

**University of Medicine and
Dentistry of New Jersey**
Consolidated Financial Statements and
Supplementary Information
June 30, 2004 and 2003

University of Medicine and Dentistry of New Jersey

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June 30, 2004 and 2003

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Report of Independent Auditors

Board of Trustees
University of Medicine and Dentistry of New Jersey

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated statements of net assets and the related consolidated statements of revenues, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of the University of Medicine and Dentistry of New Jersey (the "University") at June 30, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 component unit of the University, which statements reflect total assets of 9% and 8% of the related consolidated totals as of June 30, 2004 and 2003, respectively, and total operating revenues of 2% of the related consolidated totals for the years then ended. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

Management's Discussion and Analysis on pages 2 through 11 are 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. In addition, the supplementary information on pages 36 through 40 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual funds. Accordingly, we do not express an opinion on the financial position and results of operations of the individual funds.

As discussed in Note 2 of the consolidated financial statements, the University implemented 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*, as of July 1, 2002.



August 18, 2004

Management's Discussion and Analysis

University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

Introduction

This section presents management's discussion and analysis of the University of Medicine and Dentistry of New Jersey's (the "University") financial position as of June 30, 2004 and the financial results of its operations for the year ended June 30, 2004, with comparative information as of and for the year ended June 30, 2003. This discussion and analysis should be read in conjunction with the audited consolidated 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 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 4,900 full and part time students, 1,600 medical interns and residents and 13,100 faculty and staff.

Financial Highlights

The University continues to maintain a strong financial position as of June 30, 2004, with net assets of \$849.4 million. Net assets represent 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.

Net assets decreased by \$13.8 million, or 2%, in 2004, as the increase in operating revenues was offset by an increase in operating expenses and a decrease in state appropriations revenues. In addition, the University's investment portfolio was impacted by the maturity of higher yield investments and market fluctuations.

Operating revenues increased by \$65.7 million, or 6%, to \$1.2 billion in 2004, reflecting a steady growth in research and patient service revenues. Operating expenses increased by \$111.3 million, or 8%, consistent with the growth in research and patient service activities, and increases in insurance, depreciation and utility costs. State appropriations, which include amounts for fringe benefits, decreased by \$4.2 million, or 1%, in 2004.

During 2004, the University continued to grow and expand, incurring \$127.5 million of expenditures related to its capital construction and renovation plan that addresses the 2001 – 2006 time frame.

In December 2002, the University sold 80% of the ownership of its health maintenance organization unit, University Health Plans, Inc. ("UHP") for \$6.8 million. The consolidated financial statements include the related revenues and expenses for the five month period ended November 30, 2002. In October 2003, the remaining 20% ownership was sold for \$2.6 million.

University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

Consolidated Financial Statements

The University's audited consolidated financial statements include three basic financial statements: 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 present the University's operations on a consolidated basis and focus on its assets, liabilities, revenues, expenses and cash flows on an entity-wide basis.

During 2004, the University implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14, The Financial Reporting Entity*. This statement addresses the conditions under which institutions should include associated fundraising foundations as component units in their general-purpose financial statements; and how such component units should be displayed in the financial statements. Under Statement No. 39, the New Jersey Health Foundation, Inc., (the "Foundation"), which includes the Foundation of the University of Medicine and Dentistry of New Jersey, meets the criteria qualifying it as a component unit of the University. The Foundation's results are reported in financial statements that are separate from the basic consolidated financial statements because of the differences in its reporting model. Accordingly, the following discussion and analysis does not include the Foundation'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 fiscal 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, which it owns. 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 only, 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

A summary of the University's assets, liabilities and net assets as of June 30, 2004 and 2003, follows:

| (In millions) | 2004 | 2003 | Increase (Decrease) |
|--|-----------------|-----------------|--------------------------------|
| Assets | | | |
| Current assets | \$ 548.7 | \$ 473.5 | \$ 75.2 |
| Noncurrent assets: | | | |
| Endowment and other investments | 221.3 | 370.0 | (148.7) |
| Assets held by trustees and other | 81.7 | 144.3 | (62.6) |
| Capital assets, net | 938.5 | 832.5 | 106.0 |
| Total assets | <u>1,790.2</u> | <u>1,820.3</u> | <u>(30.1)</u> |
| Liabilities | | | |
| Current liabilities | 288.0 | 290.2 | (2.2) |
| Noncurrent liabilities | 652.8 | 666.9 | (14.1) |
| Total liabilities | <u>940.8</u> | <u>957.1</u> | <u>(16.3)</u> |
| Net assets | | | |
| Invested in capital, net of related debt | 434.4 | 423.0 | 11.4 |
| Restricted expendable | 275.9 | 302.2 | (26.3) |
| Restricted nonexpendable | 69.1 | 66.1 | 3.0 |
| Unrestricted | 70.0 | 71.9 | (1.9) |
| Total net assets | <u>\$ 849.4</u> | <u>\$ 863.2</u> | <u>\$ (13.8)</u> |

The University's Consolidated Statements of Net Assets continue to indicate a strong financial position and reflect the prudent utilization of financial resources and capital plan activities.

Current assets consist primarily of cash, assets held by trustees under bond agreements for capital activities, and receivables. Current liabilities consist primarily of accounts payable, accrued compensation and other liabilities, while noncurrent liabilities consist primarily of long-term debt and capital lease obligations.

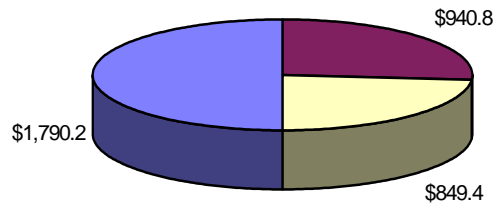
The decrease in assets in 2004 primarily reflects the use of funds to support operating activities, debt repayments and the decrease in investment income and State appropriations.

The decrease in liabilities in 2004 primarily reflects the repayments of debt and capital lease obligations.

University of Medicine and Dentistry of New Jersey

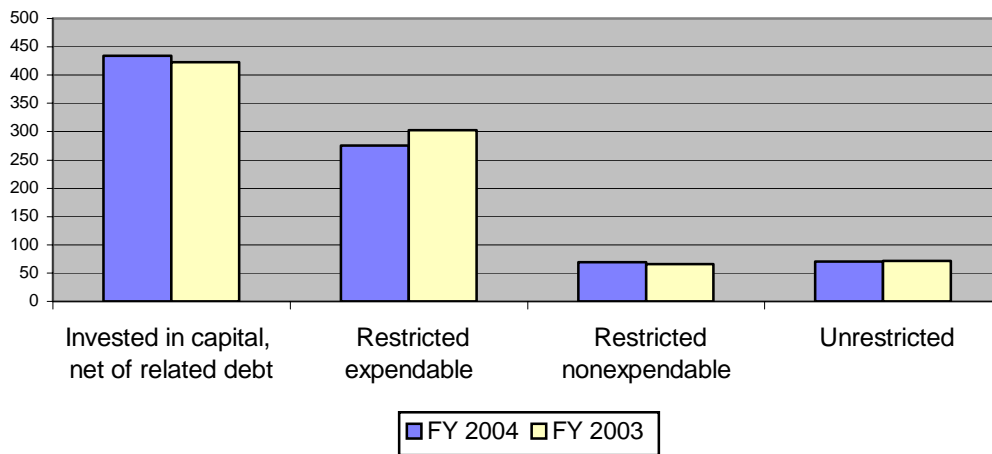
Management's Discussion and Analysis

Summary of Consolidated Statement of Net Assets
June 30, 2004
(In millions)



■ Total assets ■ Total liabilities ■ Total net assets

Net Assets
June 30, 2004 and 2003
(In millions)



University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

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, 2004 and 2003, follows:

| <u>(In millions)</u> | <u>2004</u> | <u>2003</u> | <u>Increase (Decrease)</u> |
|--|-----------------|-----------------|--------------------------------|
| Operating revenues: | | | |
| Tuition and fees | \$ 50.0 | \$ 45.0 | \$ 5.0 |
| Governmental and private grants and contracts | 264.4 | 235.4 | 29.0 |
| Net patient service revenues and professional services | 745.7 | 661.6 | 84.1 |
| Managed care premiums | - | 58.8 | (58.8) |
| Other | 100.3 | 93.9 | 6.4 |
| Total operating revenues | 1,160.4 | 1,094.7 | 65.7 |
| Operating expenses | <u>1,505.3</u> | <u>1,394.0</u> | <u>111.3</u> |
| Operating loss | <u>(344.9)</u> | <u>(299.3)</u> | <u>(45.6)</u> |
| Nonoperating revenues (expenses): | | | |
| State appropriations - operations | 226.9 | 225.2 | 1.7 |
| Fringe benefits paid by the State | 104.1 | 97.8 | 6.3 |
| State appropriations - capital | 15.0 | 27.2 | (12.2) |
| Miscellaneous grants and gifts | 23.3 | 19.0 | 4.3 |
| Investment income | 13.1 | 27.8 | (14.7) |
| Unrealized (depreciation) appreciation on investments | (7.8) | 3.1 | (10.9) |
| Interest expense and other | <u>(43.5)</u> | <u>(46.9)</u> | <u>3.4</u> |
| Total nonoperating revenues, net | <u>331.1</u> | <u>353.2</u> | <u>(22.1)</u> |
| (Decrease) increase in net assets | <u>(13.8)</u> | <u>53.9</u> | <u>(67.7)</u> |
| Net assets - beginning of year | <u>863.2</u> | <u>809.3</u> | <u>53.9</u> |
| Net assets - end of year | <u>\$ 849.4</u> | <u>\$ 863.2</u> | <u>\$ (13.8)</u> |

Revenues

To further 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 service revenues, State appropriations and investment income. 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

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 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 2004, primarily due to a 9% average rate increase and a 14% increase in the student enrollment level to 4,900. The academic units received State appropriations of \$214.9 million in 2004, which included \$53.3 million of fringe benefits paid by the State.

