustees.

Operating expenses for the year ended June 30, 2002 of \$92.2 million were contained in response to the mid-year State appropriation decrease. Several prompt actions were taken during the year including a hiring freeze for most positions, curtailing travel, and reducing all nonessential expenditures. As a result, unrestricted expenses of \$73.8 million for the fiscal year were slightly lower than unrestricted revenues of \$75.0 million.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

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

With 46% of revenues coming from state appropriations, the financial condition of the University is closely linked to that of the State of New Jersey. Because of slow economic growth in the State and competing demands for resources, the appropriation reduction that was enacted mid-year 2002 will continue into the 2003 fiscal year. Total appropriations for Fiscal Year 2003 are projected to be \$44.0 million compared to \$44.6 million in 2002. It is possible that further cuts may be necessary, should the State's budgetary picture not improve. Funding increases in Fiscal Year 2004, including funding for contractual salary obligations, are not expected.

Reduced appropriations are likely to continue to place a greater burden on tuition and fees to fund the operating costs of the University, and on cost reduction initiatives to keep expenses in line with revenues. Tuition increases, which are 9.7% in 2003, are likely to continue at a similar order of magnitude. The State has requested that its colleges and universities keep future tuition increases at moderate levels in the interest of student accessibility. The University's tuition and fees remain one of the most affordable in the State among four year institutions.

The collective bargaining agreements for the University's employees will expire at the end of the 2003 Fiscal Year. The anticipation of new agreements creates a degree of uncertainty for future salaries and benefits which comprise almost 70% of the University's total operating expenses.

With changing demographics and persistent economic weakness, the outlook for enrollment continues to remain strong particularly with graduate, continuing education and online programs.

The University expects to take advantage of the current favorable interest rate climate in the next fiscal year to finance its capital plan that will continue the development, improvement, and maintenance of its campus. About \$40 million in new tax exempt debt is anticipated to be issued in Fiscal Year 2003.



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Independent Auditors' Report

The Board of Trustees
New Jersey City University:

We have audited the accompanying basic financial statements of New Jersey City University (the "University"), a component unit of the State of New Jersey, as of and for the year ended June 30, 2002, as listed in the accompanying 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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 City University as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, as of July 1, 2001. As discussed in note 1, the University also adopted GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The Management's Discussion and Analysis on pages 1 through 6 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

October 16, 2002

NEW JERSEY CITY UNIVERSITY

Statement of Net Assets

June 30, 2002

Assets

Current assets:

Cash and cash equivalents	\$ 14,379,588
Student receivables, net of allowance of \$606,000	860,989
Grants receivables	1,196,359
Other receivables	1,397,138
Deposits held with trustees	2,267,004
Other current assets	161,731
Total current assets	20,262,809

Noncurrent assets:

Deposits held with trustees	34,335,576
Student loans, net of allowance of \$721,000	454,126
Deferred financing costs, net	650,669
Capital assets, net of accumulated depreciation of \$42,526,941	77,601,949
Total noncurrent assets	113,042,320
Total assets	133,305,129

Liabilities

Current liabilities:

Accounts payable and accrued expenses:	
Vendor	4,526,949
Payroll	2,566,022
Compensated absences, current portion	1,503,732
Accrued interest	1,022,342
Total accounts payable and accrued expenses	9,619,045
Long term debt, current portion	1,961,445
Deferred student tuition and fees	1,453,868
Deferred grant revenue	49,232
Total current liabilities	13,083,590

Noncurrent liabilities:

Long term debt	51,674,279
Other noncurrent liabilities	1,877,605
Total noncurrent liabilities	53,551,884
Total liabilities	66,635,474

Net Assets

Invested in capital assets, net of related debt	39,617,488
Restricted for:	
Expendable:	
Renewal and replacement	2,245,000
Capital projects	4,278,756
Debt service reserve	4,317,043
Unrestricted	16,211,368
Total net assets	\$ 66,669,655

See accompanying notes to financial statements.

