



NEW JERSEY INSTITUTE OF TECHNOLOGY

Financial Statements and
Management's Discussion and Analysis

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

NEW JERSEY INSTITUTE OF TECHNOLOGY

June 30, 2012 and 2011

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Independent Auditors' Report

The Board of Trustees
New Jersey Institute of Technology:

We have audited the accompanying basic financial statements of New Jersey Institute of Technology (the University), a component unit of the State of New Jersey, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Institute of Technology as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

September 28, 2012

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Management's Discussion and Analysis

(Dollars in thousands)

June 30, 2012 and 2011

Introduction

The following discussion and analysis provides an analytical overview of the financial position and activities of New Jersey Institute of Technology (NJIT) and Foundation at New Jersey Institute of Technology (the Foundation) (collectively, the University) at and for the years ended June 30, 2012 and 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Since its founding in 1881, NJIT has been transformed from a local technical school to one of America's top tier national research universities. While moving steadily to increasingly higher levels of excellence in educational performance, NJIT has become a research and development hub, participating in entrepreneurial development and building business partnerships through research and development initiatives. NJIT has evolved into an international presence, both in the scope of its educational programs, including on-site and distance learning offerings, attraction of international students to its programs, and through the reach of its educational, scientific, and technological influence at international forums and in international research projects.

NJIT is a public, student-centered, urban research university, committed to the pursuit of excellence in undergraduate, graduate, and continuing professional education, in the conduct of research with emphasis on applied and multi-disciplinary areas, in contributing to the economic development of New Jersey (the State), and in service to both its local communities and the broader society of the State and the nation. In fiscal year 2012, approximately 400 full-time faculty members served over 9,500 students. NJIT offers a diverse range of degree programs in an array of engineering and technology disciplines, computer and information science, architecture, applied sciences, management, statistics and actuarial science, including Ph.D. programs in nineteen professional areas, masters programs in fifty-nine specialties, and forty-seven baccalaureate degree programs. NJIT also operates a small business incubator whose mission is to accelerate the successful development of entrepreneurial companies through an array of business support resources and services.

Established pursuant to an 1881 New Jersey statute, NJIT was formally recognized as a body corporate and politic by The New Jersey Institute of Technology Act of 1995. The Foundation is a separately incorporated 501(c)(3) resource development organization that encourages private philanthropy on behalf of NJIT.

Financial Highlights

The University's financial position at June 30, 2012 and 2011 was sound, with total assets of \$509,916 and \$427,778, and total liabilities of \$298,039 and \$216,574, respectively. Net assets, which represent the excess of the University's assets over its liabilities, totaled \$211,877 and \$211,204 at June 30, 2012 and 2011, respectively. Net assets increased \$673 and \$19,105 in fiscal years 2012 and 2011, respectively, due to an excess of net nonoperating and other revenues over the operating loss.

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(Dollars in thousands)

June 30, 2012 and 2011

The Financial Statements

The University's financial statements include a statement of net assets at June 30, 2012 and 2011, and statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Statement of Net Assets

The statement of net assets presents the University's financial position at June 30, 2012 and 2011, and is summarized as follows. The summarized statement of net assets at June 30, 2010 is also presented for comparative purposes.

| | June 30, | | |
|---|-----------------|-------------|-------------|
| | 2012 | 2011 | 2010 |
| Current assets | \$ 91,037 | \$ 83,828 | \$ 62,624 |
| Endowment investments | 74,513 | 75,582 | 64,527 |
| Capital assets, net | 234,926 | 233,274 | 237,583 |
| Other assets | 109,440 | 35,094 | 29,150 |
| Total assets | 509,916 | 427,778 | 393,884 |
| Current liabilities | 47,983 | 38,711 | 35,647 |
| Long term debt, noncurrent portion | 238,828 | 166,558 | 155,696 |
| Other liabilities | 11,228 | 11,305 | 10,442 |
| Total liabilities | 298,039 | 216,574 | 201,785 |
| Invested in capital assets, net of related debt | 76,643 | 83,996 | 88,604 |
| Restricted nonexpendable | 53,197 | 49,851 | 44,809 |
| Restricted expendable | 18,225 | 21,044 | 17,375 |
| Unrestricted | 63,812 | 56,313 | 41,311 |
| Total net assets | \$ 211,877 | \$ 211,204 | \$ 192,099 |