Governmental and private grants and contracts increased by 12% in 2004 to \$264.4 million, consistent with the University's goal of increasing its research base. Miscellaneous grants and gifts, which have no specific donor requirements, are reported as nonoperating revenues and totaled \$23.3 million in 2004, an increase of 23% from 2003.

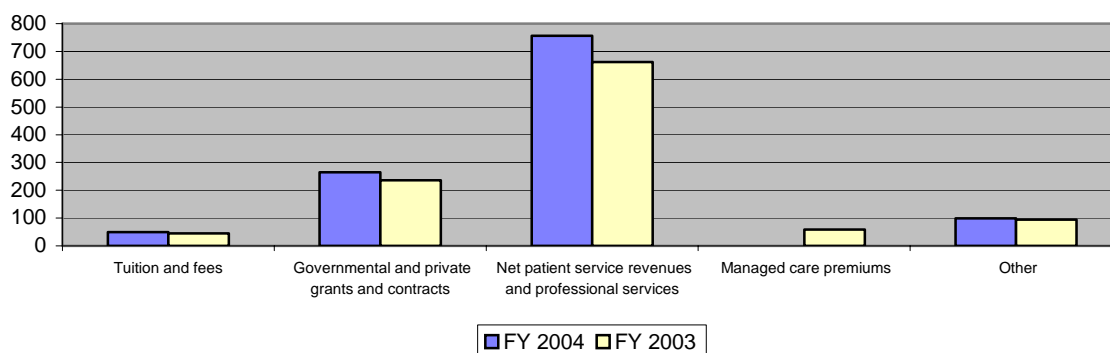
Net patient service revenues and professional services revenues relate to patient care services which are generated within the University's hospital, behavioral healthcare and cancer treatment units, and faculty practice plans under contractual arrangements with governmental payors and private insurers. These revenues increased by \$84.1 million or 13% in 2004 due to increases in volume, rates and favorable changes in estimates in third party liabilities. The healthcare units also received State appropriations of \$116.1 million in 2004, which included \$50.8 million of fringe benefits paid by the State.

Managed care premiums were not recorded in 2004, as the University no longer has any ownership of UHP.

Other revenues included indirect cost recoveries of \$42.7 million in 2004, an increase of 16% from 2003, consistent with the University's goal of increasing its research base.

Investment income decreased by 53% in 2004, primarily due to maturity of higher yield investments and market fluctuations. The University has a conservative investment policy and invests primarily in Federal government securities and corporate bonds with the highest ratings. Unrealized (depreciation) appreciation on these investments totaled (\$7.8) million in 2004 and \$3.1 million in 2003, due to changes in market conditions.

Operating Revenues
Years Ended June 30, 2004 and 2003
(In millions)



University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

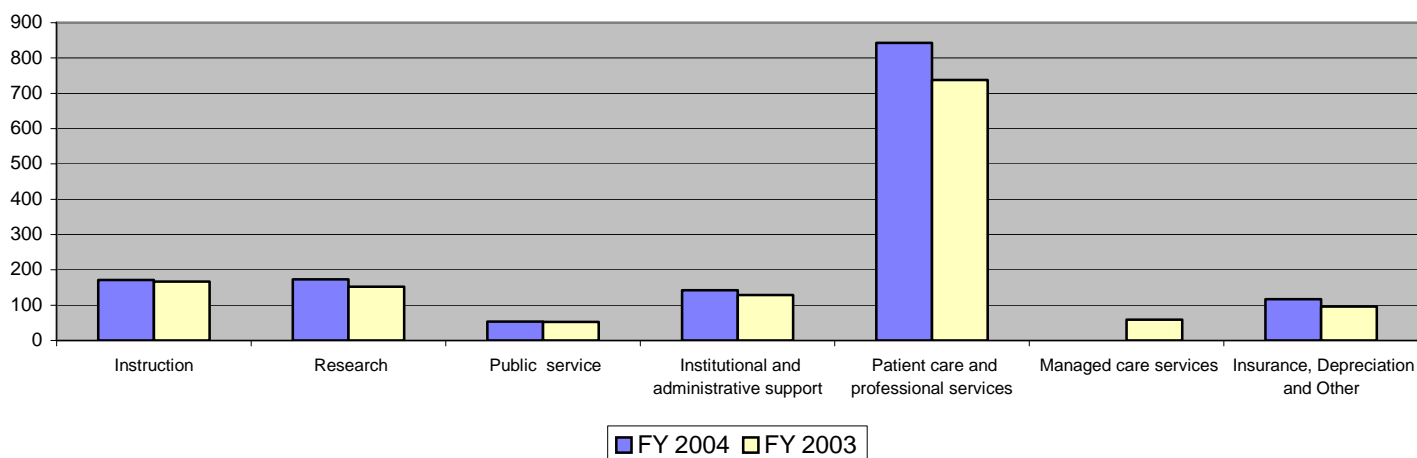
Operating Expenses

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, 2004 and 2003, follows:

| <u>(In millions)</u> | <u>2004</u> | <u>2003</u> | <u>Increase (Decrease)</u> |
|--|-------------------|-------------------|--------------------------------|
| Instruction | \$ 177.1 | \$ 167.2 | \$ 9.9 |
| Research | 173.5 | 152.5 | 21.0 |
| Public service | 53.5 | 52.3 | 1.2 |
| Institutional and administrative support | 142.2 | 128.9 | 13.3 |
| Patient care and professional services | 842.5 | 737.9 | 104.6 |
| Managed care services | - | 59.3 | (59.3) |
| Insurance | 11.8 | 2.6 | 9.2 |
| Depreciation | 66.8 | 58.4 | 8.4 |
| Other | 37.9 | 34.9 | 3.0 |
| Total | <u>\$ 1,505.3</u> | <u>\$ 1,394.0</u> | <u>\$ 111.3</u> |

Operating Expenses
Years Ended June 30, 2004 and 2003
(In millions)



University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

Research expense increased by \$21.0 million or 14% in 2004, consistent with the increase in grants and contracts revenues.

Patient care and professional services expenses increased by \$104.6 million or 14% in 2004, consistent with the increase in patient service revenues.

Managed care services were not recorded in 2004, as the University no longer has any ownership of UHP.

Insurance expense increased by \$9.2 million in 2004, primarily due to the coordination with the State for medical malpractice claims activity.

Depreciation expense increased by \$8.4 million in 2004, consistent with the increase in capital assets related to the capital plan.

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 strong debt ratings from Moody's Investors Service and Standard and Poor's of A3 and A+, respectively.

As part of its mission, the University is committed to the expansion and renewal of its capital assets through a \$535.0 million capital plan, which addresses 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 \$354.0 million through June 30, 2004, and expects to spend approximately \$145.0 million in 2005 and \$36.0 million in 2006.

The University is financing 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 \$173.0 million in 2004, as compared to \$193.1 million in 2003. The major capital activities were the new Child Health Institute of New Jersey and expansion of the Cancer Institute of New Jersey in New Brunswick, the new Cancer Center and Ambulatory Care Center on the Newark campus, additional research space in Piscataway and Stratford and other upgrades.

As of June 30, 2004, the University had \$1,722.9 million invested in capital assets, offset by \$784.4 million of accumulated depreciation and expended debt of \$504.1 million, for net assets of \$434.4 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

A summary of the University's cash flows for the years ended June 30, 2004 and 2003 follows:

| <u>(In millions)</u> | <u>2004</u> | <u>2003</u> | <u>(Decrease) Increase</u> |
|---------------------------------|-----------------|----------------|--------------------------------|
| Cash (used in) provided by: | | | |
| Operating activities | \$ (185.8) | \$ (175.6) | \$ (10.2) |
| Noncapital financing activities | 234.0 | 175.3 | 58.7 |
| Capital financing activities | (113.9) | (71.8) | (42.1) |
| Investing activities | <u>154.8</u> | <u>32.2</u> | <u>122.6</u> |
| Net increase (decrease) in cash | 89.1 | (39.9) | 129.0 |
| Cash - beginning of year | <u>47.7</u> | <u>87.6</u> | <u>(39.9)</u> |
| Cash - end of year | <u>\$ 136.8</u> | <u>\$ 47.7</u> | <u>\$ 89.1</u> |

During 2004, the University's cash increased by \$89.1 million, primarily due to the sale of investments and a decrease in transfers by the State for insurance activities.

Commission on Health Science, Education, and Training

The Governor of New Jersey established the Commission on Health Science, Education, and Training (the "Commission") in March 2002 to review the structure of the State's universities with the goal of enhancing the quality of health, education and research in the State. The Commission submitted its report to the Governor in October 2002 and various committees developed data and reviewed information related to the report.

After analyzing the issues, challenges and opportunities presented in the report, the Governor issued a statement in December 2003, which indicated that there were too many financial and structural issues to be considered by the Legislature at that time. The statement also encouraged the pursuit of collaborative and partnership ideas by the State's universities.

Economic Outlook

The financial position of the University remains strong and reflects revenue growth in tuition, research and healthcare activities. The University expects to continue to grow and expand all of its operations, as evidenced by its ambitious capital plan and the debt financing agreements that support it.