NEW JERSEY CITY UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2002

Operating revenues:	
Student revenue:	
Tuition and fees	\$ 40,702,147
Auxiliary enterprises	2,311,341
Less scholarship allowance	<u>(11,145,791)</u>
Total student revenue, net	31,867,697
Federal grants	10,062,725
State of New Jersey grants	8,295,044
Other operating revenues	<u>78,679</u>
Total operating revenues	<u>50,304,145</u>
Operating expenses:	
Instruction	34,126,244
Research and programs	1,185,798
Public service and enterprise development	517,498
Academic support	9,516,418
Student services	14,020,048
Institutional support	13,442,512
Operation and maintenance of plant	9,963,405
Auxiliary enterprises	2,028,668
Student aid	2,460,758
Depreciation	<u>4,928,718</u>
Total operating expenses	<u>92,190,067</u>
Operating loss	<u>(41,885,922)</u>
Nonoperating revenues (expenses):	
State of New Jersey appropriations	44,554,862
Gifts and bequests	17,500
Interest income	1,000,274
Interest expense	(2,700,282)
Other nonoperating revenues	<u>179,442</u>
Net nonoperating revenues	<u>43,051,796</u>
Income before other revenues	1,165,874
Other revenues:	
Capital grants and gifts	<u>2,210,797</u>
Increase in net assets	3,376,671
Net assets as of beginning of year, as restated	<u>63,292,984</u>
Net assets as of end of year	<u><u>\$ 66,669,655</u></u>

See accompanying notes to financial statements.

NEW JERSEY CITY UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2002

Cash flows from operating activities:	
Student receipts	\$ 32,610,786
Grants and contracts	21,083,766
Payments for salaries and benefits	(57,155,820)
Payments to suppliers	(17,187,271)
Payments for utilities	(2,556,449)
Payments to students	(2,839,703)
Loans issued to students	(89,795)
Collection of loans to students	136,797
Auxiliary enterprises	942,781
Other payments	(506,507)
Net cash used by operating activities	<u>(25,561,415)</u>
Cash flows from noncapital financing activities:	
State of New Jersey appropriations	38,116,188
Federal Family Education Loan Program receipts	5,477,574
Federal Family Education Loan Program disbursements	(5,477,574)
Net cash provided by noncapital financing activities	<u>38,116,188</u>
Cash flows from capital financing activities:	
Proceeds from capital debt	16,701,916
Capital grants and gifts	2,210,797
Purchase of capital assets	(11,870,553)
Bond issuance costs	(214,508)
Principal paid on capital debt	(1,140,101)
Interest paid on capital debt	(1,681,301)
Drawdowns on deposits held with trustees	2,940,111
Deposits made with trustees	(16,218,483)
Net cash used by capital financing activities	<u>(9,272,122)</u>
Cash flows from investing activities:	
Interest on investments	744,042
Net cash provided by investing activities	<u>744,042</u>
Net increase in cash and cash equivalents	4,026,693
Cash and cash equivalents as of beginning of year	<u>10,352,895</u>
Cash and cash equivalents as of end of year	<u>\$ 14,379,588</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (41,885,922)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Bad debt expense	591,149
Amortization expense	115,457
State of New Jersey paid fringe benefits	6,438,674
Depreciation expense	4,928,718
Changes in assets and liabilities:	
Receivables, net	3,058,776
Other assets, current and noncurrent	(180,321)
Accounts payable and accrued expenses	1,173,358
Deferred revenue	198,696
Net cash used by operating activities	<u>\$ (25,561,415)</u>
Noncash transactions:	
Gifts	\$ 17,500
State of New Jersey paid fringe benefits	<u>6,438,674</u>

See accompanying notes to financial statements.

