

**University of Medicine and
Dentistry of New Jersey**
(A Component Unit of the State of New Jersey)
**Consolidated Financial Statements and
Supplementary Information**
June 30, 2005 and 2004

University of Medicine and Dentistry of New Jersey
(A Component Unit of the State of New Jersey)
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June 30, 2005 and 2004

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Report of Independent Auditors

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

We have audited the accompanying consolidated statements of net assets and the related consolidated statements of revenues, expenses and changes in net assets and cash flows of the business-type activities and the statements of net assets and the related statements of revenue, expenses and changes in net assets of the aggregate discretely presented component units of the University of Medicine and Dentistry of New Jersey, a component unit of the State of New Jersey, (the "University") as of and for the years ended June 30, 2005 and 2004, which collectively comprise the University's basic financial statements. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the New Jersey Health Foundation, Inc., a component unit of the University, which statements reflect total assets of 91% and 92% and total net assets of 101% and 102% of the related totals as of June 30, 2005 and 2004, respectively, and total operating revenues of 38% and 38% of the related totals for the years ended June 30, 2005 and 2004, respectively, of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the New Jersey Health Foundation, Inc., is based solely on the report of the other auditors.

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

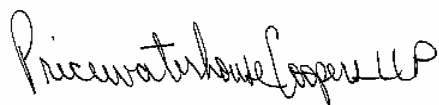
As described in Note 2 to the basic financial statements, the financial statements of the University Physician Associates of New Jersey, Inc. and Affiliates, a discretely presented component unit of the University, were prepared on a modified basis of cash receipts and disbursements, which is a comprehensive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

In our opinion, based on our audits and the report of other auditors, except for the departure from generally accepted accounting principles described in the preceding paragraph, the financial statements of the aggregate discretely presented component units referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units at June 30, 2005 and 2004, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the consolidated financial statements of the business-type activities referred to above present fairly, in all material respects, the financial position of the business-type activities at June 30, 2005 and 2004, and their changes in financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the basic financial statements, the University has restated its 2004 financial statements.

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

Management's Discussion and Analysis on pages 3 through 13 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 46 through 50 pertaining to the account groups are presented for purposes of additional analysis of the basic financial statements rather than to present the financial position and changes in financial position of the individual account groups. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it. The University has not presented the management's discussion and analysis for the year ended June 30, 2004 that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements for each year presented due to the restatement of the 2004 financial statements.



October 3, 2006

Management's Discussion and Analysis

University of Medicine and Dentistry of New Jersey

(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

June 30, 2005 and 2004

Introduction

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

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

The University is dedicated to the pursuit of excellence in:

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

The University has approximately 5,400 full and part time students, 1,600 medical interns and residents and 13,500 faculty and staff.

Financial Highlights

The University continued to maintain a strong financial position, with assets of \$1.8 billion and liabilities of \$1.1 billion as of June 30, 2005. Net assets, which 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, decreased by \$6.9 million, or 1%, to \$747.1 million in 2005. This decrease is primarily related to the operating results of University Hospital ("UH").

Operating revenues increased by \$63.7 million, or 6%, to \$1.1 billion in 2005, reflecting a steady growth in research and professional services and contracts revenues. Operating expenses increased by \$133.2 million, or 9%, consistent with the growth in research, professional services and contracts activities and an increase in instruction costs.

State appropriations – operations increased by \$42.2 million, or 19%, to \$266.1 million in 2005, reflecting support for the University's cancer programs and salary costs. Fringe benefits paid by the State increased by \$55.7 million, or 54%, to \$159.8 million in 2005, primarily due to a change in the State's method of paying benefits for UH. In 2004, a portion of UH's fringe benefit costs were paid by the State through patient service revenues.

During 2005, the University continued to grow and expand, incurring \$167.8 million in capital expenditures related to its capital construction and renovation plan that addresses the 2001 – 2006 time frame and other capital projects.

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The University restated its previously reported financial results for 2004 after becoming aware of several errors related to amounts due to third party payors, appropriations receivable, capital assets, other receivables, cash flows and component units.

Consolidated Financial Statements

The University's audited consolidated financial statements include: 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.

Component Units

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 organizations as component units in their general-purpose financial statements; and how such component units should be displayed in the basic 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 Faculty Practice Plan for the UMDNJ-New Jersey Medical School - University Physician Associates of New Jersey, Inc. ("UPA") is a separate nonprofit organization. Although UPA met the criteria qualifying it as a component unit of the University, its financial statements were not included in the 2004 basic financial statements of the University as they were not material to the University's consolidated financial statements. However, as part of the restatement of the University's 2004 financial statements, UPA is included as a component unit in the 2004 restated financial statements and in the 2005 financial statements.

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

Consolidated Statements of Net Assets

The Consolidated Statements of Net Assets present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University. Net assets represent the residual interest in the University's assets after liabilities are deducted. Net assets is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

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

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available to the University for general purposes, but are internally designated for various academic and healthcare programs.

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

<i>(In millions)</i>	2005	2004 (Restated)	Increase (Decrease)
Assets			
Current assets:			
Cash and cash equivalents	\$ 176.4	\$ 134.3	\$ 42.1
Receivables	240.0	234.4	5.6
Assets held by trustees and other	144.8	149.2	(4.4)
Noncurrent assets:			
Endowment and other investments	159.0	221.3	(62.3)
Assets held by trustees and other	86.0	81.7	4.3
Capital assets, net	<u>1,013.0</u>	<u>921.6</u>	<u>91.4</u>
Total assets	<u>1,819.2</u>	<u>1,742.5</u>	<u>76.7</u>
Liabilities			
Current liabilities	343.7	335.7	8.0
Noncurrent liabilities	<u>728.4</u>	<u>652.8</u>	<u>75.6</u>
Total liabilities	<u>1,072.1</u>	<u>988.5</u>	<u>83.6</u>
Net assets			
Invested in capital, net of related debt	440.5	417.5	23.0
Restricted expendable	260.7	271.0	(10.3)
Restricted nonexpendable	71.6	69.2	2.4
Unrestricted	<u>(25.7)</u>	<u>(3.7)</u>	<u>(22.0)</u>
Total net assets	<u>\$ 747.1</u>	<u>\$ 754.0</u>	<u>\$ (6.9)</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.

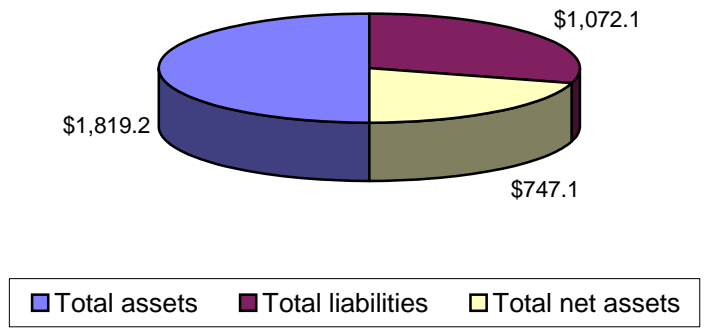
The increase in cash and the decrease in endowment and other investments are due to the sale of investments in 2005. Current liabilities consist primarily of accounts payable, accrued compensation and other liabilities and include \$57.7 million of amounts due to third party payors related to the cost report errors that were discovered in 2005. Noncurrent liabilities consist primarily of long-term debt and capital lease obligations.

The increase in capital assets and noncurrent liabilities in 2005 primarily reflects capital expenditures and the debt incurred from the issuance of the December 2004 certificates of participation in the amount of \$87.4 million.

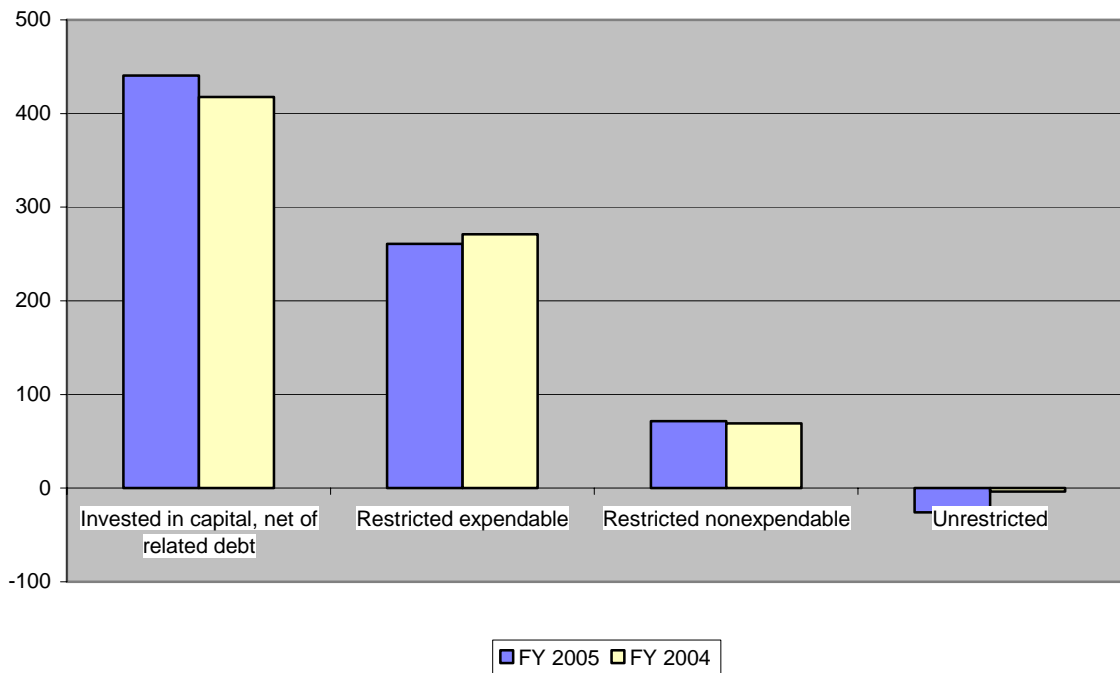
The decrease in unrestricted net assets is primarily due to the operating results of UH.

