



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

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

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(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2003 and 2002

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Management's Discussion and Analysis
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Capital and Debt Activities

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Management's Discussion and Analysis

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Net Assets

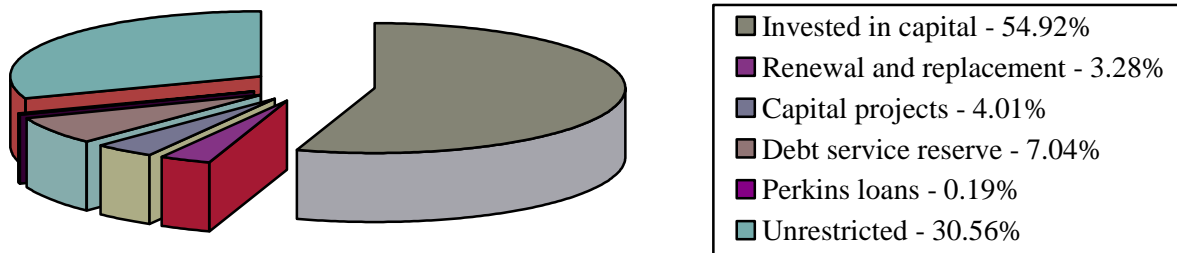
Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2003 and 2002 are summarized as follows:

	<u>2003</u>	<u>2002</u>
	<i>(In millions)</i>	
Invested in capital assets, net	\$ 41.6	39.6
Restricted:		
Expendable	11.0	12.4
Unrestricted	<u>23.1</u>	<u>14.7</u>
Total net assets	\$ <u><u>75.7</u></u>	<u><u>66.7</u></u>

Investment in capital assets, net of related debt of \$41.6 million at June 30, 2003 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 \$11.0 million at June 30, 2003 are subject to externally imposed restrictions governing their use including debt service and other bond covenant requirements, and capital grant funds. The University's unrestricted net assets of \$23.1 million at June 30, 2003 are not subject to externally imposed stipulations and are designated for operational use, as well as capital projects.

Net Assets by Category



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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 years ended June 30, 2003 and 2002 are as follows:

	2003	2002
	<i>(In millions)</i>	
Operating revenues:		
Student revenue (less scholarships)	\$ 35.4	31.4
Grants and contracts	21.0	18.4
Other	0.8	0.5
Total operating revenues	57.2	50.3
Instruction	34.3	33.6
Research and programs	0.2	1.2
Public service and enterprise development	0.5	0.5
Academic support	9.4	8.4
Student services	10.2	10.3
Institutional support	15.5	17.7
Operation and maintenance of plant	10.3	10.6
Auxiliary enterprise	2.3	2.1
Student aid	2.8	2.5
Depreci		

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Management's Discussion and Analysis

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The University derives its revenue from a variety of sources. Below is a graphic illustration of revenues by source, both operating and nonoperating, which are used to fund the University's activities for the year ended June 30, 2003 and 2002. A significant portion of the University's revenues, such as state appropriations, are considered nonoperating, as defined by GASB.

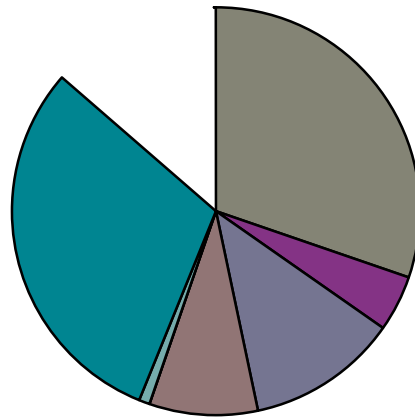
State appropriations and student tuition are the primary sources of funding for the University's academic programs. The State appropriations of \$44.5 million for fiscal year 2002 and \$43.8 million for 2003 were adversely impacted by a weakened economic climate in New Jersey.

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

Revenues from Federal and State grants were \$21.0 million and \$18.4 million for the years ended June 30, 2003 and 2002, respectively. The major grant programs and sponsors at the Federal level include Pell, College Work Study, Trio-Upward Bound, Hispanic Serving Institutions – Title V, and Americorps, among others. Major State grant programs include Tuition Aid Grant (TAG), Educational Opportunity Fund, Teacher Preparation Quality & Capacity, Teacher Effectiveness, GEAR UP, and Youth Corps. Financial aid grants including Pell and TAG increased \$2.1 million from fiscal year 2002 to 2003 in proportion to the increase in tuition and fees. A grant from the Equipment Leasing Fund (ELF) in fiscal year 2002 provided \$1.9 million in restricted capital grant revenue for equipment acquisitions.

