

**University of Medicine and
Dentistry of New Jersey**
(A Component Unit of the State of New Jersey)
Consolidated Financial Statements
June 30, 2006 and 2005

University of Medicine and Dentistry of New Jersey

Index

June 30, 2006 and 2005

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Report of Independent Auditors

To Board of Trustees
University of Medicine and Dentistry of New Jersey

We have audited the accompanying consolidated statements of net assets and the related consolidated statements of revenues, expenses and changes in net assets and cash flows of the business-type activities and the statements of net assets and the related statements of revenue, expenses and changes in net assets of the aggregate discretely presented component units of the University of Medicine and Dentistry of New Jersey, a component unit of the State of New Jersey (the "University"), as of and for the years ended June 30, 2006 and 2005, which collectively comprise the University's basic financial statements. 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 did not audit the financial statements of the New Jersey Health Foundation, Inc., a discrete component unit of the University, which statements reflect total discrete assets of 92% and 91% and total discrete net assets of 101% and 101% of the related discrete totals as of June 30, 2006 and 2005, respectively, and total operating revenues of 36% and 38% of the related totals for the years ended June 30, 2006 and 2005, respectively, of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the New Jersey Health Foundation, Inc., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 2 to the basic financial statements, the financial statements of the University Physician Associates of New Jersey, Inc. and Affiliates, a discretely presented component unit of the University, were prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, the effects of which are not practicable to quantify; however, the departures from generally accepted accounting principles are material to the aggregate discretely presented component units.

In our opinion, the consolidated financial statements of the business-type activities of the University referred to above present fairly, in all material respects, the financial position of the business-type activities of the University at June 30, 2006 and 2005, and their changes in financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, based on our audits and the report of other auditors, except for the departure from accounting principles generally accepted in the United States of America described in the preceding paragraph, the financial statements of the aggregate discretely presented component units of the University referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the University at June 30, 2006 and 2005, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the basic financial statements, on December 30, 2005, the University entered into a Deferred Prosecution Agreement with the United States Attorney's Office for the District of New Jersey related to a criminal complaint charging the University with receiving improper Medicaid reimbursements.

As discussed in Note 13 to the basic financial statements, in November 2006 the federal monitor issued a report alleging that the University violated certain billing and anti-kickback laws. The amount of the loss, if any, resulting from these allegations cannot be reasonably estimated.

Management's Discussion and Analysis on pages 3 through 13 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



June 1, 2007

Management's Discussion and Analysis

University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

June 30, 2006

Introduction

The following discussion and analysis provides an overview of the financial position of the University of Medicine and Dentistry of New Jersey (the "University") as of June 30, 2006 and its results of operations for the year then ended, with comparative information as of and for the years ended June 30, 2005 and 2004. This discussion and analysis has been prepared by management and should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

The University is the State's university of the health sciences, with programs at five academic health center campuses and a network of more than 200 educational and healthcare affiliates throughout the State. The University operates the State's only three medical schools, a dental school, a teaching hospital, behavioral healthcare centers, and schools of biomedical sciences, health related professions, nursing and public health.

The University is dedicated to the pursuit of excellence in:

- The undergraduate, graduate, postgraduate and continuing education of health professionals and scientists;
- The conduct of biomedical, psychosocial, clinical and public health research;
- Health promotion, disease prevention and the delivery of health care; and
- Service to its communities and the State.

The University has approximately 5,600 full and part time students, 1,400 medical interns and residents and 13,000 faculty and staff.

Financial Highlights

The University's financial position remains strong, with assets of \$1.8 billion and liabilities of \$1.1 billion as of June 30, 2006. Net assets, which represent the residual interest in the University's assets less liabilities and indicate the resources available to continue the operations of the University in accordance with the designation of the assets, decreased by \$16.2 million, or 2%, to \$730.9 million in 2006. This decrease is primarily related to the operating results of University Hospital ("UH").

Operating revenues increased by \$31.7 million, or 3%, to \$1.1 billion in 2006, reflecting growth in professional services and contracts revenues. Operating expenses increased by \$100.9 million, or 7%, consistent with the growth in professional services and contracts activities, and higher costs for patient care services and institutional and administrative support.

State appropriations – operations increased by \$30.6 million, or 11%, to \$296.7 million in 2006, reflecting increased support for the University's cancer programs, salary costs and other programs. Fringe benefits paid by the State increased by \$8.6 million, or 5%, to \$168.4 million in 2006, consistent with the increase in salary expense.

During 2006, the University continued to grow and expand, incurring \$162.1 million in capital expenditures related to its capital construction and renovation plan that addressed the 2001 – 2006 time frame and other capital projects.

University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

June 30, 2006

Consolidated Financial Statements

The University's audited consolidated financial statements include the statements of net assets, statements of revenues, expenses and changes in net assets and statements of cash flows, which have been prepared in accordance with Governmental Accounting Standards Board ("GASB") principles.

The consolidated financial statements include the schools, health care units, faculty practice plans, the lease holding corporation and auxiliary enterprises.

Component Units

As defined by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No 14, *The Financial Reporting Entity*, the New Jersey Health Foundation, Inc., (the "Foundation"), which includes the Foundation of the University of Medicine and Dentistry of New Jersey, and the Faculty Practice Plan for the UMDNJ-New Jersey Medical School – University Physician Associates of New Jersey, Inc. ("UPA"), meet the criteria qualifying them as component units of the University.

The Foundation's and UPA's results are reported in the aggregate discretely presented component units as separate statements within the basic financial statements because of the differences in their reporting models. Accordingly, the following discussion and analysis does not include the Foundation's and UPA's financial condition and activities.

Consolidated Statements of Net Assets

The Consolidated Statements of Net Assets present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University. Net assets represent the residual interest in the University's assets after liabilities are deducted. 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.

Net assets are divided into four categories. Net assets invested in capital, net of related debt, represent the University's equity in capital assets owned by the University. Restricted expendable net assets primarily include research grants and capital project funds that are subject to donor or University restrictions governing their use. Restricted nonexpendable net assets represent endowment funds, which are used primarily for investment purposes, and government grants for student loans. Unrestricted net assets are available to the University for general purposes, but are internally designated for various academic and healthcare programs.

University of Medicine and Dentistry of New Jersey
Management's Discussion and Analysis
June 30, 2006

A summary of the University's assets, liabilities and net assets as of June 30, 2006, 2005, and 2004 follows:

<i>(In millions)</i>	2006	2005	2004
Assets			
Current assets:			
Cash and cash equivalents	\$ 119.4	\$ 176.4	\$ 134.3
Receivables	272.0	240.0	234.4
Assets held by trustees and other	81.0	144.8	149.2
Noncurrent assets:			
Endowment and other investments	151.0	159.0	221.3
Assets held by trustees and other	84.8	86.0	81.7
Capital assets, net	<u>1,094.4</u>	<u>1,013.0</u>	<u>921.6</u>
Total assets	<u>1,802.6</u>	<u>1,819.2</u>	<u>1,742.5</u>
Liabilities			
Current liabilities	353.7	343.7	335.7
Noncurrent liabilities	<u>718.0</u>	<u>728.4</u>	<u>652.8</u>
Total liabilities	<u>1,071.7</u>	<u>1,072.1</u>	<u>988.5</u>
Net assets			
Invested in capital, net of related debt	471.8	440.5	417.5
Restricted expendable	267.3	260.7	271.0
Restricted nonexpendable	57.5	59.6	57.2
Unrestricted	<u>(65.7)</u>	<u>(13.7)</u>	<u>8.3</u>
Total net assets	<u>\$ 730.9</u>	<u>\$ 747.1</u>	<u>\$ 754.0</u>

Current liabilities consist primarily of accounts payable, accrued compensation and other liabilities and include \$59.7 million and \$57.7 million of amounts due to third party payors as of June 30, 2006 and 2005, respectively, related to cost report errors that were discovered in 2005. Noncurrent liabilities consist primarily of long-term debt and capital lease obligations.

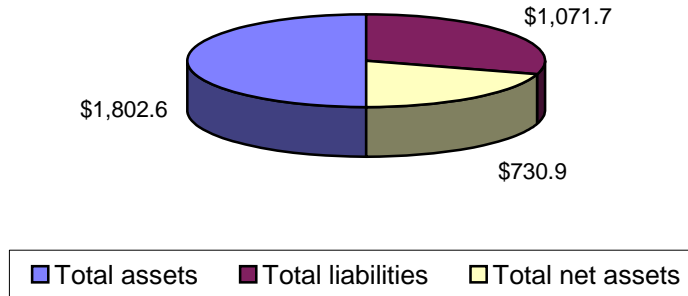
The increase in capital assets and the decrease in assets held by trustees and other in 2006 primarily reflects capital expenditures.

The decrease in cash and unrestricted net assets is related to the operating results of UH.

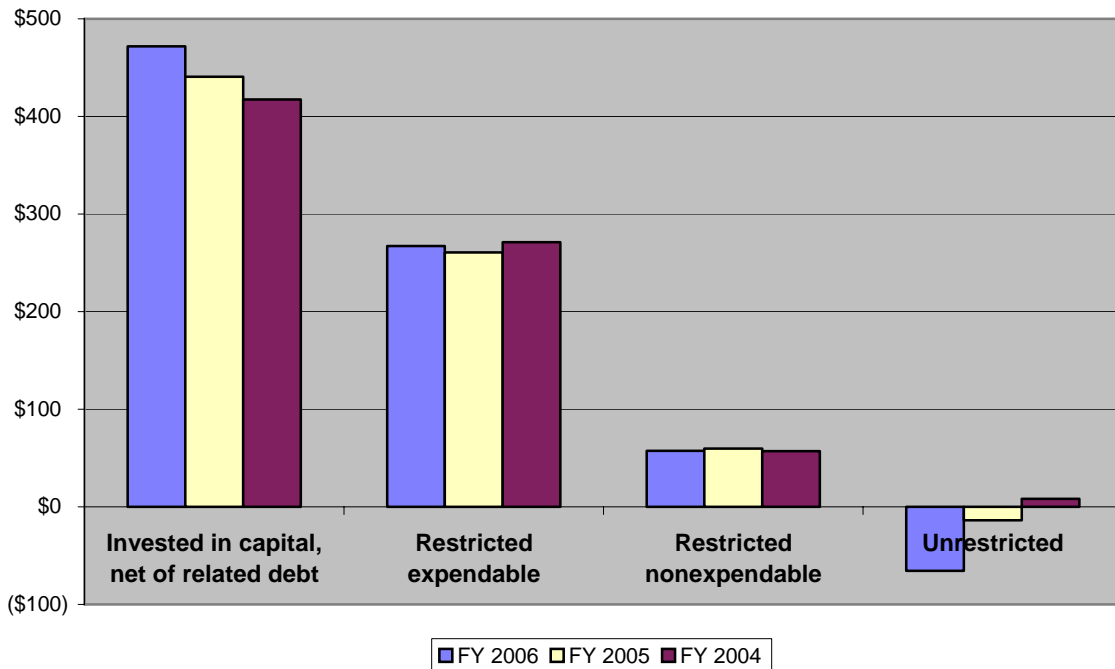
The University has revised its presentation of certain components of net assets by increasing unrestricted net assets and decreasing restricted nonexpendable net assets by \$12,000 at June 30, 2005 and 2004, respectively. This revision had no impact on total net assets.