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Summary of Consolidated Statement of Net Assets
June 30, 2005
(In millions)



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



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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, 2005 and 2004, follows:

<i>(In millions)</i>	2005	2004 (Restated)	Increase (Decrease)
Operating revenues			
Tuition and fees	\$ 55.9	\$ 50.0	\$ 5.9
Governmental and private grants and contracts	286.1	268.1	18.0
Net patient service revenues	512.9	504.1	8.8
Professional services and contracts	174.5	155.2	19.3
Other	108.3	96.6	11.7
Total operating revenues	<u>1,137.7</u>	<u>1,074.0</u>	<u>63.7</u>
Operating expenses	<u>1,563.8</u>	<u>1,430.6</u>	<u>133.2</u>
Operating loss	<u>(426.1)</u>	<u>(356.6)</u>	<u>(69.5)</u>
Nonoperating revenues (expenses)			
State appropriations - operations	266.1	223.9	42.2
Fringe benefits paid by the State	159.8	104.1	55.7
Interest expense and other	(10.7)	(15.3)	4.6
Total nonoperating revenues, net	<u>415.2</u>	<u>312.7</u>	<u>102.5</u>
State appropriations - capital	<u>4.0</u>	<u>15.0</u>	<u>(11.0)</u>
(Decrease) increase in net assets	<u>(6.9)</u>	<u>(28.9)</u>	<u>22.0</u>
Net assets - beginning of year as previously reported	754.0	863.3	(109.3)
Restatement	-	(80.4)	80.4
Net assets - beginning of year as restated	<u>754.0</u>	<u>782.9</u>	<u>(28.9)</u>
Net assets - end of year	<u>\$ 747.1</u>	<u>\$ 754.0</u>	<u>\$ (6.9)</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 services, professional services and contracts, 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.

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

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Tuition and State appropriations are the primary sources of revenue for the University's academic programs. Tuition revenues increased by 12% in 2005, primarily due to a 6% average rate increase and a 10% increase in the student enrollment level to 5,400. The schools received State appropriations of \$255.1 million in 2005, which included \$60.1 million of fringe benefits paid by the State.

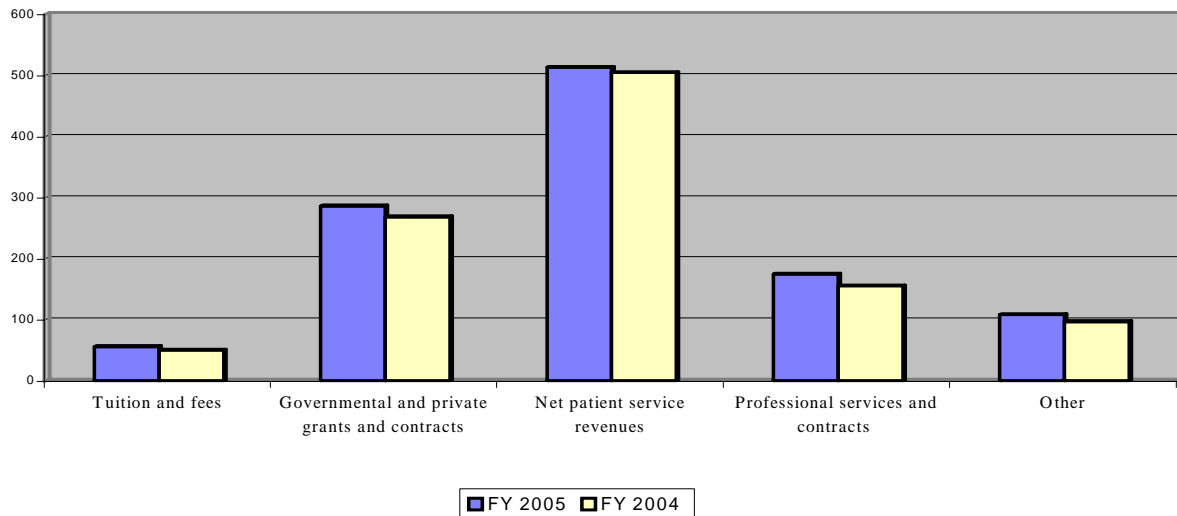
Governmental and private grants and contracts increased by 7% in 2005 to \$286.1 million, primarily due to growth in Federal grants, consistent with the University's goal of increasing its research base.

Net patient service revenues relate to patient care services, which are generated within the University's hospital, behavioral healthcare and cancer activities, under contractual arrangements with governmental payors and private insurers. These revenues increased by 2% in 2005, primarily due to lower bad debt expense and favorable changes in estimates in third party liabilities. The healthcare units received State appropriations of \$170.8 million in 2005, which included \$99.7 million of fringe benefits paid by the State.

Professional services and contracts revenues relate to services provided by the faculty practice plans, and services under training and other contracts. The increase in revenues for 2005 is primarily related to a new contract with the Department of Corrections.

Other revenues included indirect cost recoveries of \$48.4 million in 2005, an increase of 13% from 2004, consistent with the University's goal of increasing its research base.

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



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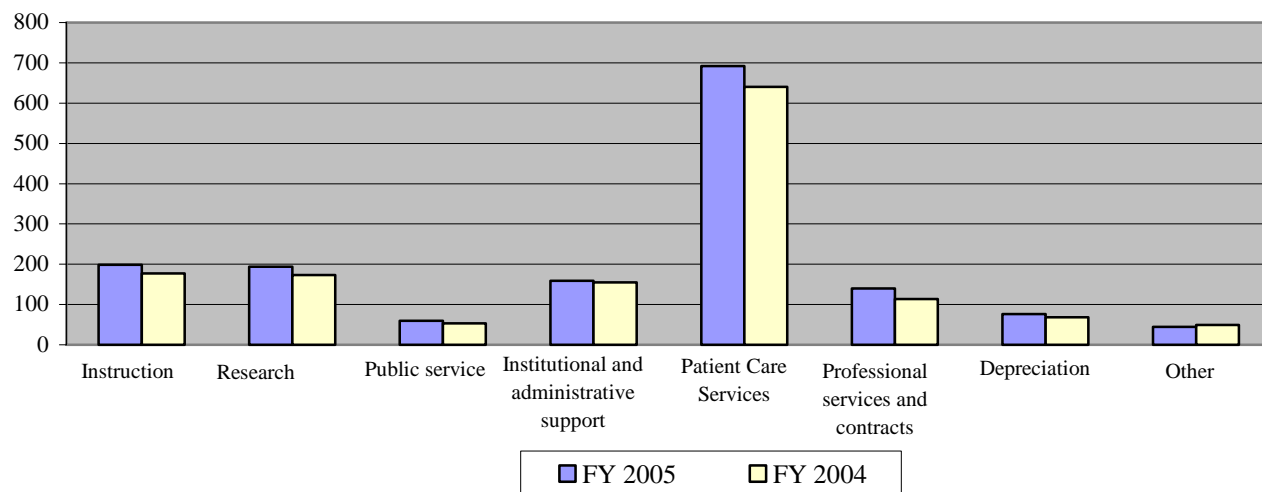
Operating Expenses

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, 2005 and 2004, follows:

<i>(In millions)</i>	2005	2004 (Restated)	Increase (Decrease)
Instruction	\$ 198.7	\$ 177.1	\$ 21.6
Research	193.6	173.5	20.1
Public service	59.6	53.5	6.1
Institutional and administrative support	158.9	154.8	4.1
Patient care services	692.2	640.0	52.2
Professional services and contracts	140.1	113.4	26.7
Depreciation	76.3	68.7	7.6
Other	44.4	49.6	(5.2)
Total	<u>\$ 1,563.8</u>	<u>\$ 1,430.6</u>	<u>\$ 133.2</u>

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



Instruction expense increased by 12% in 2005, due to an increase in faculty costs associated with the growth in enrollment.

Research expense increased by 12% in 2005, consistent with the increase in grants and contracts revenues.

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Patient care services expenses increased by 8% in 2005, due to higher fringe benefit costs and an increase in charity care services.

Professional services and contracts expenses increased by 24% in 2005, primarily related to a new contract with the Department of Corrections.

Capital Assets and Debt Activities

It is the University's objective to manage its financial resources effectively and maintain adequate financial flexibility to access the capital markets as needed. The University maintains debt ratings of A- from Standard and Poor's and Baa1 for its revenue bonds and Baa2 for its certificates of participation from Moody's Investors Service. These ratings reflect downgrades from the rating agencies in 2006, due to concerns about UH's financial performance, the risk of reduced State appropriations due to the State's fiscal issues and the potential financial consequences of recent investigations.

As part of its mission, the University is committed to the expansion and renewal of its capital assets through a \$535.0 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 \$446.0 million through June 30, 2005, and expects to spend approximately \$60.0 million in 2006.

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

Total capital expenditures were \$167.8 million in 2005, as compared to \$171.5 million in 2004. The major capital activities in 2005 were the Child Health Institute of New Jersey in New Brunswick, the Cancer Center, Ambulatory Care Center and University Housing facility on the Newark campus, additional research space in Piscataway and Stratford campuses and other upgrades.

To finance the housing project, the University issued \$87.4 million of certificates of participation in December 2004. There were no new financings in 2006.

As of June 30, 2005, the University had \$1,870.1 million invested in capital assets, which was reduced by \$857.1 million of accumulated depreciation and \$572.5 million of expended debt to determine net assets of \$440.5 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.

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

<i>(In millions)</i>	2005	2004 (Restated)	Increase (Decrease)
Cash (used in) provided by:			
Operating activities	\$ (178.9)	\$ (189.4)	\$ 10.5
Noncapital financing activities	255.4	219.6	35.8
Capital financing activities	(111.3)	(192.3)	81.0
Investing activities	76.9	248.7	(171.8)
Net increase in cash	<u>42.1</u>	<u>86.6</u>	<u>(44.5)</u>
Cash - beginning of year	<u>134.3</u>	<u>47.7</u>	<u>86.6</u>
Cash - end of year	<u><u>\$ 176.4</u></u>	<u><u>\$ 134.3</u></u>	<u><u>\$ 42.1</u></u>

During 2005, the University's cash increased by \$42.1 million, primarily due to the maturity of investments.