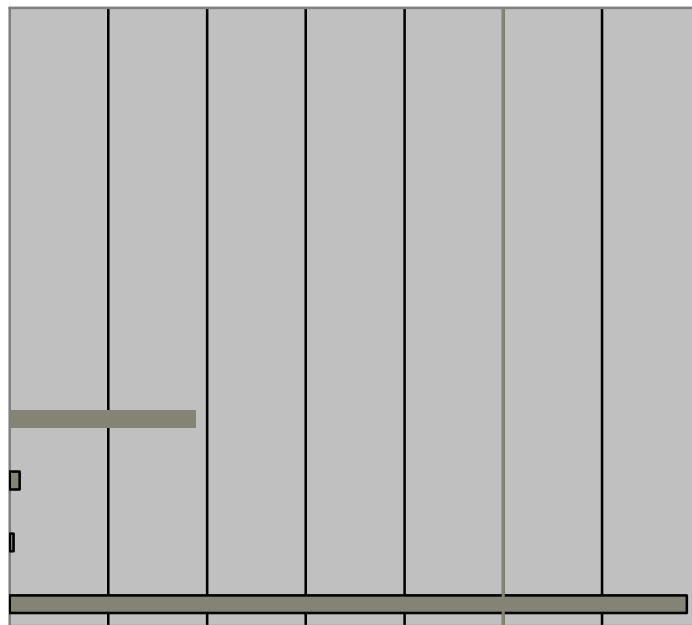
Investment income was \$0.9 million and \$1.0 million for the years ended June 30, 2003 and 2002, respectively, primarily from short-to-intermediate term fixed income investments and investments of bond proceeds deposited with the trustees. The investment income decline from fiscal year 2002 to 2003 was primarily due to the decline in short term interest rates.

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



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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 43% 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 and was continued into 2003, was cut an additional 6% in the fiscal year 2004 budget. Total appropriations for Fiscal Year 2004 are projected to be \$41.9 million compared to \$43.8 million in 2003. It is possible that further cuts may be necessary in the current as well as next fiscal year, should the State's budgetary picture not improve. Additionally, funding for future contractual salary obligations is not expected in FY 2005.

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 were 9.7% in 2003 and 9.0% in 2004, are likely to continue at a similar order of magnitude. The State is concerned that its colleges and universities keep future tuition increases at moderate levels in the interest of student accessibility. The University's tuition and fees remain one of the most affordable in the State among four year institutions.

With changing demographics and persistent economic weakness, the outlook for enrollment at the University continues to remain stable. For the fall 2003 semester the University projects a total undergraduate and graduate enrollment of 7,805 students compared to 7,930 last year. The University received a total of 4,609 undergraduate applications compared to 4,524 last year.



Princeton Pike Corporate Center
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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 years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant est 0 10.98 321.50551 367 2m(the a)To7c 0.2631188

NEW JERSEY CITY UNIVERSITY
 (A Component Unit of the State of New Jersey)
 Statements of Net Assets
 June 30, 2003 and 2002

	Assets	<u>2003</u>	<u>2002</u>
Current assets:			
Cash and cash equivalents		\$ 10,668,799	14,379,588
Investments, current portion		1,384,448	—
Student receivables, net of allowance in 2003 and 2002 of \$945,000 and \$606,000, respectively		907,701	860,989
Grants receivables		1,178,267	1,196,359
Other receivables		2,236,742	1,397,138
Deposits held with bond trustees		3,462,272	2,267,004
Other current assets		7,185	161,731
Total current assets		<u>19,845,414</u>	<u>20,262,809</u>
Noncurrent assets:			
Deposits held with bond trustees		67,422,371	34,335,576
Investments, noncurrent portion		9,043,037	—
Student loans, net of allowance in 2003 and 2002 of \$631,000 and \$721,000, respectively		783,548	454,126
Deferred financing costs, net		1,476,119	650,669
Capital assets, net of accumulated depreciation in 2003 and 2002 of \$46,240,000 and \$42,527,000, respectively		<u>93,614,994</u>	<u>77,601,949</u>