**University of Medicine and Dentistry of New Jersey
Management's Discussion and Analysis
June 30, 2006**

**Summary of Consolidated Statement of Net Assets
June 30, 2006
(In millions)**



**Net Assets
June 30, 2006, 2005 and 2004
(In millions)**



University of Medicine and Dentistry of New Jersey
Management's Discussion and Analysis
June 30, 2006

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

The Consolidated Statements of Revenues, Expenses and Changes in Net Assets present the University's results of operations.

A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2006, 2005 and 2004 follows:

<i>(In millions)</i>	2006	2005	2004
Operating revenues			
Tuition and fees, net	\$ 62.0	\$ 55.9	\$ 50.0
Governmental and private grants and contracts	288.0	286.1	268.1
Net patient service revenues	501.2	512.9	504.1
Professional services and contracts	221.2	174.5	155.2
Other	48.6	59.9	53.9
Total operating revenues	<u>1,121.0</u>	<u>1,089.3</u>	<u>1,031.3</u>
Operating expenses	<u>1,616.3</u>	<u>1,515.4</u>	<u>1,387.9</u>
Operating loss	<u>(495.3)</u>	<u>(426.1)</u>	<u>(356.6)</u>
Nonoperating revenues (expenses)			
State appropriations - operations	296.7	266.1	223.9
Fringe benefits paid by the State	168.4	159.8	104.1
Interest expense and other	(14.3)	(10.7)	(15.3)
Total nonoperating revenues, net	<u>450.8</u>	<u>415.2</u>	<u>312.7</u>
Other revenues			
State appropriations - capital	4.1	4.0	15.0
Capital grants	24.2	-	-
Total other revenues	<u>28.3</u>	<u>4.0</u>	<u>15.0</u>
Decrease in net assets	<u>(16.2)</u>	<u>(6.9)</u>	<u>(28.9)</u>
Net assets - beginning of year	747.1	754.0	782.9
Net assets - end of year	<u><u>\$ 730.9</u></u>	<u><u>\$ 747.1</u></u>	<u><u>\$ 754.0</u></u>

Revenues

To achieve its mission, the University receives revenues from a variety of sources in addition to its student tuition and fees, including research grants and contracts, patient services, professional services and contracts, state appropriations, investment income and capital grants. The University will continue to aggressively seek funding from all possible sources and to manage these resources to fund its operating activities.

Operating revenues are revenues recognized by the University for providing goods and services directly to its customers and constituencies.

**University of Medicine and Dentistry of New Jersey
Management's Discussion and Analysis
June 30, 2006**

Nonoperating revenues are defined by GASB as those revenues recognized by the University for which goods and services are not provided in return for the revenues received. State appropriations, excluding State appropriations for capital, are nonoperating revenues because the State legislature provides the appropriations to the University without directly receiving commensurate goods and services for those revenues.

Tuition and State appropriations are the primary sources of revenue for the University's academic programs. Tuition revenues increased by 11% in 2006 primarily due to a 4% average rate increase and an increase in the student enrollment. The schools received State appropriations of \$270.4 million in 2006, which included \$63 million of fringe benefits paid by the State.

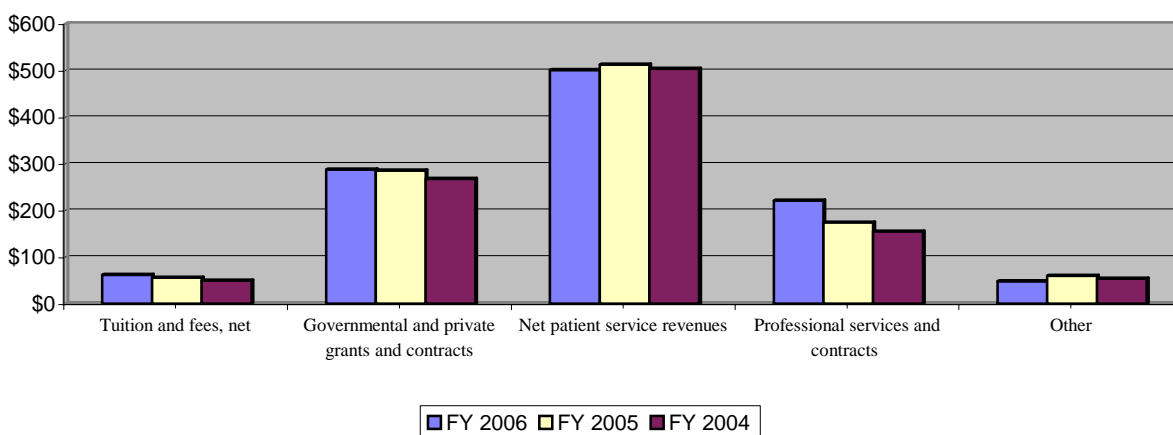
Governmental and private grants and contracts increased by 1% in 2006 to \$288 million, primarily due to growth in private grants and contracts.

Net patient service revenues relate to patient care services, which are generated within the University's hospital, behavioral healthcare and cancer activities, under contractual arrangements with governmental payors and private insurers. Although there was an increase in patient volume, these revenues decreased by 2% in 2006, primarily due to an increase in contractual allowances and bad debts resulting from a less favorable payor mix in 2006. The healthcare units received State appropriations of \$194.7 million in 2006, which included \$105.4 million of fringe benefits paid by the State.

Professional services and contracts revenues relate to services provided by the faculty practice plans, and services under training and other contracts. The increase in revenues for 2006 and 2005 was primarily related to a contract with the Department of Corrections, which generated revenues of \$39.8 million and \$16.9 million in 2006 and 2005, respectively.

Capital grants of \$24.2 million were received in 2006 through the Foundation for specific capital projects.

Operating Revenues
Years Ended June 30, 2006, 2005 and 2004
(In millions)



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June 30, 2006

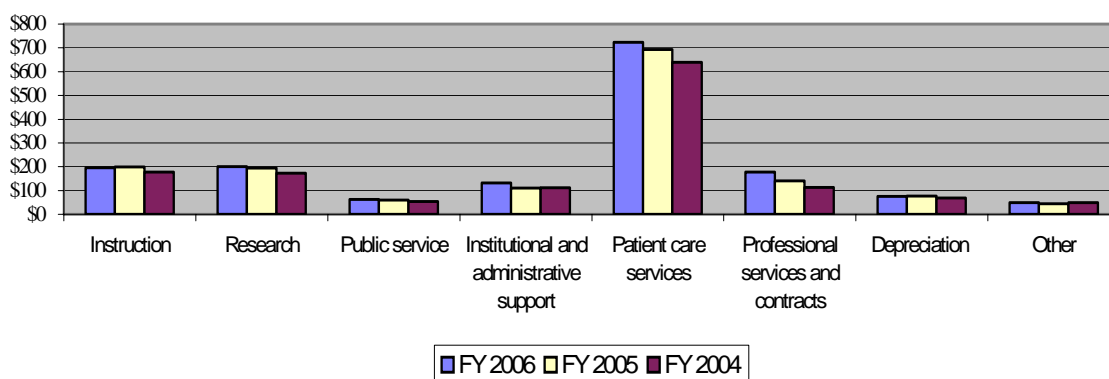
Operating Expenses

Operating expenses are incurred by the University to acquire or produce goods and services in return for operating revenues generated to carry out its mission.

A summary of the University's operating expenses for the years ended June 30, 2006, 2005 and 2004, follows:

<i>(In millions)</i>	2006	2005	2004
Instruction	\$ 195.9	\$ 198.7	\$ 177.1
Research	200.8	193.6	173.5
Public service	62.8	59.6	53.5
Institutional and administrative support	131.7	110.5	112.1
Patient care services	723.5	692.2	640.0
Professional services and contracts	177.9	140.1	113.4
Depreciation	74.3	76.3	68.7
Other	49.4	44.4	49.6
Total	\$ 1,616.3	\$ 1,515.4	\$ 1,387.9

Operating Expenses
Years Ended June 30, 2006, 2005 and 2004
(In millions)



Institutional and administrative support expenses increased by 19% in 2006, due to rising energy costs and costs related to investigations.

Patient care services expenses increased by 5% in 2006, primarily due to higher workload and related payroll costs.

University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

June 30, 2006

Professional services and contracts expenses increased by 27% in 2006, primarily related to a contract with the Department of Corrections.

Capital Assets and Debt Activities

It is the University's objective to manage its financial resources effectively and maintain adequate financial flexibility to access the capital markets as needed. The University maintains debt ratings of BBB from Standard and Poor's and Baa2 for its revenue bonds and Baa3 for its certificates of participation from Moody's Investors Service. These ratings reflect downgrades from the rating agencies in 2006, due to concerns about UH's financial performance, the reduction in the level of unrestricted net assets and the potential financial consequences of recent investigations.

As part of its mission, the University is committed to the expansion and renewal of its capital assets through a \$535 million capital plan, which addressed certain major projects through 2006 and will enable the University to enhance the quality of its academic and research programs and significantly expand its cancer and ambulatory healthcare facilities. Since the inception of the capital plan in 2001, the University incurred expenditures of \$505.8 million through June 30, 2006, and expects to spend approximately \$29.2 million in 2007.

The University has financed this plan primarily through the proceeds of its 2002 Series A and B Bonds, 2001 Lease Revenue Certificates, 2003 Certificates of Participation, utilization of the State's Capital Improvement Fund, capital appropriations and the use of unrestricted net assets.

Total capital expenditures were \$162.1 million in 2006, as compared to \$167.8 million in 2005. The major capital activities in 2006 were the Cancer Center, Ambulatory Care Center and University Housing facility on the Newark campus. Capital expenditures are estimated at \$50 million in 2007.

To finance the housing project, the University issued \$87.4 million of certificates of participation in December 2004. There were no new financings in 2006 and none are expected in 2007.

As of June 30, 2006, the University had \$2,019.8 million invested in capital assets, which was reduced by \$925.4 million of accumulated depreciation and \$622.6 million of expended debt to determine net assets of \$471.8 million.

Consolidated Statements of Cash Flows

The Consolidated Statements of Cash Flows provide additional information about the University's financial results by reporting the major sources and uses of cash. The statements display net cash provided by or used in operating activities, noncapital financing activities, capital financing activities and investing activities.