Economic Outlook

The financial position of the University related to its academic and research missions remains strong and reflects growth in student demand, enrollment, tuition and research activities. The University expects this growth to continue as evidenced by its capital plan and the debt financing agreements that support it.

State appropriations - operations for the academic activities of the University are expected to remain strong at an estimated level of \$210 million in 2006 and \$200 million in 2007, based upon the final State budgets.

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

Growth in governmental and private grants and contracts is critical to the University's ability to attract faculty and scientists and enhance its academic reputation. Research funds are received from Federal, State and local governments and private sources, which generally provide for the recovery of direct and indirect costs. The University 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.

UH is faced with financial challenges, as its expenses have exceeded its revenues by approximately \$10 million in 2004 (restated) and \$10 million in 2005. Since it is a safety net hospital and has a high level of Medicaid patients, UH must deal with the financial impact of revenue collections and reimbursement issues related to its payors. The level of charity care services and related expenses has been increasing each year to approximately 20% of its patient volumes, while charity care funding from the State has remained at an annual level of approximately \$82 million since 2002.

UH's operating results for 2006 are expected to approximate a \$40 million loss, primarily due to increased costs related to charity care services, supplies and third party liabilities. Charity care funding increased to \$90 million in 2006, and is expected to decrease to \$89 million in 2007 based upon the final State budgets.

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

UH and the University's other healthcare units will continue to address the financial impact of revenue collections and reimbursement issues from governmental and managed care payors. Management believes that much of the payment challenges can be offset by growth in patient volumes and continued efforts to contain growth in expenses.

University Behavioral HealthCare ("UBHC") and the Cancer Institute of New Jersey are expected to maintain financial stability in the future. State appropriations - operations for these units totaled \$44 million in 2005, and are projected to total \$42 million in 2006 and 2007, based upon the final State budgets.

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 \$26 million in 2006.

In 2005, UBHC entered into a contract with the Department of Corrections to provide psychiatric services to inmates in the prisons. As a result of this contract, University Correctional HealthCare, a new unit of the University, has been established for the management of correctional healthcare, while UBHC administers the behavioral healthcare component. Revenues related to this contract in 2005 totaled \$16.9 million and are projected to be \$40 million in 2006.

Management believes that the University has the structure in place to maintain its financial condition and deal with the financial challenges facing UH, 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.

Legal Matters

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

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Matters referenced in the periodic monitor reports have been appropriately investigated and addressed by the University. Where necessary, the University engaged external expertise to assess various healthcare matters and the related liabilities have been reasonably estimated and recorded within the 2004 restated financial statements and the 2005 financial statements.

During 2005 and 2006, the University became aware of Federal and State inquiries and investigations and received subpoenas and other requests for information. The University has cooperated with the agencies and provided the information and data requested. Although the ultimate outcome of these investigations is unknown at this time, management does not believe it will have a material effect on the University's financial position or operating results.

Basic Financial Statements

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

	2005	2004 (Restated)
Assets		
Current assets		
Cash and cash equivalents	\$ 176,445	\$ 134,294
Short-term investments	3,378	1,331
Accounts receivable, net of allowance for doubtful accounts of \$160,875 in 2005 and \$168,213 in 2004	111,156	105,234
Appropriations receivable	3,600	4,500
Other receivables, net of allowance for doubtful accounts of \$6,762 in 2005 and \$3,030 in 2004	59,259	60,920
Grants receivable, net of allowance for doubtful accounts of \$7,583 in 2005 and \$1,506 in 2004	65,996	63,727
Prepaid expenses and other assets	8,123	10,274
Assets held by trustees - current portion	133,210	137,552
Total current assets	<u>561,167</u>	<u>517,832</u>
Noncurrent assets		
Endowment investments	33,836	34,830
Other long-term investments	125,172	186,507
Loans to students, net of allowance for doubtful accounts of \$500 in 2005 and 2004	23,723	26,599
Deferred financing costs	10,629	9,207
Assets held by trustees	51,630	45,912
Capital assets, net	1,013,048	921,607
Total noncurrent assets	<u>1,258,038</u>	<u>1,224,662</u>
Total assets	<u>1,819,205</u>	<u>1,742,494</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	242,043	236,389
Accrued vacation expense	45,766	43,728
Deferred revenues	42,175	40,484
Long-term debt and capital lease obligations - current portion	13,687	15,120
Total current liabilities	<u>343,671</u>	<u>335,721</u>
Noncurrent liabilities		
Deferred compensation trust	374	324
Accrued claims liability	14,498	14,498
Long-term debt and capital lease obligations	713,546	637,962
Total noncurrent liabilities	<u>728,418</u>	<u>652,784</u>
Total liabilities	<u>1,072,089</u>	<u>988,505</u>
Net Assets		
Invested in capital, net of related debt	440,496	417,544
Restricted expendable		
Research and designated	188,543	176,178
Debt service	38,030	31,577
Self-insurance reserve	2,669	731
Capital projects	31,530	62,497
Restricted nonexpendable		
Endowments	42,838	39,837
Loan funds	1,255	1,233
Refundable government student loans	27,457	28,082
Unrestricted	(25,702)	(3,690)
Total net assets	<u>\$ 747,116</u>	<u>\$ 753,989</u>

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

University of Medicine and Dentistry of New Jersey
(A Component Unit of the State of New Jersey)
Statements of Net Assets – Aggregate Discretely Presented Component Units
June 30, 2005 and 2004
(In Thousands)

	2005			2004 (Restated)		
	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total
Assets						
Cash and cash equivalents	\$ 66	\$ 11,515	\$ 11,581	\$ 54	\$ 8,213	\$ 8,267
Cash and cash equivalents whose use is limited	-	5,540	5,540	-	4,624	4,624
Contributions receivable, net	25,344	-	25,344	19,438	-	19,438
Investments	185,628	169	185,797	160,927	132	161,059
Physician reserve fund	-	686	686	-	675	675
Other assets	495	520	1,015	255	305	560
Furniture and equipment, net	210	1,384	1,594	-	1,286	1,286
Total assets	<u>\$ 211,743</u>	<u>\$ 19,814</u>	<u>\$ 231,557</u>	<u>\$ 180,674</u>	<u>\$ 15,235</u>	<u>\$ 195,909</u>
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 1,315	\$ 407	\$ 1,722	\$ 702	\$ 333	\$ 1,035
Grants payable	45,475	-	45,475	34,430	-	34,430
Payable to NJMS department funds	-	3,105	3,105	-	1,750	1,750
Payable to NJMS dean's funds	-	6,385	6,385	-	5,321	5,321
Payable to physician reserve fund	-	664	664	-	664	664
Payable to physician overhead funds	-	468	468	-	372	372
Payable to participant division fund	-	11,055	11,055	-	10,132	10,132
Funds held in custody for others	585	-	585	-	-	-
Total liabilities	<u>47,375</u>	<u>22,084</u>	<u>69,459</u>	<u>35,132</u>	<u>18,572</u>	<u>53,704</u>
Net Assets						
Board designated - unrestricted	51,322	(2,270)	49,052	48,882	(3,337)	45,545
Temporarily restricted	20,014	-	20,014	15,543	-	15,543
Permanently restricted	93,032	-	93,032	81,117	-	81,117
Total net assets	<u>164,368</u>	<u>(2,270)</u>	<u>162,098</u>	<u>145,542</u>	<u>(3,337)</u>	<u>142,205</u>
Total liabilities and net assets	<u>\$ 211,743</u>	<u>\$ 19,814</u>	<u>\$ 231,557</u>	<u>\$ 180,674</u>	<u>\$ 15,235</u>	<u>\$ 195,909</u>

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

University of Medicine and Dentistry of New Jersey
(A Component Unit of the State of New Jersey)
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2005 and 2004
(In Thousands)

	2005	2004 (Restated)
Operating revenues		
Tuition and fees	\$ 55,863	\$ 50,007
Governmental grants and contracts	229,593	210,101
Private grants and contracts	56,479	58,023
Net patient service revenues	512,887	504,130
Professional services and contracts	174,536	155,145
Auxiliary sales and services	17,013	16,154
Indirect cost recoveries	48,414	42,738
Other operating revenues	42,907	37,719
Total operating revenues	1,137,692	1,074,017
Operating expenses		
Instruction	198,678	177,116
Research	193,553	173,456
Public service	59,571	53,522
Academic and student support	22,526	22,567
Institutional and administrative support	112,545	98,946
Patient care services	692,172	640,000
Professional services and contracts	140,112	113,352
Operation and maintenance of plant	46,341	55,861
Insurance	5,790	11,792
Depreciation	76,327	68,668
Auxiliary enterprises and other	16,210	15,341
Total operating expenses	1,563,825	1,430,621
Operating loss	(426,133)	(356,604)
Nonoperating revenues (expenses)		
State appropriations - operations	266,118	223,906
Fringe benefits paid by the State	159,789	104,077
Miscellaneous grants and gifts	3,809	8,443
Investment income	12,616	13,109
Unrealized appreciation (depreciation) on investments	5,029	(7,826)
Interest expense	(21,871)	(22,866)
Other	(10,255)	(6,161)
Total nonoperating revenues, net	415,235	312,682
State appropriations - capital	4,025	15,030
Decrease in net assets	(6,873)	(28,892)
Net assets - beginning of year as previously reported	753,989	863,263
Restatement (Note 14)	-	(80,382)
Net assets - beginning of year as restated	753,989	782,881
Net assets - end of year	\$ 747,116	\$ 753,989

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

University of Medicine and Dentistry of New Jersey

(A Component Unit of the State of New Jersey)

Statements of Revenues, Expenses and Changes in Net Assets – Aggregate Discretely Presented Component Units

Years Ended June 30, 2005 and 2004

(In Thousands)