State appropriations will remain an important source of funding for the University and current 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.

University of Medicine and Dentistry of New Jersey

Management's Discussion and Analysis

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 expects to continue increasing its Federal grants and contracts consistent with its research expansion goals and to continue its collaborative efforts with other State universities.

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 \$29.0 million in fiscal year 2005.

The University's healthcare units are expected to maintain financial stability in the future. These 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.

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

Consolidated Financial Statements

University of Medicine and Dentistry of New Jersey

Consolidated Statements of Net Assets June 30, 2004 and 2003 (In thousands)

| | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 136,811 | \$ 47,729 |
| Short-term investments | 1,331 | 330 |
| Accounts receivable, net of allowance for doubtful accounts of \$168,213 in 2004 and \$141,009 in 2003 | 105,234 | 96,294 |
| Appropriations receivable | 48,228 | 40,672 |
| Other receivables, net of allowance for doubtful accounts of \$3,030 in 2004 and \$3,610 in 2003 | 51,000 | 45,572 |
| Grants receivable | 58,227 | 67,798 |
| Prepaid expenses and other assets | 10,274 | 10,954 |
| Assets held by trustees - current portion | 137,552 | 164,161 |
| Total current assets | <u>548,657</u> | <u>473,510</u> |
| Noncurrent assets: | | |
| Endowment investments | 34,830 | 36,447 |
| Other long-term investments | 186,507 | 333,586 |
| Loans to students, net of allowance for doubtful accounts of \$500 in 2004 and 2003 | 26,599 | 21,436 |
| Deferred financing costs | 9,207 | 9,580 |
| Assets held by trustees | 45,912 | 113,288 |
| Capital assets, net | 938,538 | 832,499 |
| Total noncurrent assets | <u>1,241,593</u> | <u>1,346,836</u> |
| Total assets | <u>1,790,250</u> | <u>1,820,346</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 188,682 | 198,439 |
| Accrued vacation expense | 43,728 | 40,672 |
| Deferred revenues | 40,484 | 38,190 |
| Long-term debt and capital lease obligations - current portion | 15,120 | 12,867 |
| Total current liabilities | <u>288,014</u> | <u>290,168</u> |
| Noncurrent liabilities: | | |
| Deferred compensation trust | 324 | 343 |
| Accrued claims liability | 14,498 | 13,804 |
| Long-term debt and capital lease obligations | 637,962 | 652,768 |
| Total noncurrent liabilities | <u>652,784</u> | <u>666,915</u> |
| Total liabilities | <u>940,798</u> | <u>957,083</u> |
| Net Assets | | |
| Invested in capital, net of related debt | 434,475 | 422,954 |
| Restricted expendable: | | |
| Research and designated | 181,058 | 196,059 |
| Debt service | 31,577 | 33,441 |
| Self-insurance reserve | 731 | 5,300 |
| Capital projects | 62,497 | 67,459 |
| Restricted nonexpendable: | | |
| Endowments | 39,837 | 37,806 |
| Loan funds | 1,233 | 1,274 |
| Refundable government student loans | 28,082 | 27,064 |
| Unrestricted: | | |
| Educational and central support | 22,324 | 22,245 |
| Healthcare | 18,590 | 21,952 |
| Faculty practice plans | 24,135 | 23,087 |
| Other | 4,913 | 4,622 |
| Total net assets | <u>\$ 849,452</u> | <u>\$ 863,263</u> |

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

**University of Medicine and Dentistry of New Jersey
Component Unit
New Jersey Health Foundation, Inc.**

**Consolidated Statements of Financial Position
June 30, 2004 and 2003
(In thousands)**

| | <u>2004</u> | <u>2003</u> |
|---------------------------------------|-------------------|-------------------|
| Assets | | |
| Cash | \$ 54 | \$ 26 |
| Accrued interest receivable | - | 301 |
| Contributions receivable, net | 19,438 | 23,118 |
| Investments | 160,927 | 135,963 |
| Prepaid expenses and other assets | 255 | 226 |
| Furniture and equipment, net | - | 249 |
| Total assets | <u>\$ 180,674</u> | <u>\$ 159,883</u> |
| Liabilities and net assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 702 | \$ 1,088 |
| Grants payable | 34,430 | 27,661 |
| Total liabilities | <u>35,132</u> | <u>28,749</u> |
| Net assets | | |
| Unrestricted: | | |
| Board designated | 48,882 | 35,769 |
| Operating | - | 7,657 |
| | <u>48,882</u> | <u>43,426</u> |
| Temporarily restricted | 15,543 | 22,068 |
| Permanently restricted | 81,117 | 65,640 |
| Total net assets | <u>145,542</u> | <u>131,134</u> |
| Total liabilities and net assets | <u>\$ 180,674</u> | <u>\$ 159,883</u> |

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

University of Medicine and Dentistry of New Jersey

Consolidated Statements of Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2004 and 2003 (In thousands)

| | <u>2004</u> | <u>2003</u> |
|---|--------------------------|--------------------------|
| Operating revenues: | | |
| Tuition and fees | \$ 50,007 | \$ 45,007 |
| Governmental grants and contracts | 209,725 | 176,917 |
| Private grants and contracts | 54,645 | 58,518 |
| Net patient service revenues | 609,085 | 543,306 |
| Managed care premiums | - | 58,763 |
| Professional services | 136,683 | 118,274 |
| Auxiliary sales and services | 16,154 | 16,165 |
| Indirect cost recoveries | 42,738 | 36,893 |
| Other operating revenues | 41,378 | 40,820 |
| Total operating revenues | <u>1,160,415</u> | <u>1,094,663</u> |
| Operating expenses: | | |
| Instruction | 177,116 | 167,240 |
| Research | 173,456 | 152,504 |
| Public service | 53,522 | 52,312 |
| Academic and student support | 22,567 | 19,592 |
| Institutional and administrative support | 98,946 | 90,869 |
| Patient care services | 729,538 | 637,363 |
| Managed care services | - | 59,281 |
| Professional services | 112,989 | 100,540 |
| Operation and maintenance of plant | 43,278 | 38,019 |
| Insurance | 11,792 | 2,631 |
| Depreciation | 66,820 | 58,397 |
| Auxiliary enterprises and other | 15,332 | 15,254 |
| Total operating expenses | <u>1,505,356</u> | <u>1,394,002</u> |
| Operating loss | <u>(344,941)</u> | <u>(299,339)</u> |
| Nonoperating revenues (expenses): | | |
| State appropriations - operations | 226,962 | 225,254 |
| Fringe benefits paid by the State | 104,077 | 97,769 |
| State appropriations - capital | 15,030 | 27,210 |
| Miscellaneous grants and gifts | 23,246 | 19,000 |
| Investment income | 13,109 | 27,771 |
| Unrealized (depreciation) appreciation on investments | (7,826) | 3,126 |
| Interest expense | (22,866) | (31,068) |
| Other | (20,602) | (15,783) |
| Total nonoperating revenues, net | <u>331,130</u> | <u>353,279</u> |
| (Decrease) increase in net assets | (13,811) | 53,940 |
| Net assets - beginning of year | <u>863,263</u> | <u>809,323</u> |
| Net assets - end of year | <u>\$ 849,452</u> | <u>\$ 863,263</u> |

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

**University of Medicine and Dentistry of New Jersey
Component Unit
New Jersey Health Foundation, Inc.**

**Consolidated Statement of Activities
Year Ended June 30, 2004
(In thousands)**

| | Unrestricted- board designated | Temporarily Restricted | Permanently Restricted | Total |
|--|---|-----------------------------------|-----------------------------------|--------------|
| Revenues and gains: | | | | |
| Contributions | \$ 57 | \$ 12,595 | \$ 7,379 | \$ 20,031 |
| Special events revenue | - | 1,611 | - | 1,611 |
| Less direct costs | - | (971) | - | (971) |
| Net special events revenue | - | 640 | - | 640 |
| Total contributions | 57 | 13,235 | 7,379 | 20,671 |
| Interest and dividend income | 993 | 212 | 1,133 | 2,338 |
| Net unrealized and realized gains on investments | 9,610 | - | 8,278 | 17,888 |
| Cost recovery fees | - | (212) | (1,224) | (1,436) |
| Investment management fees | (85) | - | (89) | (174) |
| Total revenues and gains | 10,575 | 13,235 | 15,477 | 39,287 |
| Net assets released from restrictions for grants | 19,760 | (19,760) | - | - |
| Total revenues, gains and other support | 30,335 | (6,525) | 15,477 | 39,287 |
| Expenses: | | | | |
| Grants | 22,617 | - | - | 22,617 |
| Administrative | 723 | - | - | 723 |
| Fund raising | 1,539 | - | - | 1,539 |
| Total expenses | 24,879 | - | - | 24,879 |
| Increase (decrease) in net assets | 5,456 | (6,525) | 15,477 | 14,408 |
| Net assets - beginning of year | 43,426 | 22,068 | 65,640 | 131,134 |
| Net assets - end of year | \$ 48,882 | \$ 15,543 | \$ 81,117 | \$ 145,542 |