University of Medicine and Dentistry of New Jersey
Management's Discussion and Analysis
June 30, 2006

A summary of the University's cash flows for the years ended June 30, 2006, 2005 and 2004 follows:

<i>(In millions)</i>	2006	2005	2004
Cash (used in) provided by:			
Operating activities	\$ (268.4)	\$ (178.9)	\$ (189.4)
Noncapital financing activities	305.8	255.4	219.6
Capital financing activities	(185.9)	(111.3)	(192.3)
Investing activities	91.5	76.9	248.7
Net (decrease) increase in cash	<u>(57.0)</u>	<u>42.1</u>	<u>86.6</u>
Cash - beginning of year	<u>176.4</u>	<u>134.3</u>	<u>47.7</u>
Cash - end of year	<u><u>\$ 119.4</u></u>	<u><u>\$ 176.4</u></u>	<u><u>\$ 134.3</u></u>

During 2006, the University's cash decreased by \$57 million, primarily due to UH's operating results and capital plan activities.

Economic Outlook

The financial position of the University related to its academic and research missions remains strong and reflects growth in student demand, enrollment, tuition and research activities. The University expects this growth in academic activities to continue, while its research growth is dependent upon the national trend of Federal research activity.

State appropriations - operations for the academic activities of the University are expected to remain strong at an estimated level of \$200 million in 2007, based upon the final State budget.

State appropriations will remain an important source of funding for the schools of the University and State budgetary issues may impact the level of appropriations received in the future. The University continues to focus on cost control efforts and revenue enhancement initiatives in order to address any prospective budgetary challenges that may occur.

Growth in governmental and private grants and contracts is critical to the University's ability to attract faculty and scientists and enhance its academic reputation. Research funds are received from Federal, State and local governments and private sources, which generally provide for the recovery of direct and indirect costs. The University is challenged to maintain its growth in research funding, due to recent reductions in the National Institutes of Health budget, while it expands its collaborative efforts with other state universities.

UH is faced with financial challenges, as its expenses have exceeded its revenues by approximately \$40 million in 2006 and \$10 million in both 2005 and 2004, respectively. Since it is a safety net hospital and has a high level of Medicaid patients, UH must deal with the financial impact of revenue collections and reimbursement issues related to its payors. The level of charity care services and related expenses has been increasing each year to approximately 20% of its patient volumes, at an estimated value of approximately \$140 million, while charity care funding from the State totaled \$90.8 million and \$82.6 million in 2006 and 2005, respectively, and is expected to total \$89.3 million in 2007. UH's operating results for 2007 are expected to approximate a \$26 million loss.

University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

June 30, 2006

As a result of cost report errors discovered in 2005, the University recorded liabilities to third parties totaling \$59.7 million and \$57.7 million as of June 30, 2006 and 2005, respectively. The University does not believe that any penalties and interest will be assessed, and accordingly, has not accrued an estimate for interest and penalties as of June 30, 2006 and 2005, respectively. The University has self disclosed to the Centers for Medicare and Medicaid Services ("CMS") and the related fiscal intermediary these errors and CMS has issued a notice of intent to re-open cost reports for 2001 through 2003. Although the ultimate outcome of CMS's audit of the 2001-2003 cost reports is unknown at this time, management believes it has appropriately accrued for the amounts owed to Medicare and Medicaid and that any additional adjustments that may arise from these audits will not have a material effect on the University's financial position, operating results or cash flows. The ultimate payment of these liabilities will be subject to discussions and negotiations with the relevant authorities.

UH and the University's other healthcare units will continue to address the financial impact of revenue collections and reimbursement issues from governmental and managed care payors. Management believes that much of the payment challenges can be offset by growth in patient volumes and continued efforts to contain growth in expenses. In addition, UH has engaged outside consultants to perform an extensive review of its operations in 2007, with the goal of improved efficiencies and increased revenues.

University Behavioral HealthCare ("UBHC") and the Cancer Institute of New Jersey are expected to maintain financial stability in the future. State appropriations - operations for these units totaled \$42 million in 2006, and are projected to remain at the same level in 2007 based upon the final State budget.

As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. Approximately 80% of the University's employees are represented by collective bargaining agreements, which are expected to increase labor costs by approximately \$24 million in 2007.

Management believes that the University has the structure in place to stabilize its financial condition and deal with the financial challenges facing UH, which will ensure the resources necessary to provide New Jersey's citizens with world-class education, leading-edge research and the highest quality healthcare.

Legal Matters

On December 30, 2005, the United States Attorney's Office for the District of New Jersey (the "Office") filed a criminal complaint charging the University with receiving improper Medicaid reimbursements. In connection with the filing of that complaint, the University and the Office entered into a Deferred Prosecution Agreement ("DPA"). Pursuant to the agreement, the University agreed to undertake remedial actions, retain an independent monitor ("Federal Monitor") and continue to cooperate with the Office, including with respect to any ongoing investigations, and make repayment of \$4.9 million relating to physician services in outpatient clinics. This amount was repaid by the University in 2006 and is reflected as a liability on the 2005 financial statements. If the University fulfills its obligations under the DPA, the Office will dismiss the criminal complaint twenty-four (24) to thirty-six (36) months from the filing date of the criminal complaint.

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Under the DPA, the Federal Monitor has certain investigative and other authority related to the University's operations. As a result of one of the investigations, the Federal Monitor issued a report in November 2006 which alleged that the University had violated certain billing and anti-kickback laws and regulations. The report indicated that the University could be liable for as much as \$84 million in restitution, fines and penalties as a result of these potential violations. The University engaged external counsel to review the issues, who concluded that it was reasonably possible that a liability had been incurred, but that the amount of the liability could not be reasonably estimated. As a result, no amounts have been recorded in the 2006 or 2005 financial statements.

Other matters referenced in the periodic Federal Monitor reports have been investigated by the University. Where necessary, the University engaged external experts to assess various healthcare matters and the related liabilities that have been estimated and recorded within the 2006 and 2005 financial statements, respectively.

Since 2005, the University has become aware of Federal and State inquiries and investigations and received subpoenas and other requests for information. The University has cooperated with the agencies and provided the information and data requested. Although the ultimate outcome of these investigations is unknown at this time, management does not believe it will have a material effect on the University's financial position, operating results or cash flows.

Basic Financial Statements

University of Medicine and Dentistry of New Jersey
Consolidated Statements of Net Assets
(In thousands of dollars)

	June 30,	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 119,430	\$ 176,445
Short-term investments	1,158	3,378
Accounts receivable, net of allowance for doubtful accounts of \$172,924 in 2006 and \$160,875 in 2005	113,855	111,156
Appropriations receivable	6,563	3,600
Other receivables, net of allowance for doubtful accounts of \$10,774 in 2006 and \$7,262 in 2005	63,480	59,259
Grants receivable, net of allowance for doubtful accounts of \$8,188 in 2006 and \$7,583 in 2005	88,103	65,996
Prepaid expenses and other assets	20,773	8,123
Assets held by trustees - current portion	58,966	133,210
Total current assets	<u>472,328</u>	<u>561,167</u>
Noncurrent assets		
Endowment investments	31,924	33,836
Other long-term investments	119,124	125,172
Loans to students	22,561	23,723
Deferred financing costs	10,199	10,629
Assets held by trustees	52,033	51,630
Capital assets, net	1,094,446	1,013,048
Total noncurrent assets	<u>1,330,287</u>	<u>1,258,038</u>
Total assets	<u>1,802,615</u>	<u>1,819,205</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	150,876	168,862
Estimated third party payors settlements	84,907	73,181
Accrued vacation expense	45,320	45,766
Deferred revenues	55,259	42,175
Long-term debt and capital lease obligations - current portion	17,395	13,687
Total current liabilities	<u>353,757</u>	<u>343,671</u>
Noncurrent liabilities		
Accrued claims liability and other	16,157	14,872
Long-term debt and capital lease obligations	701,807	713,546
Total noncurrent liabilities	<u>717,964</u>	<u>728,418</u>
Total liabilities	<u>1,071,721</u>	<u>1,072,089</u>
Net Assets		
Invested in capital, net of related debt	471,832	440,496
Restricted expendable	267,240	260,772
Restricted nonexpendable	57,483	59,550
Unrestricted	(65,661)	(13,702)
Total net assets	<u>\$ 730,894</u>	<u>\$ 747,116</u>

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

University of Medicine and Dentistry of New Jersey
Statement of Net Assets – Aggregate Discretely Presented Component Units
(In thousands of dollars)

	June 30, 2006			June 30, 2005		
	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc. ("UPA")	Total	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total
Assets						
Cash and cash equivalents	\$ 593	\$ 15,564	\$ 16,157	\$ 66	\$ 11,515	\$ 11,581
Cash and cash equivalents whose use is limited	-	4,425	4,425	-	5,540	5,540
Contributions receivable, net	30,618	-	30,618	25,344	-	25,344
Investments	204,512	181	204,693	185,628	169	185,797
Physician reserve fund	-	711	711	-	686	686
Other assets	-	290	290	495	520	1,015
Capital assets, net	2,313	681	2,994	210	1,384	1,594
Total assets	\$ 238,036	\$ 21,852	\$ 259,888	\$ 211,743	\$ 19,814	\$ 231,557
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 1,217	\$ 463	\$ 1,680	\$ 1,315	\$ 407	\$ 1,722
Grants payable	45,189	-	45,189	45,475	-	45,475
Payable to New Jersey Medical School ("NJMS") department funds	-	3,695	3,695	-	3,105	3,105
Payable to NJMS dean's funds	-	5,407	5,407	-	6,385	6,385
Payable to physician reserve fund	-	664	664	-	664	664
Payable to physician overhead funds	-	450	450	-	468	468
Payable to participant division fund	-	12,334	12,334	-	11,055	11,055
Funds held in custody for others	4,803	-	4,803	585	-	585
Total liabilities	51,209	23,013	74,222	47,375	22,084	69,459
Net Assets						
Board designated - unrestricted	55,042	(1,161)	53,881	51,322	(2,270)	49,052
Temporarily restricted	22,298	-	22,298	20,014	-	20,014
Permanently restricted	109,487	-	109,487	93,032	-	93,032
Total net assets	186,827	(1,161)	185,666	164,368	(2,270)	162,098
Total liabilities and net assets	\$ 238,036	\$ 21,852	\$ 259,888	\$ 211,743	\$ 19,814	\$ 231,557

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

University of Medicine and Dentistry of New Jersey
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
(In thousands of dollars)