Current assets consist principally of cash and cash equivalents, grants and accounts receivable, deposits held with trustees, and short term investments. The increase in current assets at June 30, 2012 as compared to June 30, 2011 of \$7,209 relates principally to increases in cash and cash equivalents, deposits held with trustees due to the new 2012 Series A bonds and TD Master Leases, and short term investments, partially offset by a decrease in grants and accounts receivable, principally resulting from cash collections on students accounts receivable as well as write-offs of student accounts receivable deemed uncollectible and a decrease in Federal and State grants and accounts receivable. The increase in current assets at June 30, 2011 as compared to June 30, 2010 of \$21,204 relates principally to increases in cash and cash equivalents, deposits held with trustees due to the new 2010 Series H and I bonds, and grants and accounts receivable, partially offset by a decrease in short term investments.

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Current liabilities are comprised of accounts payable and accrued liabilities, the current portion of long term debt, deferred revenue, and amounts due to affiliates. The increase in current liabilities at June 30, 2012 as compared to June 30, 2011 of \$9,272 principally results from increases in accounts payable, primarily relating to construction and renovation projects, accrued salaries and fringe benefits, accrued interest expense, deferred revenue, current portion of long term debt, and due to affiliates. The increase in current liabilities at June 30, 2011 as compared to June 30, 2010 of \$3,064 principally results from increases in accounts payable and accrued liabilities due to the timing of payment of invoices, accrued interest expense, deferred revenue resulting from an increase in advance payments from grants and contracts and students, and due to affiliates, partially offset by a decrease in current portion of long term debt.

Excluding deposits held with trustees, which can only be used for debt service and facilities construction, and the current portion of long term debt, current assets exceeded current liabilities by \$37,194 and \$42,153 at June 30, 2012 and 2011, respectively. The University had \$42,536 and \$32,686 in cash and cash equivalents and short term investments to fund current operations, facilities rehabilitation projects, and other activities at June 30, 2012 and 2011, respectively. The net increase in cash and cash equivalents and short term investments at June 30, 2012 as compared to June 30, 2011 of \$9,850, principally results from a decrease in net cash used by operating activities as a result of the University's resource generating and cost cutting initiatives.

Endowment investments include gifts from donors that are to be invested in perpetuity, life income and annuity funds, unrestricted funds designated by management as quasi-endowment, and the related income and appreciation. Only the realized income and appreciation can be spent for the purposes specified by the donors in the gift documents. During fiscal year 2012, endowment investments decreased 1.4% reflecting fair value decreases at June 30, 2012 and realized investment losses, partially offset by growth from new gifts. During fiscal year 2011, endowment investments increased 17.1%, reflecting fair value increases at June 30, 2011, realized investment income, and growth from new gifts.

Capital assets increased 1.4% and 3.1% at cost during fiscal years 2012 and 2011, respectively. The fiscal year 2012 increase is the result of continued work on the rehabilitation and renovation of an academic facility, the commencement of construction of the Warren Street Village, a mixed-use residential housing complex, and campus facilities renovations, partially offset by write-offs of assets no longer in service. The fiscal year 2011 increase is the result of rehabilitation and renovation of an academic facility, implementation costs associated with an enterprise resource planning system, continued work on an indoor athletic recreation facility, an energy efficiency/renewable energy update to Oak Residence Hall, and campus facilities renovations.