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

**University of Medicine and Dentistry of New Jersey
Component Unit
New Jersey Health Foundation, Inc.**

**Consolidated Statement of Activities
Year Ended June 30, 2003
(In thousands)**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|--------------|
| Revenues and gains: | | | | |
| Contributions | \$ 935 | \$ 11,722 | \$ 4,053 | \$ 16,710 |
| Special events revenue | - | 1,938 | - | 1,938 |
| Less direct costs | - | (872) | - | (872) |
| Net special events revenue | - | 1,066 | - | 1,066 |
| Total contributions | 935 | 12,788 | 4,053 | 17,776 |
| Interest and dividend income | 557 | 161 | 1,022 | 1,740 |
| Net unrealized and realized gains on investments | 1,246 | - | 1,690 | 2,936 |
| Cost recovery fees | - | (161) | (862) | (1,023) |
| Investment management fees | (112) | - | (168) | (280) |
| Total revenues and gains and other support | 2,626 | 12,788 | 5,735 | 21,149 |
| Net assets released from restrictions for grants | 10,818 | (10,818) | - | - |
| Total revenues, gains and other support | 13,444 | 1,970 | 5,735 | 21,149 |
| Expenses: | | | | |
| Grants | 12,206 | - | - | 12,206 |
| Administrative | 1,120 | - | - | 1,120 |
| Fund raising | 1,638 | - | - | 1,638 |
| Total expenses | 14,964 | - | - | 14,964 |
| (Decrease) increase in net assets before provision | (1,520) | 1,970 | 5,735 | 6,185 |
| Provision for uncollectible contribution receivable | - | - | (875) | (875) |
| (Decrease) increase in net assets | (1,520) | 1,970 | 4,860 | 5,310 |
| Net assets - beginning of year | 44,946 | 20,098 | 60,780 | 125,824 |
| Net assets - end of year | \$ 43,426 | \$ 22,068 | \$ 65,640 | \$ 131,134 |

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

University of Medicine and Dentistry of New Jersey

Consolidated Statements of Cash Flows Years Ended June 30, 2004 and 2003 (In thousands)

| | <u>2004</u> | <u>2003</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Tuition and fees | \$ 50,291 | \$ 44,941 |
| Research grants and contracts | 273,648 | 223,186 |
| Net patient service revenues | 597,856 | 527,701 |
| Managed care premiums | - | 65,011 |
| Professional services | 138,972 | 119,296 |
| Other receipts | 108,677 | 94,261 |
| Payments to employees | (788,285) | (764,609) |
| Payments to vendors | (566,935) | (485,427) |
| Net cash used in operating activities | <u>(185,776)</u> | <u>(175,640)</u> |
| Cash flows from noncapital financing activities | | |
| State appropriations | 219,407 | 221,535 |
| Loans to students | (8,884) | (5,637) |
| Loan repayments from students | 6,256 | 6,586 |
| Affiliate contributions, net of transfers to the State | 6,373 | (52,703) |
| Other receipts | 10,883 | 5,539 |
| Net cash provided by noncapital financing activities | <u>234,035</u> | <u>175,320</u> |
| Cash flows from capital financing activities | | |
| Proceeds from issuance of capital debt | 299 | 57,809 |
| Purchases of assets held by trustees | 93,985 | 62,449 |
| Capital grants and contracts received | 17,070 | 36,302 |
| Purchases of capital assets | (189,480) | (186,183) |
| Principal payments on debt and capital lease obligations | (12,877) | (12,863) |
| Interest payments on debt and capital lease obligations | (22,897) | (29,345) |
| Net cash used in capital financing activities | <u>(113,900)</u> | <u>(71,831)</u> |
| Cash flows from investing activities | | |
| Proceeds from sales and maturities of investments | 235,291 | 406,672 |
| Purchases of investments | (91,682) | (402,676) |
| Interest on investments | 11,114 | 28,293 |
| Net cash provided by investing activities | <u>154,723</u> | <u>32,289</u> |
| Net increase (decrease) in cash and cash equivalents | 89,082 | (39,862) |
| Cash and cash equivalents - beginning of year | 47,729 | 87,591 |
| Cash and cash equivalents - end of year | <u>\$ 136,811</u> | <u>\$ 47,729</u> |
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (344,941) | \$ (299,339) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Fringe benefits paid by the State | 104,077 | 97,769 |
| Depreciation expense | 66,820 | 58,397 |
| Change in assets and liabilities: | | |
| Receivables, net | (5,572) | (28,468) |
| Prepaid expenses and other assets | (1,036) | 8,969 |
| Accounts payable and accrued expenses | (7,418) | (16,646) |
| Deferred revenues | 2,294 | 3,678 |
| Net cash used in operating activities | <u>\$ (185,776)</u> | <u>\$ (175,640)</u> |

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

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

1. Organization

The University of Medicine and Dentistry of New Jersey (the “University”) was established in 1964 and operates under 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 of New Jersey, which are determined annually through the state’s legislative process.

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

The University consists of the following units:

Schools of the University:

- UMDNJ-New Jersey Medical School
- 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
- UMDNJ-University Behavioral HealthCare
- Eric B. Chandler Health Center
- The Cancer Institute of New Jersey
- Broadway House for Continuing Care
- Child Health Institute of New Jersey

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

Lease Holding Corporation:

- University Care Corporation

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

The consolidated financial statements include all of the schools of the University, University Health Care Units, Faculty Practice Plans, and the Lease Holding Corporation. Also included is five months of operating activity for 2003 for University Health Plans, Inc. (“UHP”), a health maintenance organization unit. All significant intercompany accounts and transactions have been eliminated.

Through November 2002, the University owned 100% of UHP and therefore consolidated the financial statements. In December 2002, the University sold 80% of its ownership interest for \$6,765, which diluted its interest to 20%. The University recorded a gain on the sale of the equity interest of \$975, which was recorded as investment income. As the University no longer had control of UHP, the balance sheet of UHP was deconsolidated and the cost method of accounting was used for the University’s investment in UHP commencing December 2002.

In October 2003, the University sold the remaining 20% ownership interest for \$2,628 and recognized a gain on the sale of the equity interest of \$137, which was recorded as investment income.

In 2004, the University implemented 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*. This statement addresses the conditions under which institutions should include associated fund-raising foundations as component units in their basic financial statements; and how such component units should be displayed in the financial statements.

Prior to 2004, the University had no component units, as defined by GASB Statement No. 14. However, under Statement No. 39, the New Jersey Health Foundation, Inc., (the “Foundation”), which includes the Foundation of the University of Medicine and Dentistry of New Jersey, meets the criteria qualifying it as a component unit of the University. The Foundation is a tax-exempt organization whose purpose is to enhance educational, research and community service programs at the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, and income thereon, that the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University. The Foundation’s results are reported in separate statements within the basic financial statements because of the differences in its reporting model, as described in Note 2.

During 2004 and 2003, the Foundation distributed \$22,617 and \$12,206, respectively, to fund University programs and operations. Separate financial statements for the Foundation can be obtained by writing to the Chief Operating Officer, New Jersey Health Foundation, Inc., 1 Worlds Fair Drive, Suite 2100, PO Box 5370, Somerset, New Jersey 08875.

The Faculty Practice Plan for the UMDNJ-New Jersey Medical School (University Physician Associates of New Jersey, Inc.) is a separate nonprofit organization. Although it meets the criteria qualifying it as a component unit of the University, its financial statements are not included in the consolidated financial statements of the University because they are not material to the University’s consolidated financial statements.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

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.

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (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 consolidated financial statements in the University's financial reporting entity for these differences.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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.

Cash and Cash Equivalents

Cash and cash equivalents represent operating cash, money market investments and commercial paper with maturities of three months or less from the date of purchase.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated financial statements. 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 unless the investments are trading investments. As of June 30, 2004 and 2003, there were no trading investments.

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, and amounts due from local municipalities for services rendered.

Prepaid Expenses and Other Current Assets

Inventories, which are included in other current assets, are stated at the lower of cost or market using the first-in, first-out method.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

Endowments

Endowment funds are subject to the restriction of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. Quasi-endowment funds recorded within endowment funds in the consolidated financial statements have been established by the Board of Trustees for the same purposes as the endowment funds. However, the University is not restricted as to the use of principal and income generated from these funds.

Assets Held by Trustees

Assets held by trustees, which are measured at fair 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.

Capital Assets

Capital assets are stated at cost, or at fair market value in the case of donated assets. Depreciation expense is calculated 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 consolidated financial statements.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum for the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. There were no impairment losses recorded for the years ended June 30, 2004 and 2003.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain various capital financings and are amortized using the effective interest method or the straight-line method when not materially different over the term of the related debt. Deferred financing costs totaled \$9,207 and \$9,580, net of accumulated amortization of \$1,443 and \$1,070 as of June 30, 2004 and 2003, respectively.

Deferred Revenues

Deferred revenues include amounts received from grant and contract sponsors that have not yet been earned, 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.

Net Patient Service Revenues

Net patient service revenues are accounted for on the accrual basis and are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are received (see Note 4).

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

Professional Services Revenues

Professional services 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 accordingly.

New Pronouncement

In March 2003, GASB issued Statement No. 40, *Deposits and Investment Risk Disclosure – an amendment of GASB Statement No. 3*. This Statement requires disclosure on common deposit and various investment risks, investment maturity dates, investments that are highly sensitive to changes in interest rates and the organization's policies relating to these risks. The provisions of this Statement are effective for financial periods beginning after June 15, 2005. Management is in the process of evaluating the effects of such Statement on the University.

3. Tuition and Fees

Tuition and fees revenues 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 \$4,676 and \$3,754 for the years ended June 30, 2004 and 2003, respectively.

4. Healthcare Reimbursement System

The University bills for services based on its established rates or negotiated contract amounts. For Medicare inpatient and certain outpatient services, the University is reimbursed under the national prospective payment system. For certain other outpatient services, other methodologies of the Medicare program are utilized. Medicaid, a state-administered, federal and state funded program, reimburses the University on a prospectively set payment per discharge for inpatients and on a reasonable cost basis for outpatient services.