	2005			2004 (Restated)		
	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total	New Jersey Health Foundation, Inc.	University Physician Associates of New Jersey, Inc.	Total
Revenue and gains						
Contributions, net	\$ 31,626	\$ -	\$ 31,626	\$ 20,031	\$ -	\$ 20,031
Net physician billings	-	73,733	73,733	-	64,428	64,428
Net unrealized and realized gains on investments	14,484	37	14,521	17,888	(1)	17,887
Interest and dividend income	1,934	-	1,934	2,338	-	2,338
Investment management & cost recovery fees	(2,715)	-	(2,715)	(1,610)	-	(1,610)
Other revenues, net	545	330	875	640	470	1,110
Total revenue and gains	45,874	74,100	119,974	39,287	64,897	104,184
Expenses						
Grants	24,452	-	24,452	22,617	-	22,617
Distributions to UPA physicians	-	26,194	26,194	-	23,601	23,601
Distributions to NJMS department funds	-	6,907	6,907	-	5,906	5,906
Distributions to participant division fund	-	16,412	16,412	-	12,793	12,793
Distributions to NJMS dean's fund	-	5,079	5,079	-	4,386	4,386
Distributions to UMDNJ medical malpractice fund	-	2,199	2,199	-	1,904	1,904
Distributions to physician fund	-	-	-	-	226	226
Fund raising	1,615	-	1,615	1,539	-	1,539
General and administrative	981	16,242	17,223	723	15,667	16,390
Total expenses	27,048	73,033	100,081	24,879	64,483	89,362
Increase in net assets	18,826	1,067	19,893	14,408	414	14,822
Net assets - beginning of year	145,542	(3,337)	142,205	131,134	(3,751)	127,383
Net assets - end of year	\$ 164,368	\$ (2,270)	\$ 162,098	\$ 145,542	\$ (3,337)	\$ 142,205

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

University of Medicine and Dentistry of New Jersey
(A Component Unit of the State of New Jersey)
Consolidated Statements of Cash Flows
Years Ended June 30, 2005 and 2004
(In Thousands)

	2005	2004 (Restated)
Cash flows from operating activities		
Tuition and fees	\$ 55,514	\$ 50,291
Research grants and contracts	282,905	273,648
Services to patients	501,160	492,901
Professional services and contracts	180,340	157,434
Other receipts	133,104	102,501
Payments to employees	(869,204)	(788,645)
Payments to vendors	(462,686)	(477,499)
Net cash used in operating activities	<u>(178,867)</u>	<u>(189,369)</u>
Cash flows from noncapital financing activities		
State appropriations	267,018	219,407
Loans to students	(6,870)	(8,884)
Loan repayments from students	6,310	6,256
Affiliate contributions, net of transfers to the State	7,725	6,373
Other payments	(18,784)	(3,560)
Net cash provided by noncapital financing activities	<u>255,399</u>	<u>219,592</u>
Cash flows from capital financing activities		
Proceeds from issuance of capital debt	89,698	299
Capital grants received	5,511	17,070
Purchases of capital assets	(168,159)	(173,961)
Principal payments on debt and capital lease obligations	(17,013)	(12,877)
Interest payments on debt and capital lease obligations	(21,319)	(22,897)
Net cash used in capital financing activities	<u>(111,282)</u>	<u>(192,366)</u>
Cash flows from investing activities		
Deposits with assets held by trustees	(87,508)	-
Receipts from assets held by trustees	86,132	93,985
Proceeds from sales and maturities of investments	66,376	235,291
Purchases of investments	(1,932)	(91,682)
Interest on investments	13,833	11,114
Net cash provided by investing activities	<u>76,901</u>	<u>248,708</u>
Net increase in cash and cash equivalents	42,151	86,565
Cash and cash equivalents - beginning of year	<u>134,294</u>	<u>47,729</u>
Cash and cash equivalents - end of year	<u>\$ 176,445</u>	<u>\$ 134,294</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (426,133)	\$ (356,604)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Fringe benefits paid by the State	159,789	104,077
Depreciation expense	76,327	68,668
Provision for bad debts	100,975	117,859
Change in assets and liabilities		
Receivables, net	(105,205)	(129,702)
Prepaid expenses and other assets	1,797	(1,036)
Accounts payable and accrued expenses	11,892	5,075
Deferred revenues	1,691	2,294
Net cash used in operating activities	<u>\$ (178,867)</u>	<u>\$ (189,369)</u>

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

University of Medicine and Dentistry of New Jersey
(A Component Unit of the State of New Jersey)
Notes to Consolidated Financial Statements
June 30, 2005 and 2004
(Dollar Amounts in Thousands)

1. Organization

The University of Medicine and Dentistry of New Jersey, a component unit of the State 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 (“NJMS”)
- UMDNJ-Robert Wood Johnson Medical School
- UMDNJ-School of Osteopathic Medicine
- UMDNJ-New Jersey Dental School
- UMDNJ-Graduate School of Biomedical Sciences
- UMDNJ-School of Health Related Professions
- UMDNJ-School of Nursing
- UMDNJ-School of Public Health

University Health Care Units:

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

Faculty Practice Plans:

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

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Lease Holding Corporation:

- University Care Corporation (“UCC”)

The consolidated financial statements include the schools of the University, University Health Care Units, Faculty Practice Plans, and the Lease Holding Corporation. All significant intercompany accounts and transactions have been eliminated.

In 2005, UBHC entered into a contract with the Department of Corrections to provide psychiatric services to inmates in the prisons. As a result of this contract, University Correctional HealthCare, a new unit of the University, has been established for the management of correctional healthcare, while UBHC administers the behavioral healthcare component of this contract.

In 2004, the University implemented Government 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 organizations as component units in their financial statements; and how such component units should be displayed in the basic financial statements.

Prior to 2004, the University had no component units, as defined by GASB Statement No. 14. However, under GASB 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 the aggregate discretely presented component units as separate statements within the basic financial statements because of the differences in its reporting model, as described in Note 2.

During 2005 and 2004, the Foundation distributed \$24,452 and \$22,617, 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., 120 Albany Street, Tower II, Suite 850, New Brunswick, New Jersey 08901-9888.

The Faculty Practice Plan for the UMDNJ-New Jersey Medical School - University Physician Associates of New Jersey, Inc. (“UPA”) is a separate nonprofit organization. Although UPA met the criteria qualifying it as a component unit of the University, its financial statements were not included in the 2004 basic financial statements of the University as they were not material to the University’s consolidated financial statements. However, as part of the restatement of the University’s 2004 financial statements, UPA is included as a component unit in the 2004 restated financial statements and in the 2005 financial statements. UPA’s results are reported in the aggregate discretely presented component units as separate statements within the basic financial statements because of the differences in its reporting model, as described in Note 2.

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During 2005 and 2004, UPA distributed \$14,185 and \$12,196, respectively, to NJMS, which included contributions towards the medical malpractice fund. Separate financial statements for UPA can be obtained by writing to the Executive Director/Chief Executive Officer, University Physician Associates of New Jersey, Inc., 30 Bergen Street, ADMC 12, Room 1205, Newark, New Jersey 07107.

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

Basis of Accounting

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

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

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and accompanying notes. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include contractual allowances and allowances for doubtful accounts for patient accounts receivable, reserves for other and grants receivables, estimated liabilities to third party payors and accrued claims liability.

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In 2005, the University recognized revenue of approximately \$9,100 as a result of changes in estimates of contractual allowances and the allowances for doubtful accounts due to refinement of the valuation of patient accounts receivable. In 2005, the University recognized expense of approximately \$5,900 as a result of changes in estimates of the allowance for doubtful accounts of grants receivable.

Cash and Cash Equivalents

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

Investments

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

Other Receivables

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

Contributions Receivable - New Jersey Health Foundation, Inc.

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

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

	2005	2004
One year or less	\$ 11,174	\$ 15,228
One year to five years	15,221	5,529
Present value discount at 3%	(1,051)	(1,319)
	<u>\$ 25,344</u>	<u>\$ 19,438</u>

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Inventories

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

Endowments

Endowment investments are subject to the restriction of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. University's management has the authority to utilize investment income and realized gains from donor-restricted endowments, in accordance with the terms of each specific gift as approved by the Board of Trustees. Included in endowment investments is net realized appreciation of \$10,721 on donor-restricted endowments as of June 30, 2005 and 2004, respectively. The unrealized net appreciation and depreciation on endowment investments are included within the consolidated statements of revenues, expenses and changes in net assets and are included in restricted nonexpendable net assets. It is the University's policy not to spend the endowment appreciation. Quasi-endowments recorded within endowment investments in the consolidated financial statements have been established by the Board of Trustees for the same purposes as the endowment investments. However, the University is not restricted as to the use of principal and income generated from these investments.

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 (see Note 5).

Capital Assets

Capital assets are stated at cost, or at fair market value at acquisition in the case of donated assets. Major renewals and improvements are capitalized while maintenance repairs are expensed when incurred. Depreciation is provided on a straight-line basis over the shorter of the estimated useful lives of the related assets or lease terms, ranging from 2 to 40 years. Amortization of assets recorded under capital leases is included with depreciation expense in the financial statements. Gains and losses resulting from the retirement of capital assets are included in the results of operations.

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 of 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 in 2005 and 2004.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain various capital financings and are amortized over the term of the related debt using the effective interest method or the straight-line method when not materially different. Deferred financing costs totaled \$10,629 and \$9,207, net of accumulated amortization of \$1,847 and \$1,443 as of June 30, 2005 and 2004, 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.

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Accrued Claims Liability

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

Grants Payable – New Jersey Health Foundation, Inc.

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

Net Assets

Net assets of the University are classified in four components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the University, including amounts deposited with trustees as required by revenue bond indentures, as discussed in Note 8. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *net assets invested in capital assets, net of related debt* or *restricted*.

Operating Revenues and Expenses

The University's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare, education and research services which are the University's principal activities. Nonexchange revenues, including State appropriations (excluding amounts related to capital), miscellaneous gifts and grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provided healthcare, education and research services, other than financing costs.

Net Patient Service Revenues and Patient Accounts Receivable

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

Professional Services and Contracts Revenues

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

Capitalized Interest Costs

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

New Authoritative Pronouncements

In 2005, the University implemented GASB Statement No. 40, *Deposits and Investment Risk Disclosure* – an amendment of GASB Statement No. 3. This Statement requires disclosure on

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common deposit and various investment risks, investment maturity dates, investments that are highly sensitive to changes in interest rates and the University's policies relating to these risks. The provisions of this Statement are effective for financial periods beginning after June 15, 2004. The implementation of GASB Statement No. 40 had no effect on the University's net assets or changes in net assets for the years ended June 30, 2005 and 2004, respectively.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss. It is not expected that Statement No. 42 will have a material impact to the consolidated financial statements.