Total long term debt at June 30, 2012 and 2011 totaled \$247,436 and \$173,251, respectively. During fiscal year 2012, the University issued 2012 Series A General Obligation Bonds in the amount of \$65,495. The proceeds of the bonds will finance, in part, the costs of constructing the Warren Street Village. The debt is composed of \$5,470 in serial bonds bearing interest rates of 4.0% and 5.0% and maturing at various dates through fiscal year 2028, and \$60,025 in term bonds bearing an interest rate of 5.0% with final maturity in fiscal year 2043. The University also entered into three TD Master Leases in the amount of \$14,159 for the purpose of repaying the SunTrust Master Lease and financing the costs of an upgrade to the University's information technology and research infrastructure. The debt matures in fiscal year 2019 with interest rates between 1.35% and 1.72%.

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Net assets invested in capital assets, net of related debt, represents the University's interests in land and land improvements, buildings and building improvements, equipment and other assets, and construction in progress, less the debt incurred to finance their acquisition. Net assets invested in capital assets, net of related debt, decreased \$7,353 and \$4,608, during fiscal years 2012 and 2011, respectively, as the increase in capital assets discussed above was more than offset by depreciation expense and a net increase in long term debt.

Restricted net assets represent the original value of additions to the University's endowment, the remainder of life income and annuity funds, gifts that are restricted to use for specific purposes by the donor, capital appropriations, endowment income, and other restricted sources. As discussed above, endowment funds represent gifts from donors that are to be invested in perpetuity. Life income and annuity funds are given to the University to be invested with the stipulation that the University pay an agreed-upon sum to designated individuals for a period of time or for the beneficiary's lifetime, after which period the remaining funds become part of the University's endowment or are used for the purpose designated by the donor. Restricted net assets increased \$527 during fiscal year 2012, primarily due to additions to permanent endowments, offset partially by realized investment losses and a decrease in the fair value of investments at June 30, 2012. Restricted net assets increased \$8,711 during fiscal year 2011, primarily due to additions to permanent endowments, realized investment gains, and a net increase in the fair value of investments at June 30, 2011. At June 30, 2012 and 2011, \$2,118 and \$1,571 were transferred from restricted nonexpendable net assets—scholarships and fellowships, and \$141 and \$26 were transferred from restricted nonexpendable net assets—instructional and other, respectively, to the corresponding restricted expendable net assets to temporarily fund deficits therein.

Unrestricted net assets are all other net assets that are available for general operations. Even though unrestricted net assets are not subject to external restrictions, management has designated the following unrestricted net assets in order to set them aside for the following specified purposes:

| | June 30, | | |
|------------------------------------|-----------------|-------------|-------------|
| | 2012 | 2011 | 2010 |
| Scholarships and fellowships | \$ 5,433 | \$ 5,853 | \$ 5,172 |
| Instructional and other | 7,413 | 7,731 | 6,360 |
| Debt service | 3,698 | 5,209 | 4,579 |
| Deferred financing costs | 1,679 | 1,182 | 1,258 |
| Outstanding purchase orders | 3,615 | 2,770 | 2,320 |
| Construction and capital programs | 16,000 | 13,412 | 10,276 |
| Warren Street Village construction | 10,000 | — | — |
| | \$ 47,838 | \$ 36,157 | \$ 29,965 |

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results and the nonoperating and other revenues and expenses of the University.

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(Dollars in thousands)

June 30, 2012 and 2011

The components of revenues for the fiscal years ended June 30, 2012 and 2011 are as follows. The components of revenues for the fiscal year ended June 30, 2010 are also presented for comparative purposes:

| | 2012 | 2011 | 2010 |
|--|-------------|-------------|-------------|
| Operating revenues: | | | |
| Student tuition and fees, net | \$ 94,898 | \$ 88,362 | \$ 80,760 |
| Federal, State, and other grants and contracts | 88,518 | 81,823 | 72,575 |
| Auxiliary enterprises, net | 12,258 | 11,887 | 9,900 |
| Other operating revenues | 2,314 | 2,503 | 3,601 |
| Total operating revenues | 197,988 | 184,575 | 166,836 |
| Nonoperating and other revenues: | | | |
| State appropriations | 65,382 | 66,096 | 67,913 |
| Gifts and bequests, capital grants and gifts, and additions to permanent endowments | 6,897 | 7,043 | 7,043 |
| Investment (loss) income | (1,039) | 12,204 | 6,503 |
| Other nonoperating revenues, net | 2,068 | 1,758 | 1,754 |
| Total nonoperating and other revenues | 73,308 | 87,101 | 83,213 |
| Total revenues | \$ 271,296 | \$ 271,676 | \$ 250,049 |