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, discounts from established charges, and capitated rates.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

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's Medicare and Medicaid cost reports have been audited and finalized by the respective fiscal intermediaries through June 30, 2002. During 2003, University Hospital recorded revenues of \$9,200 related to a non-recurring settlement of certain Medicare revenue calculations for 1993 - 1995, which are subject to audit. During 2004, there were no non-recurring settlements. However, the University recognized revenues in 2004 of approximately \$7,000, as a result of changes in estimates in third party liabilities.

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

University Hospital and University Behavioral HealthCare 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 at amounts less than their established rates. These units maintain records to identify and monitor the level of charity care they provide. These records include the amount of gross charges for services and supplies furnished under their charity care policies and not pursued for collection. Gross charges totaled \$292,645 and \$224,901 for the years ended June 30, 2004 and 2003, 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, | |
|------------------------------------|----------------------------|-------------------|
| | 2004 | 2003 |
| Gross charges | \$ 1,569,937 | \$ 1,291,624 |
| Health Care Subsidy Fund payments: | | |
| Charity care | 80,220 | 82,949 |
| Hospital relief | 19,129 | 17,364 |
| Contractual and other allowances | <u>(1,060,201)</u> | <u>(848,631)</u> |
| Net patient service revenues | <u>\$ 609,085</u> | <u>\$ 543,306</u> |

The Office of the Inspector General of the Department of Health and Human Services has instituted audits of the Medicare billing practices of physicians at teaching hospitals ("PATH"). This initiative is a nationwide effort to ascertain the appropriateness of such billing practices in place at teaching hospitals. The University has been notified that it will be audited under this initiative. As of June 30, 2004, the University was not able to estimate a liability, if any, under this audit initiative.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

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 \$9,111 and \$12,897 as of June 30, 2004 and 2003, respectively, and is partially insured by Federal Deposit Insurance in the amount of \$100 in each depository. Balances above the Federal Deposit Insurance amount are insured by the Government Unit Deposit Protection Act, which insures all New Jersey government units' deposits in excess of Federal Deposit Insurance maximums.

Investments consist of the following:

| | Cost | Market Value | Unrealized (Losses) Gains |
|----------------------|-------------------|-------------------|---------------------------|
| June 30, 2004 | | | |
| U.S. agencies | \$ 191,751 | \$ 188,738 | \$ (3,013) |
| Common stock | 624 | 17,043 | 16,419 |
| Corporate bonds | 15,979 | 16,562 | 583 |
| Mutual funds | 313 | 325 | 12 |
| | <u>\$ 208,667</u> | <u>\$ 222,668</u> | <u>\$ 14,001</u> |
| June 30, 2003 | | | |
| U.S. agencies | \$ 331,807 | \$ 336,842 | \$ 5,035 |
| Common stock | 624 | 15,858 | 15,234 |
| Corporate bonds | 15,958 | 17,333 | 1,375 |
| Mutual funds | 314 | 330 | 16 |
| | <u>\$ 348,703</u> | <u>\$ 370,363</u> | <u>\$ 21,660</u> |

Included in investments and cash and cash equivalents are assets totaling \$325 and \$330 related to the deferred compensation trust as of June 30, 2004 and 2003, respectively. The University retains title to these assets; however, interest income and realized and unrealized net gains and losses on the assets result in a related change in the deferred compensation trust liability. Accordingly, these amounts are excluded from the change in the University's net assets.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

Assets held by trustees consist of the following:

| | Cost | Market Value | Unrealized Gains |
|-----------------------|-------------------|-------------------|---------------------|
| June 30, 2004 | | | |
| U.S. treasuries | \$ 11,241 | \$ 11,425 | \$ 184 |
| U.S. agencies | 66,765 | 66,852 | 87 |
| Commercial paper | 14,507 | 14,564 | 57 |
| Repurchase agreements | 27,781 | 27,781 | - |
| Cash management funds | 62,752 | 62,752 | - |
| Accrued interest | 90 | 90 | - |
| | <u>\$ 183,136</u> | <u>\$ 183,464</u> | <u>\$ 328</u> |
| June 30, 2003 | | | |
| U.S. treasuries | \$ 11,437 | \$ 11,848 | \$ 411 |
| U.S. agencies | 10,436 | 10,523 | 87 |
| Repurchase agreements | 194,975 | 194,975 | - |
| Cash management funds | 59,811 | 59,811 | - |
| Accrued interest | 292 | 292 | - |
| | <u>\$ 276,951</u> | <u>\$ 277,449</u> | <u>\$ 498</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 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.

Investment income consists of the following:

| | Year Ended June 30, | |
|---|----------------------------|------------------|
| | 2004 | 2003 |
| Interest income | \$ 15,918 | \$ 24,257 |
| (Loss) gain on sale of investments, net | (3,132) | 3,234 |
| Dividend income | 323 | 280 |
| | <u>\$ 13,109</u> | <u>\$ 27,771</u> |

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

6. Capital Assets

The historical cost of capital assets and capital asset activities for the years ended June 30, 2004 and 2003 are as follows:

| | June 30, 2003 | Additions | Retirements/ Capitalization | June 30, 2004 |
|--------------------------------------|--------------------------|-------------------|--|--------------------------|
| Depreciable assets | | | | |
| Land improvements | \$ 7,354 | \$ 922 | \$ - | \$ 8,276 |
| Buildings and leasehold improvements | 803,891 | 161,503 | - | 965,394 |
| Equipment | 484,447 | 51,132 | (4,220) | 531,359 |
| Investment in joint ventures | 35,354 | 200 | - | 35,554 |
| | 1,331,046 | 213,757 | (4,220) | 1,540,583 |
| Accumulated depreciation | (721,666) | (66,820) | 4,098 | (784,388) |
| Non-depreciable assets | | | | |
| Land | 11,832 | 271 | - | 12,103 |
| Construction in progress | 211,287 | 169,158 | (210,205) | 170,240 |
| | <u>\$ 832,499</u> | <u>\$ 316,366</u> | <u>\$ (210,327)</u> | <u>\$ 938,538</u> |
| | June 30, 2002 | Additions | Retirements/ Capitalization | June 30, 2003 |
| Depreciable assets | | | | |
| Land improvements | \$ 7,476 | \$ - | \$ (122) | \$ 7,354 |
| Buildings and leasehold improvements | 767,625 | 43,122 | (6,856) | 803,891 |
| Equipment | 439,558 | 50,615 | (5,726) | 484,447 |
| Investment in joint ventures | 35,371 | - | (17) | 35,354 |
| | 1,250,030 | 93,737 | (12,721) | 1,331,046 |
| Accumulated depreciation | (674,336) | (58,397) | 11,067 | (721,666) |
| Non-depreciable assets | | | | |
| Land | 11,832 | - | - | 11,832 |
| Construction in progress | 112,032 | 182,196 | (82,941) | 211,287 |
| | <u>\$ 699,558</u> | <u>\$ 217,536</u> | <u>\$ (84,595)</u> | <u>\$ 832,499</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 (“EOHSI”) and the Center for Advanced Biotechnology and Medicine (“CABM”). The University has acquired certain fixed assets relating to the joint ventures totaling \$35,554 and \$35,354 as of June 30, 2004 and 2003, respectively. Total accumulated depreciation related to these assets was \$20,142 and \$19,043 as of June 30, 2004 and 2003, respectively.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

Included with the University's capital asset balances are assets acquired under capital leases totaling \$113,282 and \$112,551 as of June 30, 2004 and 2003, respectively. Total accumulated depreciation related to these assets was \$17,645 and \$13,717 as of June 30, 2004 and 2003, respectively.

During 2004, the University capitalized interest costs of \$4,349, which consist of \$2,654 in interest income and \$7,003 in interest expense. These amounts are included in construction in progress.

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 University Hospital and related faculty practice plans. The State has the ultimate liability for any claims in excess of the Fund assets.

Through 2003, the State transferred \$102,000 from the Fund into the State's General Fund and the University reduced its claims liability by the amount of the transfer in accordance with the State's indemnification for such claims. Payments of claims from the Fund totaled \$27,368 and \$23,460 in 2004 and 2003, respectively. Contributions to the Fund from the University's affiliates totaled \$6,500 and \$5,600 in 2004 and 2003, respectively. State contributions to the Fund totaled \$11,500 and \$17,000 in 2004 and 2003, respectively. Net assets in the Fund amounted to \$731 and \$5,300 as of June 30, 2004 and 2003, respectively.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

8. Long-Term Debt and Capital Lease Obligations

As of June 30, 2004 and 2003, long-term debt, including bonds, which are all collateralized by certain University revenues, consists of the following:

| | 2004 | 2003 |
|---|-------------------|-------------------|
| 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 \$85,655 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. | \$ 123,225 | \$ 128,690 |
| 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 \$3,535 bearing interest at rates of 4.2%-5.5% are payable in equal installments of interest and principal through 2013; \$11,165 of 5.2% term bonds are due through 2029. | 14,700 | 14,970 |
| University of Medicine and Dentistry of New Jersey Bonds 2002 Series A of May 2002 issued in the amount of \$224,130. Serial bonds in the amount of \$104,130 bearing interest at rates of 3.6% - 5.5% are payable in equal installments of interest and principal through 2024; \$115,645 of 5.0%-5.5% term bonds are due through 2031. | 219,775 | 221,620 |
| 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, 2004, the interest rate on the bonds was 1.0%. | 95,025 | 95,025 |
| University of Medicine and Dentistry of New Jersey Certificates of Participation, Series 2003 (1) | 57,925 | 57,925 |
| Certificates of Participation, Series D (2) | 5,190 | 5,870 |
| Capitalized building leases (3) | 65,854 | 66,865 |
| Capitalized equipment leases (4) | 2,296 | 3,897 |
| Capital improvement fund obligation (5) | 28,697 | 29,735 |
| Equipment leasing fund obligation (6) | 1,837 | 2,243 |
| Mortgages payable (7) | 344 | - |
| Notes payable (8) | 700 | 700 |
| University Care Corporation University Lease Revenue Certificates, Series 2001A (9) | <u>36,400</u> | <u>36,950</u> |
| | 651,968 | 664,490 |
| Unamortized bond premium | <u>1,114</u> | <u>1,145</u> |
| Total long-term debt and capital lease obligations | <u>\$ 653,082</u> | <u>\$ 665,635</u> |