	Year Ended June 30,	
	2006	2005
Operating revenues		
Tuition and fees, net	\$ 62,010	\$ 55,863
Governmental grants and contracts	222,160	229,593
Private grants and contracts	65,825	56,479
Net patient service revenues	501,178	512,887
Professional services and contracts	221,186	174,536
Auxiliary sales and services	15,095	17,013
Other operating revenues	33,502	42,907
Total operating revenues	<u>1,120,956</u>	<u>1,089,278</u>
Operating expenses		
Instruction	195,920	198,678
Research	200,782	193,553
Public service	62,777	59,571
Academic and student support	28,562	22,526
Institutional and administrative support	77,072	71,250
Patient care services	723,489	692,172
Professional services and contracts	177,914	140,112
Operation and maintenance of plant	54,574	39,222
Insurance	6,593	5,790
Depreciation	74,269	76,327
Auxiliary enterprises and other	14,304	16,210
Total operating expenses	<u>1,616,256</u>	<u>1,515,411</u>
Operating loss	<u>(495,300)</u>	<u>(426,133)</u>
Nonoperating revenues (expenses)		
State appropriations - operations	296,701	266,118
Fringe benefits paid by the State	168,381	159,789
Miscellaneous grants and gifts	10,470	3,809
Investment income	14,657	12,616
Unrealized (depreciation) appreciation on investments	(7,117)	5,029
Interest expense	(25,671)	(21,871)
Other	(6,651)	(10,255)
Total nonoperating revenues, net	<u>450,770</u>	<u>415,235</u>
Other revenues		
State appropriations - capital	4,140	4,025
Capital grants	24,168	-
Total other revenues	<u>28,308</u>	<u>4,025</u>
Decrease in net assets	(16,222)	(6,873)
Net assets - beginning of year	747,116	753,989
Net assets - end of year	<u>\$ 730,894</u>	<u>\$ 747,116</u>

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

University of Medicine and Dentistry of New Jersey
Statements of Revenues, Expenses and Changes in Net Assets – Aggregate Discretely Presented Component Units
(In thousands of dollars)

	Year Ended June 30, 2006			Year Ended June 30, 2005		
	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total
Operating revenues						
Contributions, net	\$ 33,036	\$ -	\$ 33,036	\$ 31,626	\$ -	\$ 31,626
Net physician billings	-	79,638	79,638	-	73,733	73,733
Net unrealized and realized gains on investments	13,199	12	13,211	14,484	37	14,521
Interest and dividend income	3,501	-	3,501	1,934	-	1,934
Investment management & cost recovery fees	(5,020)	-	(5,020)	(2,715)	-	(2,715)
Other revenues, net	854	467	1,321	545	330	875
Total revenue and gains	<u>45,570</u>	<u>80,117</u>	<u>125,687</u>	<u>45,874</u>	<u>74,100</u>	<u>119,974</u>
Operating expenses						
Grants	18,760	-	18,760	24,452	-	24,452
Distributions to UPA physicians	-	27,360	27,360	-	26,194	26,194
Distributions to NJMS department funds	-	7,923	7,923	-	6,907	6,907
Distributions to participant division fund	-	18,311	18,311	-	16,412	16,412
Distributions to NJMS dean's fund	-	5,475	5,475	-	5,079	5,079
Distributions to University medical malpractice fund	-	2,373	2,373	-	2,199	2,199
Fund raising	3,475	-	3,475	1,615	-	1,615
General and administrative	(301)	17,566	17,265	981	16,242	17,223
Total expenses	<u>21,934</u>	<u>79,008</u>	<u>100,942</u>	<u>27,048</u>	<u>73,033</u>	<u>100,081</u>
Increase in net assets	23,636	1,109	24,745	18,826	1,067	19,893
Other changes in net assets						
Refunded to Grantor	(1,844)	-	(1,844)	-	-	-
Transfer of net assets	667	-	667	-	-	-
Total other changes in net assets	<u>(1,177)</u>	<u>-</u>	<u>(1,177)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - beginning of year	164,368	(2,270)	162,098	145,542	(3,337)	142,205
Net assets - end of year	<u>\$ 186,827</u>	<u>\$ (1,161)</u>	<u>\$ 185,666</u>	<u>\$ 164,368</u>	<u>\$ (2,270)</u>	<u>\$ 162,098</u>

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

University of Medicine and Dentistry of New Jersey
Consolidated Statements of Cash Flows
(In thousands of dollars)

	Year Ended June 30,	
	2006	2005
Cash flows from operating activities		
Tuition and fees	\$ 61,701	\$ 55,514
Research grants and contracts	299,397	282,905
Services to patients	501,758	501,160
Professional services and contracts	217,909	180,340
Other receipts	61,009	84,690
Payments to employees	(956,686)	(843,130)
Payments to vendors	(453,447)	(440,346)
Net cash used in operating activities	<u>(268,359)</u>	<u>(178,867)</u>
Cash flows from noncapital financing activities		
State appropriations	293,738	267,018
Loans to students	(6,537)	(6,870)
Loan repayments from students	6,554	6,310
Affiliate contributions, net of transfers to the State	8,382	7,725
Other receipts (payments), net	3,637	(18,784)
Net cash provided by noncapital financing activities	<u>305,774</u>	<u>255,399</u>
Cash flows from capital financing activities		
Proceeds from issuance of capital debt	336	89,698
Capital grants received	5,407	5,511
Purchases of capital assets	(152,445)	(168,159)
Principal payments on debt and capital lease obligations	(14,106)	(17,013)
Interest payments on debt and capital lease obligations	(25,141)	(21,319)
Net cash used in capital financing activities	<u>(185,949)</u>	<u>(111,282)</u>
Cash flows from investing activities		
Deposits with assets held by trustees	(887)	(87,508)
Receipts from assets held by trustees	74,728	86,132
Proceeds from sales and maturities of investments	5,366	66,376
Purchases of investments	(2,295)	(1,932)
Interest on investments	14,607	13,833
Net cash provided by investing activities	<u>91,519</u>	<u>76,901</u>
Net (decrease) increase in cash and cash equivalents	(57,015)	42,151
Cash and cash equivalents - beginning of year	176,445	134,294
Cash and cash equivalents - end of year	<u>\$ 119,430</u>	<u>\$ 176,445</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (495,300)	\$ (426,133)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Fringe benefits paid by the State	168,381	159,789
Depreciation expense	74,269	76,327
Provision for bad debts	117,721	100,975
Change in assets and liabilities		
Receivables, net	(127,520)	(105,205)
Prepaid expenses and other assets	(12,740)	1,797
Accounts payable and accrued expenses	(6,254)	11,892
Deferred revenues	13,084	1,691
Net cash used in operating activities	<u>\$ (268,359)</u>	<u>\$ (178,867)</u>
Non Cash transactions		
Capital assets acquired through capital leases and transfers	\$ 4,342	\$ -

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

University of Medicine and Dentistry of New Jersey
Notes to Consolidated Financial Statements
Years Ended 2006 and 2005
(In thousand of dollars)

1. Organization

The University of Medicine and Dentistry of New Jersey (the “University”), a component unit of the State of New Jersey (the “State”), was established in 1964 and operates under the provisions of the “Medical and Dental Education Act of 1970” (the “Act”). The Act provided for the combination of the Rutgers Medical School and the New Jersey College of Medicine and Dentistry into a single entity known as the College of Medicine and Dentistry of New Jersey, which was subsequently renamed the University of Medicine and Dentistry of New Jersey. The Act also provides for the appointment of a Board of Trustees by the Governor of New Jersey. The Board of Trustees has general supervision over and is vested with the conduct of the University. The University receives appropriations for operations, fringe benefits and capital from the State, which are determined annually through the State’s legislative process.

The University is a body corporate and politic of the State. Accordingly, the University’s consolidated financial statements are included in the State’s Comprehensive Annual Financial Report.

The University consists of the following units:

Schools of the University:

- UMDNJ-New Jersey Medical School (“NJMS”)
- UMDNJ-Robert Wood Johnson Medical School
- UMDNJ-School of Osteopathic Medicine
- UMDNJ-New Jersey Dental School
- UMDNJ-Graduate School of Biomedical Sciences
- UMDNJ-School of Health Related Professions
- UMDNJ-School of Nursing
- UMDNJ-School of Public Health

University Health Care Units:

- UMDNJ-University Hospital (“UH”)
- UMDNJ-University Behavioral HealthCare (“UBHC”)
- Eric B. Chandler Health Center
- The Cancer Institute of New Jersey
- Broadway House for Continuing Care
- Child Health Institute of New Jersey
- University Correctional HealthCare

Faculty Practice Plans:

- UMDNJ-Robert Wood Johnson Medical School (University Medical Group)
- UMDNJ-School of Osteopathic Medicine
- UMDNJ-New Jersey Dental School
- UMDNJ-School of Health Related Professions
- UMDNJ-School of Nursing

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Lease Holding Corporation:

- University Care Corporation (“UCC”)

The University’s consolidated financial statements include the schools, health care units, faculty practice plans, the lease holding corporation and auxiliary enterprises.

UBHC has a contract with the New Jersey Department of Corrections to provide psychiatric services to inmates in the State prisons. As a result of this contract, the University formed University Correctional HealthCare, for the management of correctional healthcare. UBHC administers the behavioral healthcare component of this contract.

As defined by Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No 14, *The Financial Reporting Entity*, the New Jersey Health Foundation, Inc., (the “Foundation”), which includes the Foundation of the University of Medicine and Dentistry of New Jersey, and the Faculty Practice Plan for the UMDNJ-New Jersey Medical School – University Physician Associates of New Jersey, Inc. (“UPA”), meet the criteria qualifying them as component units of the University.

The Foundation’s and UPA’s results are reported in the aggregate discretely presented component units as separate statements within the basic financial statements because of the differences in their reporting models, as described in Note 2.

During 2006 and 2005, the Foundation distributed \$18,760 and \$24,452, respectively, to fund University programs and operations. Included in the Foundation’s financial statements are \$45,189 and \$45,475 of grants payable to the University as of June 30, 2006 and 2005, respectively. Separate financial statements for the Foundation can be obtained by writing to the President, New Jersey Health Foundation, Inc., 120 Albany Street, Tower II, Suite 850, New Brunswick, New Jersey 08901-9888.

During 2006 and 2005, UPA distributed \$15,771 and \$14,185, respectively, to NJMS, which included contributions towards the medical malpractice fund. Included in UPA’s financial statements are \$9,565 and \$9,897 of distributions payable to the University as of June 30, 2006 and 2005, respectively, which are included within the University’s financial statements in other receivables. Separate financial statements for UPA can be obtained by writing to the Executive Director/Chief Executive Officer, University Physician Associates of New Jersey, Inc., 30 Bergen Street, ADMC 12, Room 1205, Newark, New Jersey 07107.

2. Summary of Significant Accounting Policies

The following is a summary of the University’s significant accounting policies:

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles as prescribed by GASB. All significant intercompany balances are eliminated in consolidation.

Basis of Accounting

The University uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (“FASB”), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Foundation is a nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation’s financial statements in the University’s financial reporting entity for these differences.

UPA is a nonprofit organization that reports its financial statements on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The impact of modified basis of cash receipts and disbursements on the aggregate discretely presented component units’ statements of net assets and statements of revenues, expenses and changes in net assets is not reasonably determinable. However, it is material to the aggregate discretely presented component units’ financial statements.