NEW JERSEY CITY UNIVERSITY

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Student revenue:		
Tuition and fees	\$ 44,053,669	38,460,597
Auxiliary enterprises	4,463,206	4,100,015
Less scholarship allowance	<u>(13,074,888)</u>	<u>(11,145,791)</u>
Total student revenue, net	35,441,987	31,414,821
Federal grants	12,160,704	10,062,725
State of New Jersey grants	8,852,707	8,295,044
Private grants	17,320	—
Other operating revenues	<u>798,540</u>	<u>531,555</u>
Total operating revenues	<u>57,271,258</u>	<u>50,304,145</u>
Operating expenses:		
Instruction	34,263,438	33,596,848
Research and programs	239,050	1,185,798
Public service and enterprise development	456,639	517,498
Academic support	9,402,608	8,435,518
Student services	10,204,265	10,309,751
Institutional support	15,546,556	17,702,892
Operation and maintenance of plant	10,328,633	10,664,234
Auxiliary enterprises	2,250,773	2,097,797
Student aid	2,833,593	2,460,758
Depreciation	<u>5,307,129</u>	<u>4,928,718</u>
Total operating expenses	<u>90,832,684</u>	<u>91,899,812</u>
Operating loss	<u>(33,561,426)</u>	<u>(41,595,667)</u>
Nonoperating revenues (expenses):		
State of New Jersey appropriations	30,971,334	32,070,500
State of New Jersey fringe benefit appropriations	12,897,695	12,484,362
Gifts to affiliates	(343,150)	(178,276)
Interest income	894,666	1,000,274
Interest expense	(1,825,166)	(2,700,282)
Loss on disposal of capital assets	(222,354)	(94,479)
Other nonoperating revenues (expenses)	<u>(12,816)</u>	<u>179,442</u>
Net nonoperating revenues	<u>42,360,209</u>	<u>42,761,541</u>
Income before other revenues	<u>8,798,783</u>	<u>1,165,874</u>
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NEW JERSEY CITY UNIVERSITY
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Statements of Cash Flows
Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Student receipts	\$ 28,098,476	32,610,786
Grants and contracts	21,304,727	21,083,766
Payments for salaries and benefits	(57,810,261)	(57,155,820)
Payments to suppliers	(9,748,155)	(17,187,271)
Payments for utilities	(2,095,738)	(2,556,449)
Payments to students	(2,833,593)	(2,839,703)
Loans granted and contracts		
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Notes to Basic Financial Statements

June 30, 2003 and 2002

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

- *Invested in capital assets, net of related debt:* Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted – expendable:* Net assets whose use by the University is subject to

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

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

Classification of Revenue

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

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Notes to Basic Financial Statements

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GASB No. 3 requires disclosure of the level of custodial credit risk assumed by the University as of June 30, 2003 and 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

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Notes to Basic Financial Statements

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(4) Capital Assets

The detail of capital assets activity for the years ended June 30, 2003 and 2002 follows:

	June 30, 2002	Additions	Reductions	June 30, 2003
Depreciable assets:				
Land improvements	\$ 796,133	—	—	796,133
Buildings and building improvements	73,578,			

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(5) Long Term Debt

The University has financed capital assets through various revenue bonds issued by the New Jersey Educational Facilities Authority (the Authority). The University has pledged all net revenue derived from the operation of the dormitories, student center, recreation center, academic building and athletic and recreation facilities as security. Estimated costs in connection with these capital assets of approximately \$73 million and \$54 million as of June 30, 2003 and 2002, respectively, are included in the accompanying statements of net assets. The following obligations to the Authority were outstanding as of June 30, 2003 and 2002:

	Interest rate	2003	2002
Bonds payable:			
New Jersey Educational Facility Authority Revenue Bonds:			
Series 1977 C Revenue Bonds, du			

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As of June 30, 2003, the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA- by Fitch Ratings, A+ by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2003. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA-/Aa3 by at least one rating agency, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

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

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

Using rates as of June 30, 2003, debt service requirements of the swapped portion of variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, floating rate bond interest payments and net swap payments will vary.

Fiscal year ending June 30	Floating rate bonds		Interest rate swap, net	Total
	Principal	Interest		
2004	\$ —	220,000	548,900	768,900
2005	45,000	220,000	548,900	813,900
2006	45,000	219,550	547,777	812,327
2007	45,000	219,100	546,655	810,755
2008	120,000	218,650	545,532	884,182
2009-2033	21,745,000	3,597,150	8,974,889	34,317,039
	<u>\$ 22,000,000</u>	<u>4,694,450</u>	<u>11,712,653</u>	<u>38,407,103</u>

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Future Minimum Payments

The following is a schedule of future minimum principal and interest payments on the University's long term debt obligations as of June 30, 2003:

	Principal	Interest
Year ending June 30:		
2004	\$ 1,819,778	3,011,962
2005	2,037,983	3,676,746
2006	2,125,962	3,856,010
2007	2,274,251	3,759,519
2008	2,297,661	3,660,666
2004-2008 subtotal	10,555,635	17,964,903

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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 y

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(10) Compensated Absences

The University recorded a liability for compensated absences in the amount of approximately \$2,514,000 and \$2,694,000 as of June 30, 2003 and 2002, respectively, which is included in accounts payable and accrued expenses and other noncurrent liabilities in the accompanying statements of net assets. The liability is calculated based upon employees' accrued vacation leave as of year end, as well as an estimated vested amount for accrued sick leave.

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the employee's sick leave accumulation at the pay rate in effect at the time of retirement, up to a maximum of \$15,000. Employees sepa