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

- (1) 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 \$24,935 bearing interest at rates of 2.0% - 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.
- (2) In November 1989, the University entered into a Master Lease Agreement whereby the University borrowed up to \$26,270 under Series D Certificates of Participation for facilities acquisition. The term certificates of \$5,190 bearing interest at 6.75% are due December 2009. Title to all facilities purchased under these lease agreements rests with the University and the leases are collateralized by the assets acquired.
- (3) 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 towards 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 requires an average annual payment of \$3,335 to be paid through 2032. Title to the facility will rest with the University. The effective interest rate on the lease is 5.7%.

- (4) The University entered into several capital lease purchase agreements for equipment for University Hospital. The lease agreements require an annual payment of \$311 to \$516 through 2005. The effective interest rates range from 6.18% to 6.45%.
- (5) In July 2000, the University participated in the Capital Improvement Fund 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 and the remaining 67% is the obligation of the State. Payments are due in equal installments of interest and principal through 2020.
- (6) In September 2001, the University participated in the Equipment Leasing Fund Program 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 and the remaining 75% is the obligation of the State. Lease payments of \$517 per year will be made through August 2007, at which time title to the equipment will pass to the University.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

- (7) 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. Title to the properties 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.
- (8) 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.
- (9) In May 2001, the University Care Corporation (“UCC”) entered into a lease agreement whereby UCC issued Tax Exempt Lease Revenue Certificates, Select Auction Variable Rate Securities, in the amount of \$37,650 for construction of the University Behavioral HealthCare building. Title to the facility rests with the University and the lease is collateralized by all available University revenues. Lease payments, bearing an interest rate of 4.88%, will be made through June 2031.

The change in the total long-term debt liability from \$665,635 as of June 30, 2003 to \$653,082 as of June 30, 2004 is due to principal repayments.

The University has an unsecured line of credit with a bank in the amount of \$20,000 that expires on December 31, 2004 at an interest rate of 90% of the bank’s prime rate. There are no fees or compensating balance requirements and no amount has been drawn on this line during 2004 and 2003.

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

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

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

| Year Ending June 30, | Principal | Interest | Total Payments |
|--------------------------------|-------------------|-------------------|-----------------------|
| 2005 | \$ 12,040 | \$ 24,438 | \$ 36,478 |
| 2006 | 12,293 | 23,996 | 36,289 |
| 2007 | 12,246 | 23,330 | 35,576 |
| 2008 | 13,237 | 22,835 | 36,072 |
| 2009 | 13,036 | 22,134 | 35,170 |
| 2010-2014 | 68,725 | 101,426 | 170,151 |
| 2015-2019 | 82,172 | 82,559 | 164,731 |
| 2020-2024 | 111,158 | 59,599 | 170,757 |
| 2025-2029 | 144,110 | 35,123 | 179,233 |
| 2030-2033 | 114,801 | 7,662 | 122,463 |
| | <u>583,818</u> | <u>403,102</u> | <u>986,920</u> |
| Plus: Unamortized bond premium | 1,114 | - | 1,114 |
| | <u>\$ 584,932</u> | <u>\$ 403,102</u> | <u>\$ 988,034</u> |

Capital lease payments are as follows:

| Year Ending June 30, | Principal | Interest | Total Payments |
|-----------------------------|------------------|------------------|-----------------------|
| 2005 | \$ 3,080 | \$ 3,747 | \$ 6,827 |
| 2006 | 1,394 | 3,620 | 5,014 |
| 2007 | 1,174 | 3,560 | 4,734 |
| 2008 | 1,237 | 3,499 | 4,736 |
| 2009 | 1,450 | 3,431 | 4,881 |
| 2010-2014 | 8,543 | 15,923 | 24,466 |
| 2015-2019 | 13,548 | 13,111 | 26,659 |
| 2020-2024 | 16,255 | 8,899 | 25,154 |
| 2025-2029 | 12,230 | 5,059 | 17,289 |
| 2030-2033 | 9,239 | 1,131 | 10,370 |
| | <u>\$ 68,150</u> | <u>\$ 61,980</u> | <u>\$ 130,130</u> |

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 \$38,800 in 2004 and \$33,600 in 2003. 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.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

Total payroll of the University's plan participants was \$624,822 and \$577,592 for 2004 and 2003, 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, | |
|---|----------------------------|-------------|
| | 2004 | 2003 |
| Employee contributions | \$ 21,854 | \$ 20,198 |
| Employer contributions (paid by the State) | 34,481 | 31,733 |
| Basis for determining contributions - participating employee salaries | 431,006 | 396,668 |

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.

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.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

Contributions—Covered University employees were required by PERS to contribute 3.0% of their annual compensation during 2004 and 2003, 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, | |
|---|----------------------------|-------------|
| | 2004 | 2003 |
| Employee contributions | \$ 6,302 | \$ 5,901 |
| Employer contributions (paid by the State) | 4,358 | 1,817 |
| Employer contributions as a percentage of salary expense | 2% | 1% |
| Basis for determining contributions - participating employee salaries | 193,816 | 180,924 |

10. Concentration of Credit Risk

The healthcare units of the University grant credit without collateral to their patients, most of whom are local residents. Gross accounts receivable as of June 30, 2004 and 2003 are due from the following payors:

| | 2004 | 2003 |
|--------------------------|--------------|--------------|
| Medicare and Medicaid | 41 % | 31 % |
| Blue Cross | 1 | 1 |
| Other third-party payors | 27 | 46 |
| Self-pay patients | 31 | 22 |
| | <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, 2004, the carrying amount and fair value of the bonds were approximately \$591,535 and \$610,432, respectively. As of June 30, 2003 the carrying amount and fair value of the bonds were approximately \$542,270 and \$580,175, respectively.

The carrying amount of all other financial instruments reported in the consolidated 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.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

As of June 30, 2004 and 2003, the University had several major construction contracts in process for construction and renovation projects in the amounts of \$332,515 and \$249,010, respectively. As of June 30, 2004 and 2003, costs of \$217,560 and \$153,115, respectively, have been incurred under these contracts.

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,

| | |
|-----------|------------------|
| 2005 | \$ 8,505 |
| 2006 | 8,037 |
| 2007 | 6,949 |
| 2008 | 4,711 |
| 2009 | 2,038 |
| 2010-2014 | 9,194 |
| 2015-2019 | 9,194 |
| 2020-2024 | 7,987 |
| 2025-2029 | 6,685 |
| 2030-2034 | 4,155 |
| 2035-2039 | 360 |
| 2040-2044 | 216 |
| | <u>\$ 68,031</u> |

Total rent expense for all operating leases was \$8,867 and \$7,439 in 2004 and 2003, 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, 2004 and 2003, 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 dementia/Alzheimer's facility. In return for a 20% interest in each LLP, the University has provided access to stand-by letters of credit totaling \$4,500. In 2004, one letter was amended downward by \$700. As of June 30, 2004 and 2003, \$3,800 and \$1,800 was drawn on the letters of credit, respectively.

The Governor of New Jersey established the Commission on Health Science, Education, and Training (the "Commission") in March 2002 to review the structure of the State's universities with the goal of enhancing the quality of health, education and research in the State. The Commission submitted its report to the Governor in October 2002 and various committees developed data and reviewed information related to the report.

After analyzing the issues, challenges and opportunities presented in the report, the Governor issued a statement in December 2003, which indicated that there were too many financial and structural issues to be considered by the Legislature at that time. The statement also encouraged the pursuit of collaborative and partnership ideas by the State's universities.