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

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 47 requires benefits such as early retirement incentives or severance to employees who are involuntarily terminated to be recognized in the period the University becomes obligated to provide the benefits. Benefits provided to employees who voluntarily terminate must be recognized when the termination offer is accepted. It is not expected that Statement No. 47 will have a material impact to the consolidated financial statements.

3. Tuition and Fees

Tuition and fees revenues are accounted for on the accrual basis of accounting and are reported net of allowances. Scholarship allowances are the estimated difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Scholarship allowances totaled \$4,663 and \$4,676 in 2005 and 2004, respectively.

4. Healthcare Reimbursement System

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

- Medicare – inpatient acute care services and most outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The University is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of the annual cost report by the University and audits thereof by the Medicare fiscal intermediary. The University's classification of patients under the

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Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the University. The University's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2003.

- Medicaid – inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid based upon a cost reimbursement methodology and certain services are paid based on a Medicaid fee schedule. The University is paid for reimbursable costs at a tentative rate with final settlement determined after submission of the annual cost report by the University and audit thereof by the Medicaid fiscal intermediary. The University's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through June 30, 2003.

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

Revenues received under the various reimbursement systems and agreements are subject to audit and adjustment. Accordingly, provisions for estimated adjustments resulting from audit, final settlement and changes in estimates have been recorded. Differences between the provisions and the amounts settled are recorded in the year of settlement. The University recognized revenues in 2005 and 2004 of approximately \$19,000 and \$11,300, respectively, as a result of changes in estimated third party liabilities.

During 2005, the University became aware of errors in its filed Medicare and Medicaid cost reports for years 2000 through 2005, which resulted in a liability to Medicare and Medicaid totaling \$57,662 and \$47,707 as of June 30, 2005 and 2004, respectively (see Note 14). The University does not believe that any penalties and interest will be assessed, and accordingly, has not accrued an estimate for interest and penalties as of June 30, 2005 and 2004. The University has self disclosed to the Centers for Medicare and Medicaid Services ("CMS") and the related fiscal intermediary this error and CMS has issued a notice of intent to re-open cost reports for 2001 through 2003. Although the ultimate outcome of CMS's audit of the 2001-2003 cost reports is unknown at this time, management believes it has appropriately accrued for the amounts owed to Medicare and Medicaid and that any additional adjustments that may arise from these audits will not have a material effect on the University's financial position or operating results.

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 (see Note 13).

UH and UBHC provide care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services and the Department of Human Services without charge or at amounts less than their established rates. These units maintain records to identify and monitor the level of charity care they provide, which include the amount of gross charges foregone for services and supplies furnished. Gross charges related to charity care totaled \$353,312 and

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\$292,645 in 2005 and 2004, 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,	
	2005	2004
		(Restated)
Gross charges	\$ 1,759,918	\$ 1,558,177
Net additions (deductions) from gross patient service revenues		
Health Care Subsidy Fund payments		
Charity care	82,570	80,220
Hospital relief	17,354	19,129
Contractual and other allowances	(1,263,481)	(1,060,933)
Provision for bad debts	(83,474)	(92,463)
Subtotal	<u>(1,247,031)</u>	<u>(1,054,047)</u>
Net patient service revenues	<u>\$ 512,887</u>	<u>\$ 504,130</u>

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

Cash on deposit, which is included in cash and cash equivalents in the consolidated financial statements, is \$11,956 and \$6,594 as of June 30, 2005 and 2004, respectively, and is partially insured by Federal Deposit Insurance Corporation in the amount of \$100 in each depository. Balances above the Federal Deposit Insurance Corporation amount are insured by the Government Unit Deposit Protection Act, which insures all New Jersey government units' deposits in excess of Federal Deposit Insurance Corporation maximums.

Investments consist of the following:

	Cost	Market Value	Unrealized (Losses) Gains
June 30, 2005			
U.S. agencies	\$ 129,113	\$ 128,519	\$ (594)
Common stock	624	19,992	19,368
Corporate bonds	13,000	13,499	499
Mutual funds	349	376	27
	<u>\$ 143,086</u>	<u>\$ 162,386</u>	<u>\$ 19,300</u>
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>

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Included in investments and cash and cash equivalents are assets totaling \$376 and \$325 related to the deferred compensation trust as of June 30, 2005 and 2004, 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.

Investment maturities consist of the following:

	Market Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
June 30, 2005					
U.S. agencies	\$ 128,519	\$ -	\$ 28,614	\$ 88,513	\$ 11,392
Corporate bonds	13,499	3,002	5,058	5,439	-
Mutual funds	376	376	-	-	-
	<u>\$ 142,394</u>	<u>\$ 3,378</u>	<u>\$ 33,672</u>	<u>\$ 93,952</u>	<u>\$ 11,392</u>
June 30, 2004					
U.S. agencies	\$ 188,738	\$ -	\$ 20,825	\$ 144,251	\$ 23,662
Corporate bonds	16,562	3,017	8,282	5,263	-
Mutual funds	325	325	-	-	-
	<u>\$ 205,625</u>	<u>\$ 3,342</u>	<u>\$ 29,107</u>	<u>\$ 149,514</u>	<u>\$ 23,662</u>

Assets held by trustees consist of the following:

	Cost	Market Value	Unrealized Gains (Losses)
June 30, 2005			
U.S. treasuries	\$ 11,359	\$ 11,442	\$ 83
U.S. agencies	24,895	24,886	(9)
Commercial paper	7,059	7,058	(1)
Repurchase agreements	95,949	95,949	-
Cash management funds	44,222	44,222	-
Accrued interest	1,283	1,283	-
	<u>\$ 184,767</u>	<u>\$ 184,840</u>	<u>\$ 73</u>
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>

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Assets held by trustees maturities consist of the following:

	Market Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
June 30, 2005					
U.S. treasuries	\$ 11,442	\$ 1,344	\$ 10,098	\$ -	\$ -
U.S. agencies	24,886	24,886	-	-	-
Commercial paper	7,058	7,058	-	-	-
Repurchase agreements	95,949	62,694	6,635	6,777	19,843
Cash management funds	44,222	44,222	-	-	-
Accrued interest	1,283	1,283	-	-	-
	<u>\$ 184,840</u>	<u>\$ 141,487</u>	<u>\$ 16,733</u>	<u>\$ 6,777</u>	<u>\$ 19,843</u>
June 30, 2004					
U.S. treasuries	\$ 11,425	\$ 7,018	\$ 4,407	\$ -	\$ -
U.S. agencies	66,852	66,852	-	-	-
Commercial paper	14,564	14,564	-	-	-
Repurchase agreements	27,781	-	1,161	6,777	19,843
Cash management funds	62,752	62,752	-	-	-
Accrued interest	90	90	-	-	-
	<u>\$ 183,464</u>	<u>\$ 151,276</u>	<u>\$ 5,568</u>	<u>\$ 6,777</u>	<u>\$ 19,843</u>

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

Investment income consists of the following:

	2005	2004
Interest income	\$ 12,239	\$ 15,918
Loss on sale of investments	-	(3,132)
Dividend income	377	323
	<u>\$ 12,616</u>	<u>\$ 13,109</u>

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Interest Rate Risk

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

Interest rates on investments consist of the following as of June 30:

	2005	2004
U.S. agencies	3.03% - 5.75%	3.00% - 5.70%
Corporate bonds	6.13% - 6.13%	6.13% - 6.13%

Interest rates on assets held by trustees consist of the following as of June 30:

	2005	2004
U.S. treasuries	2.00% - 6.50%	1.25% - 6.50%
U.S. agencies	2.13% - 2.13%	1.08% - 4.60%
Commercial paper	0.11% - 3.95%	4.76% - 4.76%
Repurchase agreements	2.50% - 7.80%	2.50% - 7.80%
Cash management funds	0.75% - 3.00%	0.22% - 1.01%

Credit Risk

The University's policy limits investments in corporate bonds to the top rating issued by nationally recognized statistical rating organizations. As of June 30, 2005 and 2004, respectively, investments in corporate bonds were rated A1 by Standard and Poor's and P1 by Moody's Investors Service. Mutual bond fund investments are not rated.

Concentration of Credit Risk

The University's investment policy places no limits on the amount that may be invested in U.S. Government securities. However, holdings other than U.S. Government securities, must be diversified so as to limit concentration in any single obligor, industry or geographic area. Investment of corporate bonds and commercial paper must be in U.S. corporations. More than 5% of investments are in U.S. agencies securities, specifically Federal National Mortgages Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and Federal Farm Credit Bank. These entities are not agencies of the United States government nor are their securities guaranteed by the United States government.

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

Investments are carried in the financial statements at fair value, based upon quoted market values or investment advisors, and consist of the following as of June 30:

	2005	2004
Money market funds	\$ 33,846	\$ 25,280
Bonds and Notes	26,529	25,273
Equity		
Large-mid cap	61,647	55,044
Small cap	19,934	19,431
International	17,496	15,663
Alternative investments	26,176	20,236
	<u>\$ 185,628</u>	<u>\$ 160,927</u>

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

6. Capital Assets

The historical cost of capital assets and capital asset activities for the years ended June 30, 2005 and 2004 are as follows:

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

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	June 30, 2003	Additions	Retirements/ Capitalization	June 30, 2004 (Restated)
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
	<u>1,331,046</u>	<u>213,757</u>	<u>(4,220)</u>	<u>1,540,583</u>
Accumulated depreciation				
Land improvements	(4,337)	(98)	-	(4,435)
Buildings and leasehold improvements	(350,654)	(27,677)	-	(378,331)
Equipment	(347,632)	(39,794)	4,098	(383,328)
Investment in joint ventures	(19,043)	(1,099)	-	(20,142)
	<u>(721,666)</u>	<u>(68,668)</u>	<u>4,098</u>	<u>(786,236)</u>
Non-depreciable assets				
Land	11,832	271	-	12,103
Construction in progress	197,643	169,158	(211,644)	155,157
	<u>\$ 818,855</u>	<u>\$ 314,518</u>	<u>\$ (211,766)</u>	<u>\$ 921,607</u>

The University and Rutgers, the State University of New Jersey, participate in an unincorporated joint venture agreement that manages two major research facilities, the Environmental and Occupational Health Sciences Institute and the Center for Advanced Biotechnology and Medicine. The University has acquired certain fixed assets relating to the joint ventures totaling \$35,532 and \$35,554 as of June 30, 2005 and 2004, respectively. Total accumulated depreciation related to these assets was \$21,240 and \$20,142 as of June 30, 2005 and 2004, respectively.