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 as of the date of the financial statements and accompanying notes. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The University’s significant estimates include contractual allowances and allowances for doubtful accounts for patient accounts receivable, reserves for other and grants receivables, amounts due to third party payors, accrued claims liability and commitments and contingencies.

The University recognized expense of approximately \$600 and \$5,900 in 2006 and 2005, respectively, as a result of changes in estimates of the allowance for doubtful accounts of grants receivable.

Cash and Cash Equivalents

Cash and cash equivalents, excluding assets held by trustees, represent operating cash, money market investments and commercial paper with maturities of three months or less at the date of purchase that are unrestricted.

Investments

Investments in equity securities and debt securities are measured at fair value in the consolidated statements of net assets. Fair value is generally determined by sales prices or bid-and-asked quotations that are available on a securities exchange registered with the Securities and Exchange Commission or in the over-the-counter market. For investments in mutual funds, the fair value per share, or unit, is the value that is determined and published and the basis for current transactions. Investment income or loss, including realized gains and losses on investments, interest and dividends, is included in nonoperating revenues unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are also included in nonoperating revenues.

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Other Receivables

Other receivables represent amounts due from hospitals under affiliation agreements with the University for use of its faculty and residents, the current portion of loans to students, amounts due from UPA and amounts due from State and local municipalities and agencies for services rendered.

Grants Receivables

Grants receivables represent amounts due from Federal, State and local governments, pharmaceutical firms, the Foundation and private agencies, for research and other sponsored programs.

Component Unit - New Jersey Health Foundation, Inc.'s Contributions Receivable

Contributions, including unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Contributions receivable that are expected to be received subsequent to June 30 are as follows:

	2006	2005
One year or less	\$ 17,994	\$ 11,174
One year to five years	14,698	15,221
Present value discount ranging from 3% to 6%	(2,074)	(1,051)
	<u>\$ 30,618</u>	<u>\$ 25,344</u>

Inventories

Inventories, which are included in prepaid expenses and other current assets, are stated at the lower of cost or market using the first-in, first-out method. In 2006, the University recorded approximately \$5,800 of inventory as a result of inventorying certain operating room supplies that were previously expensed as they were considered to be immaterial.

Endowments

Endowment investments are subject to the restriction of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. University management has the authority to utilize investment income, in accordance with the terms of each specific gift as approved by the Board of Trustees. Included in endowment investments is realized and unrealized appreciation on donor-restricted endowments. The unrealized net appreciation and depreciation on endowment investments is included in restricted nonexpendable net assets within the consolidated statements of revenues, expenses and changes in net assets. It is the University's policy to account for endowment appreciation in accordance with donor specifications.

Assets Held by Trustees

Assets held by trustees, which are measured at fair market value, represent assets whose use is limited under various bond indenture agreements. Such assets consist principally of investments in U.S. government obligations, commercial paper, repurchase agreements and cash management funds (see Note 5).

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Capital Assets

Capital assets are stated at cost, or at fair market value at acquisition in the case of donated assets. Major renewals and improvements are capitalized while maintenance repairs are expensed when incurred. Depreciation is provided on a straight-line basis over the shorter of the estimated useful lives of the related assets or lease terms, ranging from 2 to 40 years. Amortization of assets recorded under capital leases is included with depreciation expense in the financial statements. Gains and losses resulting from the retirement of capital assets are also included in the financial statements within nonoperating revenues. The University follows the Federal Circular A-110 equipment guidelines for all equipment acquired with grant funding.

Impairment of Long-Lived Assets

In November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. The University adopted this statement for fiscal year 2006. There were no impairment losses in 2006 and 2005.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain various capital financings and are amortized over the term of the related debt using the effective interest method or the straight-line method when not materially different. Deferred financing costs totaled \$10,199 and \$10,629, net of accumulated amortization of \$2,277 and \$1,847 as of June 30, 2006 and 2005, respectively.

Deferred Revenues

Deferred revenues include amounts received in advance from grant and contract sponsors, and amounts received from tuition and fees that relate to the subsequent fiscal year.

Accrued Claims Liability

Accrued claims liability represents estimated amounts related to workers compensation claims.

Component Unit – New Jersey Health Foundation, Inc.'s Grants Payable

Grants payable are recorded at the time authorized by the Foundation's Board of Trustees and communicated to the recipient and are expected to be paid within one year.

Net Assets

Net assets of the University are classified in four components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the University, including amounts deposited with trustees as required by revenue bond indentures, as discussed in Note 8. *Restricted nonexpendable net assets* are those subject to externally imposed stipulations that they be maintained permanently. Such net assets include the corpus portion (historical value) of gifts and the University's permanent endowment fund. *Unrestricted net assets* are remaining net assets that do not meet the definition of *net assets invested in capital assets, net of related debt or restricted*.

Revenues and Expenses

The University's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare, education and research services

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which are the University's principal activities. Nonexchange revenues, including State appropriations (excluding amounts related to capital), miscellaneous gifts and grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare, education and research services, other than financing costs.

Net Patient Service Revenues and Patient Accounts Receivable

Net patient service revenues are accounted for on the accrual basis in the period in which the service is provided. These amounts are net of allowances to give recognition to differences between charges and reimbursement rates from third party payors. Reimbursement from third party payors under various methodologies is based on the level of care provided. Certain net revenues received are subject to audit and retroactive adjustments for which amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined (see Note 4).

Professional Services and Contracts Revenues

Professional services and contracts revenues are accounted for on an accrual basis and are reported at the estimated net realizable amounts from patients, third party payors and others for services rendered.

Capitalized Interest Costs

Interest costs, net of investment income, are capitalized as part of capital expenditures and depreciated over the estimated useful life of the asset.

New Authoritative Pronouncements

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefit expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. The University is currently evaluating the effect, if any, that Statement No. 45 will have on its consolidated financial statements.

Comparative Information and Revision

The University's financial statements include comparative financial information. Certain prior year amounts have been revised to conform to the current year presentation. During 2006, the University revised its reporting of indirect cost recovery revenues and expenses in the consolidated statements of revenues, expenses and changes in net assets. Accordingly, total operating revenues and total operating expenses were reduced by \$48,414. Additionally, the University has revised its presentation of certain components of net assets at June 30, 2005 by increasing unrestricted net assets and decreasing restricted nonexpendable net assets by \$12,000 for quasi endowments previously reported within restricted nonexpendable. These revisions had no impact on total net assets or the decrease in net assets as of and for the year ended June 30, 2005.

3. Tuition and Fees, Net

Tuition and fees revenues are accounted for on an accrual basis and are reported net of allowances. Scholarship allowances are the estimated difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Scholarship allowances totaled \$5,310 and \$4,663 in 2006 and 2005, respectively.

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4. Healthcare Reimbursement System

A summary of the payment arrangements with major third party payors is as follows:

- Medicare – inpatient acute care, inpatient behavioral health, and most outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The University is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of the annual cost report by the University and audits thereof by the Medicare fiscal intermediary. The University's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the University. The University's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2003.
- Medicaid – inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid based upon a cost reimbursement methodology and certain services are paid based on a Medicaid fee schedule. The University is paid for reimbursable costs at a tentative rate with final settlement determined after submission of the annual cost report by the University and audit thereof by the Medicaid fiscal intermediary. UH's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through June 30, 2003 and UBHC has settled its cost reports through June 30, 2004.

The University has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the University under these agreements includes prospectively determined rates per day/case and discounts from established charges.

Revenues received under the various reimbursement systems and agreements are subject to audit and adjustment. Accordingly, provisions for estimated adjustments resulting from audit, final settlement and changes in estimates have been recorded. Differences between the provisions and the amounts settled are recorded in the year of settlement. The University recognized revenues in 2006 and 2005 of approximately \$2,000 and \$19,000, respectively, as a result of changes in estimated third party liabilities.

During 2005, the University became aware of errors in its filed Medicare and Medicaid cost reports for years 2000 through 2005, which resulted in a liability to Medicare and Medicaid totaling approximately \$58 million as of June 30, 2006 and 2005, respectively. The University does not believe that any penalties and interest will be assessed, and accordingly, has not accrued an estimate for interest and penalties as of June 30, 2006 and 2005. The University has self disclosed to the Centers for Medicare and Medicaid Services ("CMS") and the related fiscal intermediary these errors and CMS has issued a notice of intent to re-open cost reports for 2001 through 2003. Although the ultimate outcome of CMS audit of the 2001-2003 cost reports is unknown at this time, management believes it has appropriately accrued for the amounts owed to Medicare and Medicaid and that any additional adjustments that may arise from these audits will not have a material effect on the University's financial position, operating results or cash flows.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation for which action for non-compliance includes fines, penalties, and exclusion from the

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Medicare and Medicaid programs. The University has established a Corporate Compliance Program to monitor and ensure compliance with these regulations (see Note 13).

UH and UBHC provide care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services and the Department of Human Services without charge or at amounts less than their established rates. These units maintain records to identify and monitor the level of charity care they provide, which include the amount of gross charges foregone for services and supplies furnished. Gross charges related to charity care totaled \$374,693 and \$353,312 in 2006 and 2005, respectively. The University receives partial reimbursement for the charity care it provides through the Health Care Subsidy Fund.

The components of net patient service revenues are as follows:

	Year Ended June 30,	
	2006	2005
Gross charges	\$ 1,859,704	\$ 1,759,918
Net additions (deductions) from gross patient service revenues:		
Health Care Subsidy Fund payments:		
Charity care	90,803	82,570
Hospital relief	16,567	17,354
Contractual and other allowances	(1,366,368)	(1,263,481)
Provision for bad debts	(99,528)	(83,474)
Subtotal	<u>(1,358,526)</u>	<u>(1,247,031)</u>
Net patient service revenues	<u>\$ 501,178</u>	<u>\$ 512,887</u>

5. Cash and Cash Equivalents, Investments and Assets Held by Trustees

Cash on deposit, which is included in cash and cash equivalents in the consolidated financial statements, is \$7,341 and \$11,956 as of June 30, 2006 and 2005, respectively, and is partially insured by Federal Deposit Insurance Corporation in the amount of \$100 in each depository. Balances above the Federal Deposit Insurance Corporation amount are insured by the Government Unit Deposit Protection Act, which insures all New Jersey government units' deposits in excess of Federal Deposit Insurance Corporation maximums.