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

(1) **Organization and Summary of Significant Accounting Policies**

Organization

New Jersey City University (the University), formerly Jersey City State College, is a public institution of higher education in the State of New Jersey (the State). Effective May 29, 1999, the New Jersey Commission on Higher Education approved the name change and university status. Under the law, the University is an instrumentality of the State of New Jersey with a high degree of autonomy. However, under Governmental Accounting Standards Board (GASB) Statement No. 14, the University is considered a component unit of the State of New Jersey for financial reporting purposes. Accordingly, the University's financial statements are included in the State of New Jersey's Comprehensive Annual Financial Report.

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

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

Summary of Significant Accounting Policies

Basis of Presentation

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

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

During 2002, the University adopted four pronouncements of the Governmental Accounting Standards Board. GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, and No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*. Lastly, the University adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The University adopted the provisions of these Statements as of July 1, 2001 (see note 11). Resulting significant changes to the financial statements are:

- The inclusion of a Management’s Discussion and Analysis section.
- The classification of assets and liabilities as either current or noncurrent.
- The categorization of net assets as invested in capital assets, net of related debt, restricted (nonexpendable and expendable), or unrestricted.
- The classification of revenues and expenses as either operating or nonoperating.
- The netting of scholarship allowances against student tuition and fees and auxiliary enterprises revenues.
- The recognition of depreciation expense on capital assets.
- The presentation of a statement of cash flows using the direct method.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that a statement of cash flows be prepared using the direct method and that resources be classified for accounting and reporting purposes into the following net asset categories.

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

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

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. The University reports as a business type activity, as defined by GASB Statement No. 34. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

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

Deposits Held by Trustees

Deposits held by trustees are recorded in the financial statements at fair value, which is based on quoted market price and consist of cash and U.S. Treasury obligations.

Capital Assets

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

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

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

Deferred Financing Costs

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

Revenue Recognition

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

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

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

Classification of Revenue

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

Income Taxes

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

Financial Dependency

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

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

(2) Cash and Cash Equivalents

The carrying amount of cash as of June 30, 2002 was \$438,110, while the amount on deposit with the bank was \$1,717,097. The University's bank deposits as of June 30, 2002 were partially insured by Federal Depository Insurance in the amount of \$100,000. The excess bank balance of \$1,617,097 was collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes.

The University participates in the State of New Jersey Cash Management Fund wherein amounts also contributed by other State entities are combined into a large-scale investment program. The carrying amount and fair value as of June 30, 2002 was \$13,941,478.

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

Governmental Accounting Standards Board Statement No. 3 requires disclosure of the level of custodial credit risk assumed by the University as of June 30, 2002. Category 3 includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the University's name. As of June 30, 2002 all cash and cash equivalents are classified as Category 3.

(3) Deposits Held by Trustees

Deposits held by trustees include funds held by The Bank of New York, Wachovia Bank, and Trust Company of NJ under the terms of various long term debt agreements. As of June 30, 2002 all deposits held by trustees are classified as Category 1. This Category includes investments that are insured or registered or for which the securities are held by the institutions or its agent in the institution's name. Deposits held by trustees are carried in the financial statements at fair value and consist of the following:

Cash and cash equivalents	\$	124,683
U. S. Treasury notes		1,266,972
Government securities		6,504,667
Cash Management Fund		14,476,408
Guaranteed investment contract (GIC)		11,647,162
Other		2,582,688
	\$	<u>36,602,580</u>

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

(4) Capital Assets

The detail of capital assets activity for the year ended June 30, 2002 follows:

	<u>June 30, 2001 (restated)</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2002</u>
Depreciable assets:				
Land improvements	\$ 776,970	—	(236,197)	540,773
Buildings and building improvements	75,056,230	1,790,000	—	76,846,230
Equipment and other assets	<u>27,334,768</u>	<u>3,164,249</u>	<u>(2,142,313)</u>	<u>28,356,704</u>
	103,167,968	4,954,249	(2,378,510)	105,743,707
Less accumulated depreciation	<u>(39,657,013)</u>	<u>(4,928,718)</u>	<u>2,058,790</u>	<u>(42,526,941)</u>
	63,510,955	25,531	(319,720)	63,216,766
Non-depreciable assets:				
Land	7,466,374	—	—	7,466,374
Construction in progress	<u>680,817</u>	<u>6,237,992</u>	<u>—</u>	<u>6,918,809</u>
	<u>\$ 71,658,146</u>	<u>6,263,523</u>	<u>(319,720)</u>	<u>77,601,949</u>