Included in the University's capital asset balances are assets acquired under capital leases totaling \$113,318 and \$113,282 as of June 30, 2005 and 2004, respectively. Total accumulated depreciation related to these assets was \$24,560 and \$17,645 as of June 30, 2005 and 2004, respectively.

Included in the University's construction in progress are capitalized interest costs of \$5,127 and \$4,349 as of June 30, 2005 and 2004, respectively. These amounts consists of \$5,443 and \$2,654 in interest income and \$10,570 and \$7,003 in interest expense as of June 30, 2005 and 2004, respectively.

7. Self-Insurance Reserve Fund

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

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Payments of claims from the Fund totaled \$23,790 and \$27,599 in 2005 and 2004, respectively. Contributions to the Fund from the University's affiliates totaled \$7,525 and \$6,500 in 2005 and 2004, respectively. State contributions, including receivables to the Fund, totaled \$18,000 and \$16,500 in 2005 and 2004, respectively. Net assets in the Fund amounted to \$2,669 and \$731 as of June 30, 2005 and 2004, respectively.

8. Long-Term Debt and Capital Lease Obligations

As of June 30, 2005 and 2004, long-term debt, including bonds, which are all collateralized by certain University revenues, consists of the following:

	2005	2004
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 \$77,140 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.	\$ 114,710	\$ 123,225
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 \$3,250 bearing interest at rates of 4.4%-5.5% are payable in equal installments of interest and principal through 2013; \$11,165 of 5.2% term bonds are due through 2029.	14,415	14,700
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	219,775
University of Medicine and Dentistry of New Jersey Variable Rate Demand Bonds 2002 Series B of May 2002 issued in the amount of \$95,025. The bonds are payable in installments of interest and principal from 2022 through 2032. As of June 30, 2005, the interest rate on the bonds was 1.8%.	95,025	95,025
University of Medicine and Dentistry of New Jersey		
Certificates of Participation, Series 2003 (1)	57,700	57,925
Certificates of Participation, Series 2004 (2)	87,440	-
Certificates of Participation, Series D (3)	4,465	5,190
Capitalized building leases (4)	64,794	65,854
Capitalized equipment leases (5)	278	2,296
Capital improvement fund obligation (6)	27,608	28,697
Equipment leasing fund obligation (7)	1,411	1,837
Mortgages payable (8)	318	344
Notes payable (9)	700	700
University Care Corporation		
University Lease Revenue Certificates, Series 2001A (10)	35,650	36,400
	<u>724,289</u>	<u>651,968</u>
Unamortized bond premium	2,944	1,114
	<u>\$ 727,233</u>	<u>\$ 653,082</u>

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- (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 \$24,710 bearing interest at rates of 2.5% - 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 December 2004, the University entered into a Master Lease Agreement whereby the University issued \$87,440 under Series 2004 Certificates of Participation for the facilities construction of the University Housing building located in Newark. Serial certificates in the amount of \$35,475 bearing interest at rates of 2.8% - 5.3% are payable in equal installments of interest and principal through 2024; \$51,965 of 5.0% term certificates are due through 2036.
- (3) In November 1989, the University entered into a Master Lease Agreement whereby the University borrowed \$26,270 under Series D Certificates of Participation for facilities acquisition. The term certificates of \$4,465 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.
- (4) 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%.

- (5) The University entered into several capital lease purchase agreements for equipment for UH, which require an annual payment of \$311 to \$516 through 2005, with effective interest rates ranging from 6.18% to 6.45%.
- (6) 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. Annual payments totaling \$27,608 of equal installments of interest and principal are due through 2020.
- (7) 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.

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- (8) 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.
- (9) 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.
- (10) In May 2001, the UCC entered into a lease agreement whereby it issued Tax Exempt Lease Revenue Certificates, Select Auction Variable Rate Securities, in the amount of \$37,650 for construction of the UBHC building. Title to the facility rests with the University and the lease is collateralized by all available University revenues. Lease payments totaling \$35,650, bearing an interest rate of 4.88%, will be made through June 2031.

The University has an unsecured line of credit with a bank in the amount of \$20,000 that expires on December 31, 2006, 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 2005 and 2004.

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

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

Year Ending June 30,	Principal	Interest	Total Payments
2006	\$ 12,293	\$ 28,216	\$ 40,509
2007	15,386	27,550	42,936
2008	14,592	26,898	41,490
2009	14,461	26,130	40,591
2010	15,248	25,476	40,724
2011-2015	78,188	117,049	195,237
2016-2020	95,762	95,444	191,206
2021-2025	131,332	68,972	200,304
2026-2030	167,550	40,563	208,113
2031-2035	102,520	10,146	112,666
2036	11,885	594	12,479
	<u>659,217</u>	<u>467,038</u>	<u>1,126,255</u>
Plus: Unamortized bond premium	2,944	-	2,944
	<u>\$ 662,161</u>	<u>\$ 467,038</u>	<u>\$ 1,129,199</u>

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Capital lease payments are as follows:

Year Ending June 30,	Principal	Interest	Total Payments
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	1,525	3,355	4,880
2011-2015	9,427	15,468	24,895
2016-2020	14,409	12,366	26,775
2021-2025	15,156	8,033	23,189
2026-2030	12,960	4,325	17,285
2031-2035	6,340	576	6,916
	<u>\$ 65,072</u>	<u>\$ 58,233</u>	<u>\$ 123,305</u>

Current long-term debt and capital lease obligations activity for the years ended June 30, 2005 and 2004 are as follows:

	June 30, 2004	Additions	Reductions	June 30, 2005	Amounts Due Within One Year
Bonds and notes payable					
Revenue bonds	\$ 481,422	\$ -	\$ (9,889)	\$ 471,533	\$ 10,217
Certificates of participation	101,352	87,440	(2,126)	186,666	2,047
Mortgages payable	344	-	(26)	318	29
Notes payable	700	-	-	700	-
Unamortized bond premium	1,114	1,894	(64)	2,944	-
	<u>584,932</u>	<u>89,334</u>	<u>(12,105)</u>	<u>662,161</u>	<u>12,293</u>
Capital lease obligations					
Building leases	65,854	-	(1,060)	64,794	1,116
Equipment leases	2,296	-	(2,018)	278	278
	<u>\$ 653,082</u>	<u>\$ 89,334</u>	<u>\$ (15,183)</u>	<u>\$ 727,233</u>	<u>\$ 13,687</u>

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	June 30, 2003	Additions	Reductions	June 30, 2004	Amounts Due Within One Year
Bonds and notes payable					
Revenue bonds	\$ 490,040	\$ -	\$ (8,618)	\$ 481,422	\$ 9,889
Certificates of participation	102,988	-	(1,636)	101,352	2,127
Mortgages payable	-	454	(110)	344	26
Notes payable	700	-	-	700	-
Unamortized bond premium	1,145	-	(31)	1,114	-
	<u>594,873</u>	<u>454</u>	<u>(10,395)</u>	<u>584,932</u>	<u>12,042</u>
Capital lease obligations					
Building leases	66,865	-	(1,011)	65,854	1,060
Equipment leases	3,897	-	(1,601)	2,296	2,018
	<u>\$ 665,635</u>	<u>\$ 454</u>	<u>\$ (13,007)</u>	<u>\$ 653,082</u>	<u>\$ 15,120</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 \$43,000 in 2005 and \$38,800 in 2004 and is reflected in the consolidated statements of revenues, expenses and changes in net assets as fringe benefits paid by the State. The University has no direct pension obligation associated with the State plans and no liability for such costs has been reflected in the consolidated financial statements.

Total payroll of the University’s plan participants was \$690,299 and \$624,822 for 2005 and 2004, 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.

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Contributions to ABP were as follows:

	Year Ended June 30,	
	2005	2004
Employee contributions	\$ 24,363	\$ 21,854
Employer contributions (paid by the State)	38,318	34,481
Basis for determining contributions - participating employee salaries	478,969	431,006

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.

Contributions—Covered University employees were required by PERS to contribute 5% and 3.0% of their annual compensation during 2005 and 2004, 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,	
	2005	2004
Employee contributions	\$ 10,900	\$ 6,302
Employer contributions (paid by the State)	4,692	4,358
Employer contributions as a percentage of salary expense	2%	2%
Basis for determining contributions - participating employee salaries	211,330	193,816

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10. Concentration of Credit Risk

The healthcare units of the University extend credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. Gross accounts receivable as of June 30, 2005 and 2004 are due from the following payors:

	2005	2004
Medicare and Medicaid	38%	41%
Blue Cross	1%	1%
Other third-party payors	31%	27%
Self-pay patients	30%	31%
	<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, 2005, the carrying amount and fair value of the bonds were approximately \$668,645 and \$697,905, respectively. As of June 30, 2004 the carrying amount and fair value of the bonds were approximately \$591,535 and \$610,432, respectively.

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

12. Commitments and Contingencies

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

As of June 30, 2005 and 2004, the University had several major construction contracts in process for construction and renovation projects in the amounts of \$405,868 and \$332,515, respectively. As of June 30, 2005 and 2004, costs of \$283,475 and \$217,560, respectively, have been incurred under these contracts.