University of Medicine and Dentistry of New Jersey

Notes to Consolidated Financial Statements (Dollar amounts in thousands)

13. 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, 2004 | | | | | |
|--|--------------------------|--------------------|-----------------------------|------------------|------------------|---------------------|
| | Salaries and Wages | Fringe Benefits | Supplies and Services | Bad Debts | Depreciation | Total |
| Instruction | \$ 119,027 | \$ 32,740 | \$ 25,349 | \$ - | \$ - | \$ 177,116 |
| Research | 67,226 | 16,919 | 89,311 | - | - | 173,456 |
| Public service | 41,243 | 5,262 | 7,017 | - | - | 53,522 |
| Academic and student support | 12,866 | 4,125 | 5,576 | - | - | 22,567 |
| Institutional and administrative support | 70,114 | 9,764 | 19,068 | - | - | 98,946 |
| Patient care services | 353,088 | 90,529 | 191,578 | 94,343 | - | 729,538 |
| Professional services | 82,860 | 10,094 | 20,035 | - | - | 112,989 |
| Operation and maintenance of plant | 26,715 | 7,121 | 9,442 | - | - | 43,278 |
| Insurance | - | - | 11,792 | - | - | 11,792 |
| Depreciation | - | - | - | - | 66,820 | 66,820 |
| Auxiliary enterprises and other | 2,077 | 560 | 12,695 | - | - | 15,332 |
| Total operating expenses | <u>\$ 775,216</u> | <u>\$ 177,114</u> | <u>\$ 391,863</u> | <u>\$ 94,343</u> | <u>\$ 66,820</u> | <u>\$ 1,505,356</u> |

| | Year Ended June 30, 2003 | | | | | |
|--|--------------------------|--------------------|-----------------------------|------------------|------------------|---------------------|
| | Salaries and Wages | Fringe Benefits | Supplies and Services | Bad Debts | Depreciation | Total |
| Instruction | \$ 114,558 | \$ 28,883 | \$ 23,799 | \$ - | \$ - | \$ 167,240 |
| Research | 61,383 | 11,615 | 79,506 | - | - | 152,504 |
| Public service | 40,600 | 4,300 | 7,412 | - | - | 52,312 |
| Academic and student support | 11,803 | 3,135 | 4,654 | - | - | 19,592 |
| Institutional and administrative support | 66,011 | 16,735 | 8,123 | - | - | 90,869 |
| Patient care services | 300,451 | 75,649 | 184,109 | 77,154 | - | 637,363 |
| Managed care services | 3,061 | - | 56,220 | - | - | 59,281 |
| Professional services | 74,461 | 8,592 | 17,487 | - | - | 100,540 |
| Operation and maintenance of plant | 24,040 | 6,122 | 7,857 | - | - | 38,019 |
| Insurance | - | - | 2,631 | - | - | 2,631 |
| Depreciation | - | - | - | - | 58,397 | 58,397 |
| Auxiliary enterprises and other | 1,878 | 367 | 13,009 | - | - | 15,254 |
| Total operating expenses | <u>\$ 698,246</u> | <u>\$ 155,398</u> | <u>\$ 404,807</u> | <u>\$ 77,154</u> | <u>\$ 58,397</u> | <u>\$ 1,394,002</u> |

Supplementary Information

University of Medicine and Dentistry of New Jersey

Statement of Net Assets by Fund Type

June 30, 2004 with summarized financial information as of June 30, 2003

(In thousands)

(Unaudited)

| | Current Funds | | Loan Funds | Endowment Funds | Self Insurance Reserve Fund | Plant Funds | | Agency Funds | Primary Institution | Proprietary Units | June 30, | |
|--|------------------|-------------------|------------------|------------------|-----------------------------|-------------------|-------------------------|---------------|---------------------|-------------------|---------------------|---------------------|
| | Unrestricted | Restricted | | | | Unexpended | Net Investment In Plant | | | | 2004 | 2003 |
| | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Current assets: | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 7,020 | \$ 87,504 | \$ 1,196 | \$ 5,007 | \$ 38 | \$ 3,128 | \$ - | \$ 637 | 104,530 | \$ 32,281 | \$ 136,811 | \$ 47,729 |
| Short-term investments | - | 1,006 | - | - | - | - | - | - | 1,006 | 325 | 1,331 | 330 |
| Accounts receivable, net of allowance for doubtful accounts of \$168,213 in 2004 and \$141,009 in 2003 | - | - | - | - | - | - | - | - | - | 105,234 | 105,234 | 96,294 |
| Appropriations receivable | 18,729 | - | - | - | - | - | - | - | 18,729 | 29,499 | 48,228 | 40,672 |
| Other receivables, net of allowance for doubtful accounts of \$3,030 in 2004 and \$3,610 in 2003 | 28,066 | 5,001 | 2,510 | - | 5,000 | 3,142 | - | - | 43,719 | 7,281 | 51,000 | 45,572 |
| Grants receivable | - | 58,227 | - | - | - | - | - | - | 58,227 | - | 58,227 | 67,798 |
| Prepaid expenses and other assets | 1,466 | 877 | 42 | 138 | 1,337 | 595 | - | - | 4,455 | 5,819 | 10,274 | 10,954 |
| Due from other funds | 5,206 | 10,603 | - | - | - | - | - | - | 15,809 | - | 15,809 | 19,103 |
| Assets held by trustees - current portion | - | - | - | - | - | 137,246 | - | - | 137,246 | 306 | 137,552 | 164,161 |
| Total current assets | 60,487 | 163,218 | 3,748 | 5,145 | 6,375 | 144,111 | - | 637 | 383,721 | 180,745 | 564,466 | 492,613 |
| Noncurrent assets: | | | | | | | | | | | | |
| Endowment investments | - | - | - | 34,830 | - | - | - | - | 34,830 | - | 34,830 | 36,447 |
| Other long-term investments | 37,228 | 81,271 | 3,787 | - | - | 33,221 | - | - | 155,507 | 31,000 | 186,507 | 333,586 |
| Loans to students, net of allowance for doubtful accounts of \$500 in 2004 and 2003 | - | - | 26,599 | - | - | - | - | - | 26,599 | - | 26,599 | 21,436 |
| Deferred financing costs | - | - | - | - | - | 8,040 | - | - | 8,040 | 1,167 | 9,207 | 9,580 |
| Assets held by trustees | - | - | - | - | - | 45,912 | - | - | 45,912 | - | 45,912 | 113,288 |
| Capital assets, net | - | - | - | - | - | - | 666,987 | - | 666,987 | 271,551 | 938,538 | 832,499 |
| Total noncurrent assets | 37,228 | 81,271 | 30,386 | 34,830 | - | 87,173 | 666,987 | - | 937,875 | 303,718 | 1,241,593 | 1,346,836 |
| Total assets | \$ 97,715 | \$ 244,489 | \$ 34,134 | \$ 39,975 | \$ 6,375 | \$ 231,284 | \$ 666,987 | \$ 637 | \$ 1,321,596 | \$ 484,463 | \$ 1,806,059 | \$ 1,839,449 |

University of Medicine and Dentistry of New Jersey

Statement of Net Assets by Fund Type (continued)

June 30, 2004 with summarized financial information as of June 30, 2003

(In thousands)

(Unaudited)

| | Current Funds | | Loan Funds | Endowment Funds | Self Insurance Reserve Fund | Plant Funds | | Agency Funds | Primary Institution | Proprietary Units | June 30, | |
|--|---------------|------------|------------|-----------------|-----------------------------|-------------|-------------------------|--------------|---------------------|-------------------|------------|------------|
| | Unrestricted | Restricted | | | | Unexpended | Net Investment In Plant | | | | 2004 | 2003 |
| | | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | | |
| Accounts payable and accrued expenses | \$ 50,234 | \$ 17,849 | \$ 1 | \$ - | \$ 5,644 | \$ 24,271 | \$ - | \$ 637 | \$ 98,636 | \$ 90,046 | \$ 188,682 | \$ 198,439 |
| Accrued vacation expense | 18,729 | - | - | - | - | - | - | - | 18,729 | 24,999 | 43,728 | 40,672 |
| Deferred revenues | 6,428 | 31,084 | - | - | - | - | - | - | 37,512 | 2,972 | 40,484 | 38,190 |
| Long-term debt and capital lease obligations - current portion | - | - | - | - | - | - | 11,939 | - | 11,939 | 3,181 | 15,120 | 12,867 |
| Due to other funds | - | - | - | 138 | - | 7,071 | - | - | 7,209 | 8,600 | 15,809 | 19,103 |
| Total current liabilities | 75,391 | 48,933 | 1 | 138 | 5,644 | 31,342 | 11,939 | 637 | 174,025 | 129,798 | 303,823 | 309,271 |
| Noncurrent liabilities: | | | | | | | | | | | | |
| Deferred compensation trust | - | - | - | - | - | - | - | - | - | 324 | 324 | 343 |
| Accrued claims liability | - | 14,498 | - | - | - | - | - | - | 14,498 | - | 14,498 | 13,804 |
| Long-term debt and capital lease obligations | - | - | - | - | - | 145,468 | 439,468 | - | 584,936 | 53,026 | 637,962 | 652,768 |
| Total noncurrent liabilities | - | 14,498 | - | - | - | 145,468 | 439,468 | - | 599,434 | 53,350 | 652,784 | 666,915 |
| Total liabilities | 75,391 | 63,431 | 1 | 138 | 5,644 | 176,810 | 451,407 | 637 | 773,459 | 183,148 | 956,607 | 976,186 |
| Net Assets | | | | | | | | | | | | |
| Invested in capital, net of related debt | - | - | - | - | - | - | 215,580 | - | 215,580 | 218,895 | 434,475 | 422,954 |
| Restricted expendable: | | | | | | | | | | | | |
| Research and designated | - | 181,058 | - | - | - | - | - | - | 181,058 | - | 181,058 | 196,059 |
| Debt service | - | - | - | - | - | 23,708 | - | - | 23,708 | 7,869 | 31,577 | 33,441 |
| Self-insurance reserve | - | - | - | - | 731 | - | - | - | 731 | - | 731 | 5,300 |
| Capital projects | - | - | - | - | - | 30,766 | - | - | 30,766 | 31,731 | 62,497 | 67,459 |
| Restricted nonexpendable: | | | | | | | | | | | | |
| Endowments | - | - | - | 39,837 | - | - | - | - | 39,837 | - | 39,837 | 37,806 |
| Loan funds | - | - | 1,233 | - | - | - | - | - | 1,233 | - | 1,233 | 1,274 |
| Refundable government student loans | - | - | 28,082 | - | - | - | - | - | 28,082 | - | 28,082 | 27,064 |
| Unrestricted: | | | | | | | | | | | | |
| Educational and central support | 22,324 | - | - | - | - | - | - | - | 22,324 | - | 22,324 | 22,245 |
| Healthcare | - | - | - | - | - | - | - | - | - | 18,590 | 18,590 | 21,952 |
| Faculty practice plans | - | - | - | - | - | - | - | - | - | 24,135 | 24,135 | 23,087 |
| Other | - | - | 4,818 | - | - | - | - | - | 4,818 | 95 | 4,913 | 4,622 |
| Total net assets | \$ 22,324 | \$ 181,058 | \$ 34,133 | \$ 39,837 | \$ 731 | \$ 54,474 | \$ 215,580 | \$ - | \$ 548,137 | \$ 301,315 | \$ 849,452 | \$ 863,263 |