Estimated costs to complete the projects classified as construction in progress as of June 30, 2002 approximated \$8 million and are anticipated to be funded primarily from State of New Jersey financial assistance, bond financing, and other unrestricted resources. During 2002, the University capitalized interest income of approximately \$101,000 and interest expense of approximately \$155,000 which is included in construction in progress as of June 30, 2002.

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

(5) Noncurrent Liabilities

Long Term Debt

The University has financed capital assets through various revenue bonds issued by the New Jersey Educational Facilities Authority (the Authority). The University has pledged all net revenue derived from the operation of the dormitories, student center, recreation center, academic building and athletic and recreation facilities as security. Estimated costs in connection with these capital assets of approximately \$56 million as of June 30, 2002 are included in the accompanying statement of net assets. The following obligations to the Authority were outstanding as of June 30, 2002:

	<u>Interest rate</u>	<u>Amount</u>
New Jersey Educational Facility Authority Revenue Bonds:		
Series 1977 C Revenue Bonds, due serially to 2010	6.29%	\$ 4,095,000
Series 1993 H Revenue Bonds, due serially to 2018	5.00 - 5.10%	1,855,000
Series 1995 C Revenue Bonds, due serially to 2007	3.80 - 4.90%	1,385,000
Series 1998 E Revenue Bonds, due serially to 2028	4.40 - 9.00%	6,710,000
Series 1999 B Revenue Bonds, due serially to 2018	4.40 - 5.00%	12,430,000
Series 1999 B Revenue Bonds, due July 1, 2020, 2022, and 2025	4.75 - 5.00%	5,075,000
Series 2000 B Revenue Bonds, due serially to 2021	4.13 - 5.75%	5,596,750
Series 2002 A Revenue Bonds, due serially to 2032	3.00 - 5.00%	15,115,000
New Jersey Educational Facility Authority Equipment Leasing Fund Series 2001 A	3.5 - 5.00%	622,125
New Jersey Educational Facility Authority Dorm Safety	4.50%	<u>751,849</u>
Total long term debt		53,635,724
Less noncurrent portion		<u>(51,674,279)</u>
Total current portion long term debt		<u>\$ 1,961,445</u>

On February 15, 2002, the University issued through the Authority \$15,115,000 Series 2002 A Revenue Bonds with interest rates of 3.00 to 5.00 percent. The purpose of these bonds was for capital projects including the fine arts building, parking improvements, fire safety control panel upgrades, student union renovations and implementation of the campus card program.

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

The following is a schedule of future minimum principal and interest payments on the University's long term debt obligations as of June 30, 2002:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>
2003	\$ 1,961,445	2,494,294
2004	2,056,989	2,401,498
2005	2,144,968	2,305,728
2006	2,248,257	2,208,546
2007	<u>2,201,667</u>	<u>2,106,930</u>
2003-2007 subtotal	10,613,326	11,516,996
2008-2012	9,955,000	9,057,804
2013-2017	10,432,206	6,799,020
2018-2022	12,415,192	4,172,413
2023-2027	5,615,000	2,013,510
2028-2032	<u>4,605,000</u>	<u>667,140</u>
	<u>\$ 53,635,724</u>	<u>34,226,883</u>

Summary of Changes in Noncurrent Liabilities

The following table summarizes the changes in noncurrent liabilities during the year ended June 30, 2002:

	<u>Beginning balance (restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Long term debt	\$ 38,288,417	16,487,408	(1,140,101)	53,635,724	1,961,445
Other noncurrent liabilities:					
U.S. government grants refundable	688,207	—	(1,169)	687,038	—
Compensated absences	<u>3,204,122</u>	<u>—</u>	<u>(509,823)</u>	<u>2,694,299</u>	<u>1,503,732</u>
Total other noncurrent liabilities	<u>3,892,329</u>	<u>—</u>	<u>(510,992)</u>	<u>3,381,337</u>	<u>1,503,732</u>
	<u>\$ 42,180,746</u>	<u>16,487,408</u>	<u>(1,651,093)</u>	<u>57,017,061</u>	<u>3,465,177</u>

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

(6) Retirement Plans

Plan Descriptions

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

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

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

PERS Funding Policy

PERS members are required to contribute 3% of their annual covered salary for the year ended June 30, 2002. The State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the University. The State of New Jersey contribution is based upon annual actuarially determined percentages of total compensation of all active members. The State of New Jersey's annual contribution approximates the actuarially determined pension cost for the year. Employers were not required to contribute in 2002 due to legislation enacted in 1997 by the State of New Jersey, which fully funded previously existing unfunded accrued liabilities of PERS through State of New Jersey bonds. The contribution requirements of the plan members and the University are established and may be amended by the State of New Jersey.

Alternate Benefit Program Information

ABP provides the choice of six investment carriers all of which are privately operated defined contribution retirement plans. The University assumes no liability for ABP members other than payment of contributions. ABP provides retirement and death benefits for or on behalf of these full-time professional employees and faculty members electing to participate in this optional retirement program. Participation eligibility, as well as contributory and noncontributory requirements, is established by the State of New Jersey Retirement and Social Security Law. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits vest after the completion of one year of service. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting.

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

Participating University employees are required to contribute 5% and may contribute, on a pre-tax basis, an additional voluntary contribution of salary up to the maximum Federal statutory limit. Employer contributions are 8%. During the year ended June 30, 2002, ABP received employer and employee contributions from the University as follows:

Employer contributions	\$	2,331,000
Employee contributions		1,457,000
Basis for contributions:		
Participating employee salaries		29,138,500

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

(7) Contingent Liabilities

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

(8) State-Paid Fringe Benefits

The State of New Jersey, through separate appropriations, pays certain fringe benefits. Specifically, there is a current matching portion for the pension contribution for active employees, post-retirement medical benefits, state taxes and FICA taxes. For the year ended June 30, 2002, such benefits amounted to approximately \$12.4 million and are included in appropriations revenue and expenses in the accompanying financial statements.

(9) Compensated Absences

The University recorded a liability for compensated absences in the amount of approximately \$2,694,000 as of June 30, 2002 which is included in accounts payable and accrued expenses and other noncurrent liabilities in the accompanying statement of net assets. The liability is calculated based upon employees' accrued vacation leave as of year end, as well as an estimated vested amount for accrued sick leave.

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the employee's sick leave accumulation at the pay rate in effect at the time of retirement, up to a maximum of \$15,000. Employees separating from University service prior to retirement are not entitled to payments for accumulated sick leave balances. Prior to 1991, the State reimbursed the University for payments made to retiring employees for accrued sick leave; however, during 1991 through 2002, the State did not make such reimbursements. The University paid approximately \$65,500 in sick leave payments for employees who retired during the year ended June 30, 2002.

NEW JERSEY CITY UNIVERSITY

Notes to Financial Statements

June 30, 2002

(10) Student Financial Assistance Programs

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

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

(11) Restatement of Opening Net Assets

The University restated its opening net assets balance to reflect the effect of accounting changes adopted in order to comply with the provisions of GASB Statement No. 34. The restatements, and their effect on net assets, were as follows:

Net assets as of June 30, 2001, as previously reported	\$ 112,692,029
Accumulated depreciation on capital assets	(39,657,013)
Restatement of assets due to change in capitalization policy	(8,180,369)
Reclass of restricted grant balance to liability	(803,995)
Reclass of restricted loan fund balance to liability	(688,207)
Other	<u>(69,461)</u>
Net assets as of June 30, 2001, as restated	<u>\$ 63,292,984</u>