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

Year Ending June 30,	
2006	\$ 9,313
2007	7,604
2008	4,480
2009	3,104
2010	2,004
2011-2015	9,324
2016-2020	9,018
2021-2025	7,661
2026-2030	6,685
2031-2035	2,890
2036-2040	360
2041-2045	144
	<u>\$ 62,587</u>

Total rent expense for all operating leases was \$9,444 and \$8,867 in 2005 and 2004, 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, 2005 and 2004, 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 provided access to stand-by letters of credit totaling \$4,500. In 2004, one letter was amended downward by \$700. As of June 30, 2005 and 2004, \$3,800 was drawn on the letters of credit. The University reserved the entire \$3,800 in 2005 as collection was deemed unlikely.

13. Legal Matters

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

Matters referenced in the periodic monitor reports have been appropriately investigated and addressed by the University. Where necessary, the University engaged external expertise to assess various healthcare matters and the related liabilities have been reasonably estimated and recorded within the 2004 restated financial statements and the 2005 financial statements.

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During 2005 and 2006, the University became aware of Federal and State inquiries and investigations and received subpoenas and other requests for information. The University has cooperated with the agencies and provided the information and data requested. Although the ultimate outcome of these investigations is unknown at this time, management does not believe it will have a material effect on the University's financial position or operating results.

14. Restatement of 2004 Financial Statements

In 2005, the University became aware of several errors that had occurred in 2004 and prior years related to amounts due to third party payors (included within accounts payable and accrued expenses), appropriations receivable, capital assets, cash flows, other receivables and component units as described below:

Subsequent to the filing of UH's Medicare and Medicaid cost reports for 2000-2004, the University became aware of errors in the cost reports that resulted in over reimbursement to the University due to the inclusion of expenditures deemed to be unallowable. As a result of the errors, the University was required to record an obligation to these third parties to repay over reimbursed amounts for 2000-2004. The 2004 adjustment to recognize this liability, including the adjustment to beginning unrestricted net assets of \$35,215, totaled \$47,707.

Upon adoption in 1983 of FASB Statement No. 43, "Accounting for Compensated Absences", the University recorded a State appropriations receivable to fund its compensated absences liability for vacation pay. Annually, the receivable was identified, reported to the State and adjusted to equal the vacation pay liability. Upon adoption in 2001 of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", the University should have eliminated the receivable, since GASB Statement No. 33 precluded the University from recognizing contingent future appropriations unless the State specifically appropriated funds for the vacation pay liability. The 2004 adjustment to correct this item, including the adjustment to beginning net assets of \$35,548, totaled \$38,228. This adjustment included a reclassification of \$5,500 of appropriations receivable to grants receivable for the vacation accrual for employees covered by Federal and State grants.

During 2005, the University completed an inventory of its capital assets and reconciled the results of the inventory to its records. The University determined that certain capital assets related to projects put into service had not been depreciated and that certain costs related to capital projects had been inappropriately capitalized. The 2004 adjustment to correct these items, including the adjustment to beginning net assets of \$13,644, totaled \$16,931.

In 2005, the University determined that the recording of receivables from its affiliation agreement with UPA required modification to be consistent with the recording of liabilities to the University from UPA. The 2004 adjustment to record amounts due from UPA, including the adjustment to beginning unrestricted net assets of \$4,025, totaled \$7,403.

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In 2004, the University classified the use of funds held by trustees from various debt financings to pay for capital expenditures as a capital financing activity. After clarification of the accounting guidelines in 2005, it was determined that this activity should have been classified as an investing activity. Additionally, \$15,519 of non-capital expenditures were incorrectly reported as purchases of capital assets in the 2004 consolidated statement of cash flows. This amount should have been shown as an operating activity. Accordingly, the 2004 consolidated statement of cash flows has been restated to reflect \$93,985 of net cash provided by capital financing activities as net cash provided by investing activities and \$15,519 of net cash used in capital financing activities as net cash used in operating activities. This restatement had no impact on net assets.

In addition, during 2005, the University reclassified certain items in the 2004 consolidated statement of net assets and consolidated statement of revenues, expenses and changes in net assets to conform to the 2005 presentation. These reclassifications had no impact on net assets and included the following:

- Reclassification of \$2,517 of cash and cash equivalents related to the Foundation to other receivables;
- Reclassification of \$18,462 of contract revenues from other operating revenues to professional services and contracts revenues;
- Reclassification of \$14,081 of repairs and maintenance related expenditures from other nonoperating expenses to operation and maintenance of plant and patient care services expense;
- Reclassification of \$14,803 of grant revenues for continuing education from nonoperating revenues to other operating revenues; and
- Reclassification of \$92,463 of provision for bad debts from patient care services expense to net patient service revenues.

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The impact to the 2004 financial statements for the restatements and reclassifications described above is as follows:

	As Previously Reported	Reclassifications	Restatements	As Restated
As of June 30, 2004				
Cash and cash equivalents	\$ 136,811	\$ (2,517)	\$ -	\$ 134,294
Appropriations receivable	48,228	-	(43,728)	4,500
Other receivables	51,000	2,517	7,403	60,920
Grants receivable	58,227	-	5,500	63,727
Accounts payable and accrued expenses	188,682	-	47,707	236,389
Invested in capital, net of related debt	434,475	-	(16,931)	417,544
Restricted expendable: Research and designated net assets	181,058	-	(4,880)	176,178
Unrestricted net assets	69,962	-	(73,652)	(3,690)
Total net assets	849,452	-	(95,463)	753,989
For the year ended June 30, 2004				
Operating				
Governmental grants and contracts	209,725	-	376	210,101
Private grants and contracts	54,645	-	3,378	58,023
Net patient service revenues	609,085	(92,463)	(12,492)	504,130
Professional services and contracts revenues	136,683	18,462	-	155,145
Other operating revenues	41,378	(3,659)	-	37,719
Patient care services	729,538	(89,631)	93	640,000
Professional services and contracts expenses	112,989	363	-	113,352
Operation and maintenance of plant	43,278	11,237	1,346	55,861
Depreciation	66,820	-	1,848	68,668
Auxiliary enterprises and other	15,332	9	-	15,341
Operating loss	(344,941)	362	(12,025)	(356,604)
Nonoperating				
State appropriations - operations	226,962	-	(3,056)	223,906
Miscellaneous grants and gifts	23,246	(14,803)	-	8,443
Other nonoperating expenses	(20,602)	14,441	-	(6,161)
Decrease in net assets	(13,811)	-	(15,081)	(28,892)
Cash flows				
Net cash used in operating activities	(185,776)		(3,593)	(189,369)
Net cash provided by noncapital financing activities	234,035		(14,443)	219,592
Net cash used in capital financing activities	(113,900)		(78,466)	(192,366)
Net cash provided by investing activities	154,723		93,985	248,708

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The impact to the beginning net assets as a result of the errors as of July 1, 2003 is as follows:

Beginning net assets, as previously reported	\$ 863,263
Adjustment to due to third party payors	(35,215)
Adjustment to appropriations receivable	(35,548)
Adjustment to capital assets, net	(13,644)
Adjustment to other receivables	4,025
Total adjustments	(80,382)
Beginning net assets, as restated	<u>\$ 782,881</u>

In addition, the University has restated the 2004 financial statements of its aggregate discretely presented component units to include UPA as described in Note 1.

15. Natural Expenses By Functional Classification

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

	<u>Year Ended June 30, 2005</u>				
	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Supplies and Services</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 135,252	\$ 35,899	\$ 27,527	\$ -	\$ 198,678
Research	74,332	20,303	98,918	-	193,553
Public service	44,572	6,469	8,530	-	59,571
Academic and student support	13,022	4,267	5,237	-	22,526
Institutional and administrative support	68,975	12,027	31,543	-	112,545
Patient care services	374,954	109,228	207,990	-	692,172
Professional services and contracts	103,275	15,916	20,921	-	140,112
Operation and maintenance of plant	25,658	8,414	12,269	-	46,341
Insurance	-	-	5,790	-	5,790
Depreciation	-	-	-	76,327	76,327
Auxiliary enterprises and other	2,110	575	13,525	-	16,210
Total operating expenses	<u>\$ 842,150</u>	<u>\$ 213,098</u>	<u>\$ 432,250</u>	<u>\$ 76,327</u>	<u>\$ 1,563,825</u>

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	Year Ended June 30, 2004 (Restated)				
	Salaries and Wages	Fringe Benefits	Supplies and Services	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	196,383	-	640,000
Professional services and contracts	82,860	10,454	20,038	-	113,352
Operation and maintenance of plant	26,715	7,121	22,025	-	55,861
Insurance	-	-	11,792	-	11,792
Depreciation	-	-	-	68,668	68,668
Auxiliary enterprises and other	2,077	560	12,704	-	15,341
Total operating expenses	\$ 775,216	\$ 177,474	\$ 409,263	\$ 68,668	\$ 1,430,621

Supplementary Information

University of Medicine and Dentistry of New Jersey
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Statement of Net Assets by Account Group
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(In thousands)