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Investments consist of the following:

	Cost	Fair Market Value	Unrealized (Losses) Gains
June 30, 2006			
U.S. government agencies	\$ 129,143	\$ 123,431	\$ (5,712)
Common stock	624	18,562	17,938
Corporate bonds	10,003	10,052	49
Mutual funds	152	161	9
	<u>\$ 139,922</u>	<u>\$ 152,206</u>	<u>\$ 12,284</u>
June 30, 2005			
U.S. government agencies	\$ 129,113	\$ 128,519	\$ (594)
Common stock	624	19,992	19,368
Corporate bonds	13,000	13,499	499
Mutual funds	349	376	27
	<u>\$ 143,086</u>	<u>\$ 162,386</u>	<u>\$ 19,300</u>

Investment maturities consist of the following:

	Fair Market Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
June 30, 2006					
U.S. government agencies	\$ 123,431	\$ 997	\$ 44,537	\$ 76,971	\$ 926
Corporate bonds	10,052	4,985	-	5,067	-
Mutual funds	161	161	-	-	-
	<u>\$ 133,644</u>	<u>\$ 6,143</u>	<u>\$ 44,537</u>	<u>\$ 82,038</u>	<u>\$ 926</u>
June 30, 2005					
U.S. government agencies	\$ 128,519	\$ -	\$ 28,614	\$ 88,513	\$ 11,392
Corporate bonds	13,499	3,002	5,058	5,439	-
Mutual funds	376	376	-	-	-
	<u>\$ 142,394</u>	<u>\$ 3,378</u>	<u>\$ 33,672</u>	<u>\$ 93,952</u>	<u>\$ 11,392</u>

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Assets held by trustees consist of the following:

	Cost	Fair Market Value	Unrealized (Losses) Gains
June 30, 2006			
U.S. treasuries	\$ 11,411	\$ 11,365	\$ (46)
Commercial paper	11,954	11,953	(1)
Repurchase agreements	47,811	47,811	-
Cash management funds	39,268	39,268	-
Accrued interest	602	602	-
	<u>\$ 111,046</u>	<u>\$ 110,999</u>	<u>\$ (47)</u>
June 30, 2005			
U.S. treasuries	\$ 11,359	\$ 11,442	\$ 83
U.S. government agencies	24,895	24,886	(9)
Commercial paper	7,059	7,058	(1)
Repurchase agreements	95,949	95,949	-
Cash management funds	44,222	44,222	-
Accrued interest	1,283	1,283	-
	<u>\$ 184,767</u>	<u>\$ 184,840</u>	<u>\$ 73</u>

Assets held by trustees maturities consist of the following:

	Fair Market Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
June 30, 2006					
U.S. treasuries	\$ 11,365	\$ 11,365	\$ -	\$ -	\$ -
Commercial paper	11,953	11,953	-	-	-
Repurchase agreements	47,811	20,030	1,161	6,777	19,843
Cash management funds	39,268	39,268	-	-	-
Accrued interest	602	602	-	-	-
	<u>\$ 110,999</u>	<u>\$ 83,218</u>	<u>\$ 1,161</u>	<u>\$ 6,777</u>	<u>\$ 19,843</u>
June 30, 2005					
U.S. treasuries	\$ 11,442	\$ 1,344	\$ 10,098	\$ -	\$ -
U.S. government agencies	24,886	24,886	-	-	-
Commercial paper	7,058	7,058	-	-	-
Repurchase agreements	95,949	62,694	6,635	6,777	19,843
Cash management funds	44,222	44,222	-	-	-
Accrued interest	1,283	1,283	-	-	-
	<u>\$ 184,840</u>	<u>\$ 141,487</u>	<u>\$ 16,733</u>	<u>\$ 6,777</u>	<u>\$ 19,843</u>

Substantially all of the University's investments, including assets held by trustees, are Category 1 investments, which are defined by GASB Statement No. 3 as investments that are insured or registered and are held by the institution, or its agent, in the institution's name. The University invests in repurchase agreements, principally on government securities, which are agreements between a seller and a buyer whereby the seller agrees to repurchase the securities at an agreed upon price and time. These repurchase agreements are fully collateralized by obligations of the U.S. government and U.S. government agencies.

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Investment income consists of the following:

	Year Ended June 30,	
	2006	2005
Interest income	\$ 14,226	\$ 12,239
Dividend income	431	377
	<u>\$ 14,657</u>	<u>\$ 12,616</u>

Interest Rate Risk

The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest rate yields on investments consist of the following:

	Year Ended June 30,	
	2006	2005
U.S. government agencies	3.00% - 5.75%	3.03% - 5.75%
Corporate bonds	4.89% - 6.13%	6.13% - 6.13%

Interest rate yields on assets held by trustees consist of the following:

	Year Ended June 30,	
	2006	2005
U.S. treasuries	2.14% - 6.50%	2.00% - 6.50%
U.S. government agencies	-- - --	2.13% - 2.13%
Commercial paper	2.29% - 5.84%	0.11% - 3.95%
Repurchase agreements	2.50% - 7.80%	2.50% - 7.80%
Cash management funds	4.02% - 4.91%	0.75% - 3.00%

Credit Risk

The University's investment policy limits investments in corporate bonds to the top rating issued by nationally recognized statistical rating organizations. As of June 30, 2006 and 2005, respectively, investments in corporate bonds were rated A1 by Standard and Poor's and P1 by Moody's Investors Service. Mutual bond fund investments are not rated.

Concentration of Credit Risk

The University's investment policy places no limits on the amount that may be invested in U.S. Government securities. However, holdings other than U.S. Government securities, must be diversified so as to limit concentration in any single obligor, industry or geographic area. Investment of corporate bonds and commercial paper must be in U.S. corporations. More than 5% of investments are in U.S. government agencies securities, specifically Federal Home Loan Bank totaling \$51,534, Federal National Mortgages Association totaling \$38,596, Federal Home Loan Mortgage Corporation totaling \$27,545 and Federal Farm Credit Bank totaling \$5,756. These securities are not guaranteed by the United States government.

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Component Unit – New Jersey Health Foundation Inc.’s Investments

Investments are carried in the financial statements at fair value, based upon quoted market values or investment advisors. The estimated fair value of alternative investments is based on valuations provided by the external investment managers. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Investments consist of the following as of June 30:

	Year Ended June 30,	
	2006	2005
Money market funds	\$ 37,718	\$ 33,846
Bonds and notes	11,111	26,529
Fixed income funds	17,804	-
Equity		
Large-mid cap	64,569	61,647
Small cap	20,508	19,934
International	19,824	17,496
Alternative investments	32,978	26,176
	<u>\$ 204,512</u>	<u>\$ 185,628</u>

Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

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6. Capital Assets

The historical cost of capital assets and capital asset activities for the years ended June 30, 2006 and 2005 are as follows:

	June 30, 2005	Additions	Retirements/ Capitalization	June 30, 2006
Depreciable assets				
Land improvements	\$ 9,067	\$ 1,479	\$ -	\$ 10,546
Buildings and leasehold improvements	1,089,733	111,303	(7,006)	1,194,030
Equipment	566,315	31,950	(5,387)	592,878
Capital assets for investment in joint ventures	35,532	87	-	35,619
	<u>1,700,647</u>	<u>144,819</u>	<u>(12,393)</u>	<u>1,833,073</u>
Accumulated depreciation				
Land improvements	(4,543)	(151)	-	(4,694)
Buildings and leasehold improvements	(412,015)	(34,848)	165	(446,698)
Equipment	(419,252)	(38,159)	5,800	(451,611)
Capital assets for investment in joint ventures	(21,240)	(1,111)	-	(22,351)
	<u>(857,050)</u>	<u>(74,269)</u>	<u>5,965</u>	<u>(925,354)</u>
Non-depreciable assets				
Land	15,734	78	-	15,812
Construction in progress	153,717	152,841	(135,643)	170,915
	<u>\$ 1,013,048</u>	<u>\$ 223,469</u>	<u>\$ (142,071)</u>	<u>\$ 1,094,446</u>

	June 30, 2004	Additions	Retirements/ Capitalization	June 30, 2005
Depreciable assets				
Land improvements	\$ 8,276	\$ 799	\$ (8)	\$ 9,067
Buildings and leasehold improvements	965,394	124,339	-	1,089,733
Equipment	531,359	40,509	(5,553)	566,315
Capital assets for investment in joint ventures	35,554	-	(22)	35,532
	<u>1,540,583</u>	<u>165,647</u>	<u>(5,583)</u>	<u>1,700,647</u>
Accumulated depreciation				
Land improvements	(4,435)	(108)	-	(4,543)
Buildings and leasehold improvements	(378,331)	(33,684)	-	(412,015)
Equipment	(383,328)	(41,437)	5,513	(419,252)
Capital assets for investment in joint ventures	(20,142)	(1,098)	-	(21,240)
	<u>(786,236)</u>	<u>(76,327)</u>	<u>5,513</u>	<u>(857,050)</u>
Non-depreciable assets				
Land	12,103	3,631	-	15,734
Construction in progress	155,157	157,949	(159,389)	153,717
	<u>\$ 921,607</u>	<u>\$ 250,900</u>	<u>\$ (159,459)</u>	<u>\$ 1,013,048</u>

The University and Rutgers, the State University of New Jersey, participate in an unincorporated joint venture agreement that manages two major research facilities, the Environmental and Occupational Health Sciences Institute and the Center for Advanced Biotechnology and Medicine. The University has acquired certain fixed assets relating to the joint ventures totaling \$35,619 and \$35,532 as of June 30, 2006 and 2005, respectively. Total accumulated depreciation related to these assets was \$22,351 and \$21,240 as of June 30, 2006 and 2005, respectively.

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Included in the University's capital asset balances are assets acquired under capital leases totaling \$116,599 and \$113,318 as of June 30, 2006 and 2005, respectively. Total accumulated amortization related to these assets was \$29,697 and \$24,560 as of June 30, 2006 and 2005, respectively.

Included in the University's construction in progress are capitalized interest costs of \$5,115 and \$5,127 as of June 30, 2006 and 2005, respectively. These amounts consists of \$3,643 and \$5,443 in interest income and \$8,758 and \$10,570 in interest expense as of June 30, 2006 and 2005, respectively.

7. Self-Insurance Reserve Fund

The University maintains a trust fund with the State of New Jersey Department of the Treasury known as the University of Medicine and Dentistry of New Jersey Self-Insurance Reserve Fund (the "Fund"), which is used to pay claims related to professional and comprehensive general liability, directors' and officers' liability, and auto liability, as well as insurance premiums. Monies in the Fund, existing commercial excess liability insurance coverage and coverage provided by the State of New Jersey Tort Claims Act, are used to meet the cost of claims assessed against the University, primarily UH and related faculty practice plans. The State has the ultimate liability for any claims in excess of the Fund assets.

Payments of claims from the Fund totaled \$24,593 and \$23,790 in 2006 and 2005, respectively. Contributions to the Fund from the University's affiliates totaled \$8,211 and \$7,525 in 2006 and 2005, respectively. State contributions totaled \$18,000 in 2006 and 2005, respectively. Net assets in the Fund amounted to \$4,494 and \$2,669 as of June 30, 2006 and 2005, respectively.