The components of expenses for the fiscal years ended June 30, 2012 and 2011 are as follows. The components of expenses for the fiscal year ended June 30, 2010 are also presented for comparative purposes:

| | 2012 | 2011 | 2010 |
|------------------------------------|-------------|-------------|-------------|
| Operating expenses: | | | |
| Instruction | \$ 77,509 | \$ 74,121 | \$ 71,145 |
| Research and programs | 55,927 | 48,452 | 42,336 |
| Public service | 1,615 | 1,965 | 2,564 |
| Academic support | 22,075 | 19,287 | 17,788 |
| Student services | 17,134 | 15,687 | 15,533 |
| Institutional support | 37,664 | 32,067 | 31,384 |
| Operation and maintenance of plant | 13,532 | 13,524 | 15,677 |
| Scholarships and fellowships | 8,782 | 9,958 | 9,698 |
| Depreciation and amortization | 18,825 | 20,360 | 17,231 |
| Auxiliary enterprises | 9,972 | 9,647 | 7,391 |
| Total operating expenses | 263,035 | 245,068 | 230,747 |
| Nonoperating expenses: | | | |
| Interest expense | 7,588 | 7,503 | 7,460 |
| Total nonoperating expenses | 7,588 | 7,503 | 7,460 |
| Total expenses | \$ 270,623 | \$ 252,571 | \$ 238,207 |

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Student tuition and fees, auxiliary enterprises, and State appropriations are the primary sources of funding for the University's operating expenses.

Student tuition and fees totaled \$94,898, \$88,362, and \$80,760, net of scholarship allowances of \$37,175, \$33,598, and \$34,170, in fiscal years 2012, 2011, and 2010, respectively. The fiscal year 2012 and 2011 increases are principally attributable to 4.5% and 4.0% increases in tuition and fees, respectively, and increases in student enrollment in both years.

Auxiliary enterprises revenues, net of scholarship allowances of \$3,690, \$3,470, and \$3,215 in fiscal years 2012, 2011, and 2010, respectively, increased 3.1% to \$12,258 in fiscal year 2012 and 20.1% to \$11,887 in fiscal year 2011, principally due to increased occupancy and residence hall charges, in both years.

In accordance with GASB requirements, State appropriations are reported as nonoperating revenues despite the fact that their purpose is to fund operating activities. The components of State appropriations are as follows:

| | Fiscal Year Ended June 30, | | |
|---|-----------------------------------|------------------|------------------|
| | 2012 | 2011 | 2010 |
| Direct appropriations for general operating purposes | \$ 37,697 | \$ 39,191 | \$ 39,472 |
| FICA and fringe benefits paid by the State for University employees | 27,685 | 26,905 | 25,432 |
| State Fiscal Stabilization Fund | — | — | 3,009 |
| | <u>\$ 65,382</u> | <u>\$ 66,096</u> | <u>\$ 67,913</u> |

The decreases in State appropriations in fiscal years 2012 and 2011 were the result of a general reduction in funding for Higher Education in the State's fiscal years 2012 and 2011 budgets.

Federal, State, and other grants and contracts revenues, which include facilities and administrative costs recovery, primarily fund the University's research and development activities and student financial aid programs, and are comprised of the following:

| | Fiscal Year Ended June 30, | | |
|--|-----------------------------------|------------------|------------------|
| | 2012 | 2011 | 2010 |
| Federal grants and contracts, including ARRA awards of \$10,269, \$6,137, and \$3,280 in fiscal years 2012, 2011, and 2010, respectively | \$ 66,078 | \$ 60,249 | \$ 52,971 |
| State grants and contracts | 17,781 | 17,230 | 16,044 |
| Other grants and contracts | 4,659 | 4,344 | 3,560 |
| | <u>\$ 88,518</u> | <u>\$ 81,823</u> | <u>\$ 72,575</u> |