University of Medicine and Dentistry of New Jersey

Statement of Revenues, Expenses and Changes in Net Assets by Fund Type Year Ended June 30, 2004 with summarized financial information for the year ended June 30, 2003 (In thousands)

(Unaudited)

| | Current Funds | | Loan Funds | Endowment Funds | Self Insurance Reserve Fund | Plant Funds | | Primary Institution | Proprietary Units | June 30, | |
|---|------------------|-------------------|------------------|------------------|-----------------------------|------------------|-------------------------|---------------------|-------------------|-------------------|-------------------|
| | Unrestricted | Restricted | | | | Unexpended | Net Investment In Plant | | | 2004 | 2003 |
| | | | | | | | | | | | |
| Operating revenues: | | | | | | | | | | | |
| Tuition and fees | \$ 52,186 | \$ (2,179) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 50,007 | \$ - | \$ 50,007 | \$ 45,007 |
| Governmental grants and contracts | - | 209,725 | - | - | - | - | - | 209,725 | - | 209,725 | 176,917 |
| Private grants and contracts | - | 54,645 | - | - | - | - | - | 54,645 | - | 54,645 | 58,518 |
| Net patient service revenues | - | - | - | - | - | - | - | - | 609,085 | 609,085 | 543,306 |
| Managed care premiums | - | - | - | - | - | - | - | - | - | - | 58,763 |
| Professional services | - | - | - | - | - | - | - | - | 136,683 | 136,683 | 118,274 |
| Auxiliary sales and services | - | - | - | - | - | - | - | - | 16,154 | 16,154 | 16,165 |
| Indirect cost recoveries | 14,980 | 27,758 | - | - | - | - | - | 42,738 | - | 42,738 | 36,893 |
| Other operating revenues | 12,133 | - | 554 | - | - | - | - | 12,687 | 28,691 | 41,378 | 40,820 |
| Total operating revenues | 79,299 | 289,949 | 554 | - | - | - | - | 369,802 | 790,613 | 1,160,415 | 1,094,663 |
| Operating expenses: | | | | | | | | | | | |
| Instruction | 146,782 | 30,334 | - | - | - | - | - | 177,116 | - | 177,116 | 167,240 |
| Research | - | 173,456 | - | - | - | - | - | 173,456 | - | 173,456 | 152,504 |
| Public service | - | 53,522 | - | - | - | - | - | 53,522 | - | 53,522 | 52,312 |
| Academic and student support | 17,715 | 4,852 | - | - | - | - | - | 22,567 | - | 22,567 | 19,592 |
| Institutional and administrative support | 64,379 | 34,567 | - | - | - | - | - | 98,946 | - | 98,946 | 90,869 |
| Patient care services | - | - | - | - | - | - | - | - | 729,538 | 729,538 | 637,363 |
| Managed care services | - | - | - | - | - | - | - | - | - | - | 59,281 |
| Professional services | - | - | - | - | - | - | - | - | 112,989 | 112,989 | 100,540 |
| Operation and maintenance of plant | 43,278 | - | - | - | - | - | - | 43,278 | - | 43,278 | 38,019 |
| Insurance | 3,895 | (2,745) | - | - | 4,599 | - | - | 5,749 | 6,043 | 11,792 | 2,631 |
| Depreciation | - | - | - | - | - | - | 41,418 | 41,418 | 25,402 | 66,820 | 58,397 |
| Auxiliary enterprises and other | - | - | 318 | - | - | - | - | 318 | 15,014 | 15,332 | 15,254 |
| Total operating expenses | 276,049 | 293,986 | 318 | - | 4,599 | - | 41,418 | 616,370 | 888,986 | 1,505,356 | 1,394,002 |
| Operating (loss) gain | (196,750) | (4,037) | 236 | - | (4,599) | - | (41,418) | (246,568) | (98,373) | (344,941) | (299,339) |
| Nonoperating revenues (expenses): | | | | | | | | | | | |
| State appropriations - operations | 161,583 | - | - | - | - | - | - | 161,583 | 65,379 | 226,962 | 225,254 |
| Fringe benefits paid by the State | 53,319 | - | - | - | - | - | - | 53,319 | 50,758 | 104,077 | 97,769 |
| State appropriations - capital | - | - | - | - | - | 15,030 | - | 15,030 | - | 15,030 | 27,210 |
| Miscellaneous grants and gifts | - | 22,236 | 1,010 | - | - | - | - | 23,246 | - | 23,246 | 19,000 |
| Investment income | 8,103 | 2,073 | 159 | - | 30 | 2,560 | - | 12,925 | 184 | 13,109 | 27,771 |
| Unrealized (depreciation) appreciation on investment securities | - | (5,529) | (174) | 531 | - | (2,654) | - | (7,826) | - | (7,826) | 3,126 |
| Interest expense | (1,081) | - | - | - | - | (18,881) | - | (19,962) | (2,904) | (22,866) | (31,068) |
| Other | 7,550 | (9,380) | (203) | - | - | (61,898) | 50,546 | (13,385) | (7,217) | (20,602) | (15,783) |
| Interfund transfers | (20,852) | (20,324) | - | 1,500 | - | 43,859 | - | 4,183 | (4,183) | - | - |
| Debt service appropriation | (11,593) | - | - | - | - | 13,293 | - | 1,700 | (1,700) | - | - |
| Matching financial aid | (200) | (40) | 240 | - | - | - | - | - | - | - | - |
| Total nonoperating revenues, net | 196,829 | (10,964) | 1,032 | 2,031 | 30 | (8,691) | 50,546 | 230,813 | 100,317 | 331,130 | 353,279 |
| (Decrease) increase in net assets | 79 | (15,001) | 1,268 | 2,031 | (4,569) | (8,691) | 9,128 | (15,755) | 1,944 | (13,811) | 53,940 |
| Net assets-beginning of year | 22,245 | 196,059 | 32,865 | 37,806 | 5,300 | 63,165 | 206,452 | 563,892 | 299,371 | 863,263 | 809,323 |
| Net assets-end of year | \$ 22,324 | \$ 181,058 | \$ 34,133 | \$ 39,837 | \$ 731 | \$ 54,474 | \$ 215,580 | \$ 548,137 | \$ 301,315 | \$ 849,452 | \$ 863,263 |

University of Medicine and Dentistry of New Jersey

Notes to Supplementary Information

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the resources available to the University, the accounts of the University are maintained in accordance with the practice of fund accounting for internal purposes. This is a procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the specified activities or objectives. Separate accounts are maintained for each fund group; however, in the accompanying supplementary information, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and accounts are maintained to distinguish such externally restricted funds from unrestricted funds designated for specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds. Restricted grants and contracts, endowment income, and other restricted resources are recorded in the appropriate restricted fund. Unrestricted funds are those which the governing board retains full control of as to use in achieving any of its institutional objectives.

The following summary information relates to the nature and purpose of each fund group:

Current Funds

The University includes all operations which are considered to be ongoing, major or central to the University's core teaching and research operations in the current funds unless the operations are required to be reported in other funds as described below.

Loan Funds

The loan funds include receivables related to the loans and other advances made to University students as well as the liabilities to certain U.S. government agencies who provide funding for these loans. The loan funds also include receivables related to loans made from University funds.

Endowment Funds

Endowment funds are subject to the restriction of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. Quasi-endowment funds recorded within endowment funds in the consolidated financial statements have been established by the Board of Trustees for the same purposes as the endowment funds. However, the University is not restricted as to the use of principal and income generated from these funds.

Self-Insurance Reserve Fund

The self-insurance reserve fund includes assets available to pay malpractice and other tort liability claims of the University.

Plant Funds

Plant funds include an unexpended balance and a net investment in plant balance. The unexpended balance includes assets which have been designated for additions to the University's capital assets. Assets held in the net investment in plant balance include the University's capital assets. Plant funds exclude certain capital assets related to the University's proprietary activities which are included in that proprietary fund group.

University of Medicine and Dentistry of New Jersey

Notes to Supplementary Information

Agency Funds

The agency funds were established to separately account for assets which the University holds on deposit for others. The University does not have discretionary authority of the assets held in these funds.

Proprietary Funds

Proprietary funds include University Hospital, University Behavioral HealthCare, Eric B. Chandler Health Center, The Cancer Institute of New Jersey, Broadway House for Continuing Care, Child Health Institute of New Jersey, the faculty practice plans for 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 and UMDNJ-School of Nursing, UCC and certain activities classified as auxiliary enterprises which include the operation of the University’s parking garages, cafeterias and computer store. These units are reported within the proprietary funds due to their similarity with business organizations. The University’s proprietary funds comply with all of the Statements and Interpretations of the Financial Accounting Standards Board except for those that contradict the pronouncements of the Governmental Accounting Standards Board.

Transfers

Interfund transfers are distinguished from revenues and expenses in the supplementary information and represent transfers of resources between funds.