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8. Long-Term Debt and Capital Lease Obligations

As of June 30, 2006 and 2005, long-term debt, including bonds and capital lease obligations consists of the following:

	2006	2005
University of Medicine and Dentistry of New Jersey Series 1995 B Tax Exempt Revenue Bonds of December 1995 issued in the amount of \$143,645. Serial bonds in the amount of \$68,360 bearing interest at rates of 5.0%-5.25% are payable in equal installments of interest and principal through 2017; \$37,570 of 5.25% term bonds are due through 2025. The bonds are collateralized by the facility acquired, the Cancer Institute of New Jersey located in New Brunswick, New Jersey.	\$ 105,930	\$ 114,710
University of Medicine and Dentistry of New Jersey Series 1999 C Tax Exempt Revenue Bonds of June 1999 issued in the amount of \$15,720. Serial bonds in the amount of \$2,955 bearing interest at rates of 4.5%-5.5% are payable in equal installments of interest and principal through 2013; \$11,165 of 5.2% term bonds are due through 2029. The bonds are collateralized by the facility acquired, the University Doctors Pavilion located in Stratford, New Jer	14,120	14,415
University of Medicine and Dentistry of New Jersey Bonds, 2002 Series A of May 2002 issued in the amount of \$224,130. Interest is payable monthly at rates ranging from 3.6% to 5.5%. Principal payments are scheduled to begin in 2007. The bonds are collateralized by University revenues consisting of any moneys appropriated for debt service, any and all tuition revenues and any funds available to pay operating expenses.	219,775	219,775
University of Medicine and Dentistry of New Jersey Variable Rate Demand Bonds, 2002 Series B of May 2002 issued in the amount of \$95,025. The bonds are payable in installments of interest and principal from 2022 through 2032. As of June 30, 2006, the interest rate on the bonds was 2.7%. The bonds are collateralized by all University revenues except the rebate fund (1).	95,025	95,025
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Certificates of Participation, Series 2003 (2)	57,475	57,700
Certificates of Participation, Series 2004 (3)	87,440	87,440
Certificates of Participation, Series D (4)	3,690	4,465
Capitalized building leases (5)	63,678	64,794
Capitalized equipment leases (6)	1,850	278
Capital improvement fund obligation (7)	26,467	27,608
Equipment leasing fund obligation (8)	964	1,411
Mortgages payable (9)	288	318
Notes payable (10)	4,600	700
University Care Corporation		
University Lease Revenue Certificates, Series 2001A (11)	35,050	35,650
	<u>716,352</u>	<u>724,289</u>
Unamortized bond premium	2,850	2,944
Total long-term debt and capital lease obligations	<u>\$ 719,202</u>	<u>\$ 727,233</u>

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- (1) These bonds, or a portion in authorized denominations, are subject to purchase on demand of the holder at a price equal to principal plus accrued interest.

The interest rate is determined by the agent and shall not exceed 12% per annum; provided that the Standby Bond Purchase Agreement is in effect and the maximum interest rate does not exceed the interest rate used to calculate the available interest commitment. The agent establishes the rate on the day preceding the first day of the weekly rate period. Bonds bearing interest on a daily or weekly rate will be calculated on the basis of 365 or 366 days, as appropriate, and paid for the actual number of days elapsed.

- (2) In January 2003, the University entered into a Master Lease Agreement whereby the University issued \$57,925 under Series 2003 Certificates of Participation for facilities construction of the Child Health Institute. Serial certificates in the amount of \$24,485 bearing interest at rates of 2.3% - 5.0% are payable in equal installments of interest and principal through 2022; \$32,990 of 4.5% - 5.0% term certificates are due through 2032. These certificates are collateralized by available University revenues other than proceeds and earnings in rebate funds and grant accounts as well as insurance proceeds obtained for repair and replacement of the facility.
- (3) In December 2004, the University entered into a Master Lease Agreement whereby the University issued \$87,440 under Series 2004 Certificates of Participation for the facilities construction of the University Housing building located in Newark. Serial certificates in the amount of \$35,475 bearing interest at rates of 2.8% - 5.3% are payable in equal installments of interest and principal through 2024; \$51,965 of 5.0% term certificates are due through 2036. These certificates are collateralized by available University revenues other than proceeds and earnings in rebate fund and insurance proceeds obtained for repair and replacement of the facility.
- (4) In November 1989, the University entered into a Master Lease Agreement whereby the University borrowed \$26,270 under Series D Certificates of Participation for facilities acquisition. The term certificates of \$3,690 bearing interest at 6.75% are due through December 2009. Title to all facilities purchased under this lease agreement rests with the University and are collateralized by the assets acquired.
- (5) In July 1998, the University entered into a capital lease purchase agreement on a building in New Brunswick, New Jersey known as Liberty Plaza. The lease agreement requires an average annual payment of \$1,696 to be paid through 2023 at which time the University will obtain title to the building. The effective interest rate on the lease is 5.1%.

In January 2000, the New Jersey Economic Development Authority ("NJEDA") issued \$46,000 in lease revenue bonds to develop a project facility known as the International Center for Public Health. In addition, the State contributed approximately \$18,000 toward this project. Upon completion of construction during 2002, the NJEDA transferred its ownership interest in the project facility to the University through the execution of a lease transfer agreement and the University assumed the obligations of the NJEDA. The lease agreement is collateralized by University revenues other than monies and securities in the rebate fund and requires an average annual payment of \$3,335 to be paid through 2032. The effective interest rate on the lease is 5.7%.

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- (6) The University entered into several capital lease purchase agreements for equipment for UH and several Newark facilities. UH capital leases require an annual payment of \$311 to \$516 through 2005, with effective interest rates ranging from 6.18% to 6.45%. Newark facilities' lease requires an annual payment of \$510 through 2010, with an effective interest rate of 4.02%.
- (7) In July 2000, the University participated in the Capital Improvement Fund Act, P.L. 1999, c217 through a grant agreement with the New Jersey Educational Facilities Authority to fund specific construction and renovation needs. The University's allocation was \$95,000, of which 33% (\$31,667), bearing interest rates ranging from 5.0% to 5.75%, is the obligation of the University. The remaining 67% (\$63,333) was a contribution from the State as well as the State's obligation. Average annual payments of \$2,650 of equal installments of interest and principal are due through 2020.
- (8) In September 2001, the University participated in the Equipment Leasing Fund Program through a grant agreement with the New Jersey Educational Facilities Authority to fund specific equipment needs. The University's allocation was \$10,539, of which 25% (\$2,635), bearing interest rates ranging from 3.5% to 5%, is the obligation of the University. The remaining 75% (\$7,904) was a contribution from the State as well as the State's obligation. Lease payments of \$517 per year will be made through August 2007, at which time title to the equipment will pass to the University.
- (9) In December 1996 and March 1999, the University mortgaged \$193 and \$261 from New Jersey Housing and Mortgage Finance Agency and Hudson United Bank, respectively, to purchase and renovate various properties. These properties are collateral and the title rests with the University. The mortgage terms are ten years with an interest rate of 5% and 8%, respectively. The University has an option with the second mortgage to make an annual payment of \$25 or a balloon payment at the end of the mortgage term.
- (10) In May 1992 and February 1998, the University entered into capital funding agreements with the New Jersey Department of Human Services for \$250 and \$450, respectively, to purchase various properties. Title to the properties rests with the University. The agreements terminate in June 2012 and 2018, respectively, at which time the University can renew the agreements or repay the debt.

In December 2004, the University entered into an Enhanced Affiliation agreement with Robert Wood Johnson University Hospital, which provides for working capital requirements for Robert Wood Johnson Medical School through a promissory note. The promissory note is a credit line of \$10,000 and can be drawn down for a period of five years. During 2006, the agreement was amended canceling any further draws against the line of credit. Equal monthly repayments commence thirty days after the date of draw for ten years at an interest rate of prime. As of June 30, 2006, \$4,000 was drawn on the promissory note.
- (11) In May 2001, the UCC entered into a lease agreement whereby it issued Tax Exempt Lease Revenue Certificates, Select Auction Variable Rate Securities, in the amount of \$37,650 for construction of the Behavioral Health Science building. Title to the facility rests with the University and the lease is collateralized by all available University revenues. Lease payments totaling \$35,050, bearing an interest rate of 4.88%, will be made through June 2031.

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Future principal and interest payments on long-term debt and future minimum payments on capital lease obligations are summarized in the following tables.

Long-term debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total Payments
2007	\$ 15,786	\$ 27,762	\$ 43,548
2008	14,992	26,898	41,890
2009	14,861	26,130	40,991
2010	15,648	25,477	41,125
2011	15,092	24,933	40,025
2012-2016	82,572	113,026	195,598
2017-2021	100,698	90,554	191,252
2022-2026	139,665	63,497	203,162
2027-2031	174,485	34,220	208,705
2032-2036	77,025	6,537	83,562
	<u>650,824</u>	<u>439,034</u>	<u>1,089,858</u>
Plus: Unamortized bond premium	2,850	-	2,850
	<u>\$ 653,674</u>	<u>\$ 439,034</u>	<u>\$ 1,092,708</u>

Capital lease payments are as follows:

Year Ending June 30,	Principal	Interest	Total Payments
2007	\$ 1,609	\$ 3,634	\$ 5,243
2008	1,690	3,556	5,246
2009	1,922	3,470	5,392
2010	2,015	3,374	5,389
2011	1,606	3,274	4,880
2012-2016	10,360	14,963	25,323
2017-2021	15,324	11,571	26,895
2022-2026	14,002	7,217	21,219
2027-2031	13,735	3,547	17,282
2032-2036	3,265	196	3,461
	<u>\$ 65,528</u>	<u>\$ 54,802</u>	<u>\$ 120,330</u>

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Long-term debt and capital lease obligations, and accrued claims liability and other activity are as follows:

	June 30, 2005	Additions	Reductions	June 30, 2006	Amounts Due Within One Year
Bonds and notes payable					
Revenue bonds	\$471,533	\$ -	\$ (10,216)	\$461,317	\$ 9,687
Certificates of participation	186,666	-	(2,047)	184,619	5,475
Mortgages payable	318	-	(30)	288	224
Notes payable	700	4,000	(100)	4,600	400
Unamortized bond premium	2,944	-	(94)	2,850	-
	<u>662,161</u>	<u>4,000</u>	<u>(12,487)</u>	<u>653,674</u>	<u>15,786</u>
Capital lease obligations					
Building leases	64,794	-	(1,116)	63,678	1,174
Equipment leases	278	2,269	(697)	1,850	435
	<u>65,072</u>	<u>2,269</u>	<u>(1,813)</u>	<u>65,528</u>	<u>1,609</u>
Accrued claims liability & other	16,686	7,664	(7,325)	17,025	868
	<u>\$ 743,919</u>	<u>\$ 13,933</u>	<u>\$ (21,625)</u>	<u>\$ 736,227</u>	<u>\$ 18,263</u>

	June 30, 2004	Additions	Reductions	June 30, 2005	Amounts Due Within One Year
Bonds and notes payable					
Revenue bonds	\$481,422	\$ -	\$ (9,889)	\$471,533	\$ 10,217
Certificates of participation	101,352	87,440	(2,126)	186,666	2,047
Mortgages payable	344	-	(26)	318	29
Notes payable	700	-	-	700	-
Unamortized bond premium	1,114	1,894	(64)	2,944	-
	<u>584,932</u>	<u>89,334</u>	<u>(12,105)</u>	<u>662,161</u>	<u>12,293</u>
Capital lease obligations					
Building leases	65,854	-	(1,060)	64,794	1,116
Equipment leases	2,296	-	(2,018)	278	278
	<u>68,150</u>	<u>-</u>	<u>(3,078)</u>	<u>65,072</u>	<u>1,394</u>
Accrued claims liability & other	16,676	7,654	(7,644)	16,686	1,814
	<u>\$ 669,758</u>	<u>\$ 96,988</u>	<u>\$ (22,827)</u>	<u>\$ 743,919</u>	<u>\$ 15,501</u>

Based on an actuarial valuation, the University recorded an accrued claims liability at June 30, 2006 and 2005 of \$15,998 and \$14,498, respectively, on a discounted basis assuming a 5.5% interest rate. Amounts due within one year are included in the University's accounts payable and accrued expenses.