	Current		Loan	Endowment	Self Insurance Reserve	Plant		Agency	Primary Institution	Proprietary Units	June 30,	
	Unrestricted	Restricted				Unexpended	Net Investment In Plant				2005	2004
											(Memo Only)	(Restated)
Assets												
Current assets:												
Cash and cash equivalents	\$ 36,008	\$ 96,606	\$ 865	\$ 9,002	\$ 5,957	\$ 4,511	\$ -	\$ 617	\$ 153,566	\$ 22,879	\$ 176,445	\$ 134,294
Short-term investments	-	-	-	-	-	3,002	-	-	3,002	376	3,378	1,331
Accounts receivable, net of allowance for doubtful accounts of \$160,875 in 2005 and \$168,213 in 2004	-	-	-	-	-	-	-	-	-	111,156	111,156	105,234
Appropriations receivable	3,600	-	-	-	-	-	-	-	3,600	-	3,600	4,500
Other receivables, net of allowance for doubtful accounts of \$6,762 in 2005 and \$3,030 in 2004	28,617	15,226	5,946	-	-	1,536	-	-	51,325	7,934	59,259	60,920
Grants receivable, net of allowance for doubtful accounts of \$7,583 in 2005 and \$1,506 in 2004	-	65,996	-	-	-	-	-	-	65,996	-	65,996	63,727
Prepaid expenses and other assets	1,371	736	28	105	879	488	-	-	3,607	4,516	8,123	10,274
Due from other funds	14,011	-	-	-	-	-	-	-	14,011	-	14,011	17,576
Assets held by trustees - current portion	-	-	-	-	-	133,208	-	-	133,208	2	133,210	137,552
Total current assets	83,607	178,564	6,839	9,107	6,836	142,745	-	617	428,315	146,863	575,178	535,408
Noncurrent assets:												
Endowment investments	-	-	-	33,836	-	-	-	-	33,836	-	33,836	34,830
Other long-term investments	24,536	85,498	2,881	-	-	12,257	-	-	125,172	-	125,172	186,507
Loans to students, net of allowance for doubtful accounts of \$500 in 2005 and 2004	-	-	23,723	-	-	-	-	-	23,723	-	23,723	26,599
Deferred financing costs	-	-	-	-	-	9,506	-	-	9,506	1,123	10,629	9,207
Assets held by trustees	-	-	-	-	-	51,630	-	-	51,630	-	51,630	45,912
Capital assets, net	-	-	-	-	-	-	750,849	-	750,849	262,199	1,013,048	921,607
Total noncurrent assets	24,536	85,498	26,604	33,836	-	73,393	750,849	-	994,716	263,322	1,258,038	1,224,662
Total assets	\$ 108,143	\$ 264,062	\$ 33,443	\$ 42,943	\$ 6,836	\$ 216,138	\$ 750,849	\$ 617	\$ 1,423,031	\$ 410,185	\$ 1,833,216	\$ 1,760,070

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(In thousands)

	Current		Loan	Endowment	Self Insurance Reserve	Plant		Agency	Primary Institution	Proprietary Units	June 30,	
	Unrestricted	Restricted				Unexpended	Net Investment In Plant				2005	2004
Liabilities												
Current liabilities												
Accounts payable and accrued expenses	\$ 59,639	\$ 16,346	\$ 3	\$ -	\$ 4,167	\$ 24,613	\$ -	\$ 617	\$ 105,385	\$ 136,658	\$ 242,043	\$ 236,389
Accrued vacation expense	20,212	8,225	-	-	-	-	-	-	28,437	17,329	45,766	43,728
Deferred revenues	6,823	32,680	-	-	-	-	-	-	39,503	2,672	42,175	40,484
Long-term debt and capital lease obligations - current portion	-	-	-	-	-	-	12,375	-	12,375	1,312	13,687	15,120
Due to other funds	-	3,770	-	105	-	7,071	-	-	10,946	3,065	14,011	17,576
Total current liabilities	86,674	61,021	3	105	4,167	31,684	12,375	617	196,646	161,036	357,682	353,297
Noncurrent liabilities												
Deferred compensation trust	-	-	-	-	-	-	-	-	-	374	374	324
Accrued claims liability	-	14,498	-	-	-	-	-	-	14,498	-	14,498	14,498
Long-term debt and capital lease obligations	-	-	-	-	-	151,370	510,511	-	661,881	51,665	713,546	637,962
Total noncurrent liabilities	-	14,498	-	-	-	151,370	510,511	-	676,379	52,039	728,418	652,784
Total liabilities	86,674	75,519	3	105	4,167	183,054	522,886	617	873,025	213,075	1,086,100	1,006,081
Net Assets												
Invested in capital, net of related debt	-	-	-	-	-	-	227,963	-	227,963	212,533	440,496	417,544
Restricted expendable												
Research and designated	-	188,543	-	-	-	-	-	-	188,543	-	188,543	176,178
Debt service	-	-	-	-	-	30,012	-	-	30,012	8,018	38,030	31,577
Self-insurance reserve	-	-	-	-	2,669	-	-	-	2,669	-	2,669	731
Capital projects	-	-	-	-	-	3,072	-	-	3,072	28,458	31,530	62,497
Restricted nonexpendable												
Endowments	-	-	-	42,838	-	-	-	-	42,838	-	42,838	39,837
Loan funds	-	-	1,255	-	-	-	-	-	1,255	-	1,255	1,233
Refundable government student loans	-	-	27,457	-	-	-	-	-	27,457	-	27,457	28,082
Unrestricted	21,469	-	4,728	-	-	-	-	-	26,197	(51,899)	(25,702)	(3,690)
Total net assets	\$ 21,469	\$ 188,543	\$ 33,440	\$ 42,838	\$ 2,669	\$ 33,084	\$ 227,963	\$ -	\$ 550,006	\$ 197,110	\$ 747,116	\$ 753,989

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Statement of Revenues, Expenses and Changes in Net Assets by Account Group
Year Ended June 30, 2005 with summarized financial information for the year ended June 30, 2004
(In thousands)

	Current		Loan	Endowment	Self Insurance Reserve	Plant		Primary Institution	Proprietary Units	June 30,	
	Unrestricted	Restricted				Unexpended	Net Investment In Plant			2005	2004
Operating revenues											
Tuition and fees	\$ 57,885	\$ (2,022)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,863	\$ -	\$ 55,863	\$ 50,007
Governmental grants and contracts	-	229,593	-	-	-	-	-	229,593	-	229,593	210,101
Private grants and contracts	-	56,479	-	-	-	-	-	56,479	-	56,479	58,023
Net patient service revenues	-	-	-	-	-	-	-	-	512,887	512,887	504,130
Professional services and contracts	-	-	-	-	-	-	-	-	174,536	174,536	155,145
Auxiliary sales and services	-	-	-	-	-	-	-	-	17,013	17,013	16,154
Indirect cost recoveries	17,363	31,051	-	-	-	-	-	48,414	-	48,414	42,738
Other operating revenues	10,944	19,740	511	-	-	-	-	31,195	11,712	42,907	37,719
Total operating revenues	86,192	334,841	511	-	-	-	-	421,544	716,148	1,137,692	1,074,017
Operating expenses											
Instruction	166,941	31,737	-	-	-	-	-	198,678	-	198,678	177,116
Research	-	193,553	-	-	-	-	-	193,553	-	193,553	173,456
Public service	-	59,571	-	-	-	-	-	59,571	-	59,571	53,522
Academic and student support	18,042	4,484	-	-	-	-	-	22,526	-	22,526	22,567
Institutional and administrative support	72,340	40,205	-	-	-	-	-	112,545	-	112,545	98,946
Patient care services	-	-	-	-	-	-	-	-	692,172	692,172	640,000
Professional services and contracts	-	-	-	-	-	-	-	-	140,112	140,112	113,352
Operation and maintenance of plant	49,454	-	-	-	-	(3,113)	46,341	-	-	46,341	55,861
Insurance	4,182	(6,222)	-	-	(1,735)	-	(3,775)	9,565	5,790	5,790	11,792
Depreciation	-	-	-	-	-	-	48,522	48,522	27,805	76,327	68,668
Auxiliary enterprises and other	-	-	250	-	-	-	-	250	15,960	16,210	15,341
Total operating expenses	310,959	323,328	250	-	(1,735)	-	45,409	678,211	885,614	1,563,825	1,430,621
Operating (loss) gain	(224,767)	11,513	261	-	1,735	-	(45,409)	(256,667)	(169,466)	(426,133)	(356,604)
Nonoperating revenues (expenses)											
State appropriations - operations	194,941	-	-	-	-	-	-	194,941	71,177	266,118	223,906
Fringe benefits paid by the State	60,118	-	-	-	-	-	-	60,118	99,671	159,789	104,077
Miscellaneous grants and gifts	-	2,433	1,376	-	-	-	-	3,809	-	3,809	8,443
Investment income	8,370	3,305	157	-	203	581	-	12,616	-	12,616	13,109
Unrealized appreciation (depreciation) on investments	-	1,323	94	3,001	-	611	-	5,029	-	5,029	(7,826)
Interest expense	(1,057)	-	-	-	-	(18,309)	-	(19,366)	(2,505)	(21,871)	(22,866)
Other	9,844	8,565	(2,715)	-	-	(73,785)	64,011	5,920	(16,175)	(10,255)	(6,161)
Interfund transfers	(29,894)	(14,814)	-	-	-	53,194	-	8,486	(8,486)	-	-
Debt service appropriation	(11,876)	-	-	-	-	12,293	-	417	(417)	-	-
Matching financial aid	(174)	40	134	-	-	-	-	-	-	-	-
Total nonoperating revenues, net	230,272	852	(954)	3,001	203	(25,415)	64,011	271,970	143,265	415,235	312,682
State appropriations - capital	-	-	-	-	-	4,025	-	4,025	-	4,025	15,030
Increase (decrease) in net assets	5,505	12,365	(693)	3,001	1,938	(21,390)	18,602	19,328	(26,201)	(6,873)	(28,892)
Net assets-beginning of year as previously reported	15,964	176,178	34,133	39,837	731	54,474	209,361	530,678	223,311	753,989	863,263
Restatement (Note 14)	-	-	-	-	-	-	-	-	-	-	(80,382)
Net assets-beginning of year as restated	15,964	176,178	34,133	39,837	731	54,474	209,361	530,678	223,311	753,989	782,881
Net assets-end of year	\$ 21,469	\$ 188,543	\$ 33,440	\$ 42,838	\$ 2,669	\$ 33,084	\$ 227,963	\$ 550,006	\$ 197,110	\$ 747,116	\$ 753,989

University of Medicine and Dentistry of New Jersey

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Notes to Supplementary Information

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 account groups that are in accordance with the specified activities or objectives. Separate accounts are maintained for each group; however, in the accompanying supplementary information, funds with similar characteristics have been combined into account groups. Accordingly, all financial transactions have been recorded and reported by account group.

Within each account group, net assets 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 account group. 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 account group:

Current

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 account groups unless the operations are required to be reported in other account groups as described below.

Loan

The loan account groups 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 account groups also include receivables related to loans made from University funds.

Endowment

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

Self-Insurance Reserve

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

Plant

Plant account group 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 account groups exclude certain capital assets related to the University's proprietary activities which are included in that proprietary account group.

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Agency

The agency account groups 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

Proprietary account groups 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, University Correctional HealthCare, 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, University Care Corporation 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 account groups due to their similarity with business organizations. The University’s proprietary account groups 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 groups.