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9. Retirement Benefits Plans

Retirement benefits for substantially all full-time employees are provided either through the Alternate Benefits Program (“ABP”) or the Public Employees’ Retirement – Social Security Integration Act (“PERS”). Under these plans, participants make annual contributions, and the State, in accordance with state statutes, makes employer contributions on behalf of the University for these plans. Pension expense paid directly by the State approximated \$49,000 in 2006 and \$43,000 in 2005 and is reflected in the consolidated statements of revenues, expenses and changes in net assets as fringe benefits paid by the State. The University has no direct pension obligation associated with the State plans and no liability for such costs has been reflected in the consolidated financial statements.

Total payroll of the University’s plan participants was \$786,083 and \$690,299 for 2006 and 2005, respectively. Summary information regarding these plans is provided below.

Alternate Benefits Program

Plan Description—ABP is a defined contribution plan for full-time members of the faculties of the University’s schools, plus other staff employees. This plan is underwritten by several plan participants to fund pension benefits for education institutions. ABP is administered by the State of New Jersey, Division of Pension and Benefits (the “Division”). Benefits under ABP are generally paid at retirement as a lump sum or annuity payment.

A separate financial report that includes financial statements and required supplementary information related to ABP is issued annually and can be obtained by contacting the Division.

Contributions—The State contributes a fixed rate of 8% of employees’ compensation and employees contribute 5%. The contribution requirements for plan members and the University are established and may be amended by the Division.

Contributions to ABP were as follows:

	Year Ended June 30,	
	2006	2005
Employee contributions	\$ 26,917	\$ 24,363
Employer contributions (paid by the State)	43,902	38,318
Basis for determining contributions - participating employee salaries	548,776	478,969

Public Employees’ Retirement System

Plan Description—PERS is a multiple-employer, public cost-sharing defined benefit retirement system which is administered by the State. University employees of a certain classification are required as a condition of employment to be members of PERS. Annual benefits are equal to the final average salary multiplied by years of service divided by 55. Final average salary is defined as the average of the salaries received by the member for the last three years of membership service or the three highest fiscal years, whichever provides the largest benefit. Pension benefits fully vest after ten years of credited service. Members are eligible for retirement at age 60 with no minimum years of service required. Members who have 25 years or more of credited service may also select early retirement without penalty at or after age 55 and receive full retirement benefits. PERS also provides death and disability benefits which are established by State statute.

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The State issues a financial report available to the public that includes financial statements and required supplementary information for PERS. It may be obtained from the Division.

Contributions—Covered University employees were required by PERS to contribute 5% of their annual compensation during 2006 and 2005, respectively. The State contributes the remaining amounts necessary to pay benefits when due, which is based upon an actuarially determined percentage of total compensation of all active members. Contributions to PERS were as follows:

	Year Ended June 30,	
	2006	2005
Employee contributions	\$ 11,979	\$ 10,900
Employer contributions (paid by the State)	5,054	4,642
Employer contributions as a percentage of salary expense	2%	2%
Basis for determining contributions - participating employee salaries	237,307	211,330

10. Concentration of Credit Risk

The healthcare units of the University extend credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. Gross accounts receivable as of June 30, 2006 and 2005 are due from the following payors:

	2006	2005
Medicare and Medicaid	37%	38%
Blue Cross	1%	1%
Other third-party payors	30%	31%
Self-pay patients	32%	30%
	<u>100%</u>	<u>100%</u>

11. Fair Value of Financial Instruments

The University estimates the fair value of its revenue bonds through quoted market prices. As of June 30, 2006, the carrying amount and fair value of the bonds were approximately \$658,160 and \$680,895, respectively. As of June 30, 2005 the carrying amount and fair value of the bonds were approximately \$668,645 and \$697,905, respectively.

The carrying amount of all other financial instruments reported in the financial statements approximates their fair value.

12. Commitments and Contingencies

Effective March 2002, the University extended the existing ten year contract with SunGard SCT Software and Resource Management Corporation for an additional term of six years and five months through July 23, 2008, at an annual cost of \$2,813. The contract provides for software and outsourcing services needed to maintain the University's integrated administrative computer system.

The University had several major construction contracts in process for construction and renovation projects. As of June 30, 2006 and 2005, the remaining balance on these contracts was \$33,079 and \$122,393, respectively.

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The University is obligated under noncancelable operating leases for various facilities and equipment. Minimum payments for operating leases with noncancelable terms in excess of one year are as follows:

Year Ending June 30,	
2007	\$ 9,332
2008	6,236
2009	4,385
2010	2,607
2011	2,261
2012-2016	9,244
2017-2021	9,018
2022-2026	7,363
2027-2031	6,685
2032-2036	2,258
2037-2041	360
2042-2046	72
	<u>\$ 59,821</u>

Total rent expense for all operating leases was \$10,593 and \$9,444 in 2006 and 2005, respectively.

The University, under various Jobs, Education and Competitiveness contracts, is required to establish a maintenance reserve fund which totaled \$4,125, as of June 30, 2006 and 2005, respectively.

During 2000, the Board of Trustees authorized the University to enter into two limited partnerships (Woodbury Mews 3, LLP and Woodbury Mews 4, LLP), which were formed to operate an assisted living facility and a dementia/Alzheimer's facility. In return for a 20% interest in each LLP, the University provided access to stand-by letters of credit totaling \$4,500. In 2004, one letter was amended downward by \$700. As of June 30, 2006 and 2005, \$3,800 was drawn on the letters of credit. The University reserved the entire \$3,800 in 2006.

The University receives funds from Federal, State and private agencies under grants and contracts for research, training and other activities. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and possible disallowance by the sponsoring agency. It is the University's belief that any disallowances or adjustments would not have a significant effect on its financial statements.

13. Legal Matters

On December 30, 2005, the United States Attorney's Office for the District of New Jersey (the "Office") filed a criminal complaint charging the University with receiving improper Medicaid reimbursements. In connection with the filing of that complaint, the University and the Office entered into a Deferred Prosecution Agreement ("DPA"). Pursuant to the agreement, the University agreed to undertake remedial actions, retain an independent monitor ("Federal Monitor") and continue to cooperate with the Office, including with respect to any ongoing investigations, and make repayment of \$4.9 million relating to physician services in outpatient clinics. This amount was repaid by the University in 2006 and is reflected as a liability on the 2005 financial statements. If the University fulfills its obligations under the DPA, the Office will dismiss the criminal complaint twenty-four (24) to thirty-six (36) months from the filing date of the criminal complaint.

Under the DPA, the Federal Monitor has certain investigative and other authority related to the University's operations. As a result of one of the investigations, the Federal Monitor issued a report in November 2006 which alleged that the University had violated certain billing and anti-kickback laws and regulations. The report indicated that the University could be liable for as much as \$84 million in restitution, fines and penalties as a result of these potential violations. The University engaged external counsel to review the issues, who concluded that it was reasonably possible that a liability had been incurred, but that the amount of the liability could not be reasonably estimated. As a result, no amounts have been recorded in the 2006 or 2005 financial statements.

Other matters referenced in the periodic Federal Monitor reports have been investigated by the University. Where necessary, the University engaged external experts to assess various healthcare matters and the related liabilities that have been estimated and recorded within the 2006 and 2005 financial statements, respectively.

Since 2005, the University has become aware of Federal and State inquiries and investigations and received subpoenas and other requests for information. The University has cooperated with the agencies and provided the information and data requested. Although the ultimate outcome of these investigations is unknown at this time, management does not believe it will have a material effect on the University's financial position, operating results or cash flows.

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14. Natural Expenses By Functional Classification

The University reports operating expenses by functional classification. Details of these expenses by natural classification are as follows:

	Year Ended June 30, 2006				
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Total
Instruction	\$ 141,736	\$ 37,698	\$ 16,486	\$ -	\$ 195,920
Research	79,563	20,857	100,362	-	200,782
Public service	48,863	7,626	6,288	-	62,777
Academic and student support	16,107	3,738	8,717	-	28,562
Institutional and administrative support	46,432	9,880	20,760	-	77,072
Patient care services	396,399	110,117	216,973	-	723,489
Professional services and contracts	133,024	24,373	20,517	-	177,914
Operation and maintenance of plant	23,372	7,702	23,500	-	54,574
Insurance	461	-	6,132	-	6,593
Depreciation	-	-	-	74,269	74,269
Auxiliary enterprises and other	2,448	553	11,303	-	14,304
Total operating expenses	<u>\$ 888,405</u>	<u>\$ 222,544</u>	<u>\$ 431,038</u>	<u>\$ 74,269</u>	<u>\$ 1,616,256</u>

	Year Ended June 30, 2005				
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Total
Instruction	\$ 135,252	\$ 35,899	\$ 27,527	\$ -	\$ 198,678
Research	74,332	20,303	98,918	-	193,553
Public service	44,572	6,469	8,530	-	59,571
Academic and student support	13,022	4,267	5,237	-	22,526
Institutional and administrative support	49,656	10,177	11,417	-	71,250
Patient care services	374,954	109,228	207,990	-	692,172
Professional services and contracts	103,275	15,916	20,921	-	140,112
Operation and maintenance of plant	21,964	7,203	10,055	-	39,222
Insurance	-	-	5,790	-	5,790
Depreciation	-	-	-	76,327	76,327
Auxiliary enterprises and other	2,110	575	13,525	-	16,210
Total operating expenses	<u>\$ 819,137</u>	<u>\$ 210,037</u>	<u>\$ 409,910</u>	<u>\$ 76,327</u>	<u>\$ 1,515,411</u>