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Federal grants and contracts revenues increased 9.7% in fiscal year 2012, primarily due to increases in research and program related grants and contracts. Federal grants and contracts revenues increased 13.7% in fiscal year 2011 due to an increase in research grants and contracts, partially offset by a decrease in student financial assistance grants. State grants and contracts revenues increased 3.2% in fiscal year 2012, due to an increase in student financial assistance grants, partially offset by a decrease in research grants and contracts. State grants and contracts revenues increased 7.4% in fiscal year 2011, due to increases in research grants and contracts and student financial assistance grants. Other grants and contracts revenues increased 7.3% and 22.0% in fiscal years 2012 and 2011, respectively.

Private support from corporations, foundations, alumni and other donors is an important factor in the University's growth and development. Gifts and bequests during fiscal years 2012 and 2011 totaled \$2,730 and \$3,354, respectively. Capital grants and gifts generated another \$159 and \$1,378, respectively, for the acquisition of capital assets, including ARRA awards of \$52 and \$1,219 in fiscal years 2012 and 2011, respectively. Additions to permanent endowments were \$4,008 and \$2,311 in fiscal years 2012 and 2011, respectively.

Investment (loss) income includes interest and dividends, realized net (loss) gain on the sale of investments, and net (decrease) increase in the fair value of investments. During fiscal year 2012, investment loss of \$1,039 was due to a decrease in the fair value of investments at June 30, 2012 and a realized net loss on the sale of investments, partially offset by interest and dividends. During fiscal year 2011, investment income of \$12,204 was due to an increase in the fair value of investments at June 30, 2011, a realized net gain on the sale of investments, and interest and dividends.

Instruction, academic support, student services, and scholarships and fellowships expenses totaled \$125,500, \$119,053, and \$114,164 in fiscal years 2012, 2011, and 2010, respectively. The increase of 5.4% in fiscal year 2012 is primarily the result of increased salaries and benefits, partially due to no capitalization of salaries and wages, and increased computer software maintenance costs, partially offset by a decrease in scholarships and fellowships expense resulting from an increase in scholarship allowances. The increase of 4.3% in fiscal year 2011 is primarily the result of increased salaries and benefits, partially attributable to a faculty separation incentive program, and a decrease in salaries and wages capitalized in connection with the implementation of an enterprise resource planning system.

Research and programs expense increased 15.4% to \$55,927 in fiscal year 2012 primarily as a result of the increase in Federal research and program related grants and contracts, and increased 14.4% to \$48,452 in fiscal year 2011 as a result of the increase in Federal, State, and other research grants and contracts.

Public service expenses decreased \$350 to \$1,615 and \$599 to \$1,965 in fiscal years 2012 and 2011, respectively, primarily due to decreased operating expenses of the University's information technology center in both years.

Institutional support increased 17.5% to \$37,664 in fiscal year 2012, primarily due to increases in salaries and benefits, partially due to no capitalization of salaries and wages, allowance for doubtful student accounts, and computer hardware maintenance costs. Institutional support increased 2.2% to \$32,067 in fiscal year 2011, primarily due to increases in salaries and benefits, legal affairs expenses, and an increase in the allowance for doubtful student accounts, partially offset by a decrease in credit card fees.

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Operation and maintenance of plant expense remained relatively constant in fiscal year 2012, and decreased 13.7% to \$13,524 in fiscal year 2011, primarily due to a decrease in utility costs due to a more favorable electricity supply contract, energy conservation measures, and an increased allocation of operations and maintenance expense to residence halls.

Auxiliary enterprises expense increased 3.4% to \$9,972 in fiscal year 2012, primarily due to increased operation and maintenance costs for residence halls, and increased 30.5% to \$9,647 in fiscal year 2011, primarily due to the rental of off-campus student housing and increased operation and maintenance costs for residence halls.

During fiscal years 2012 and 2011, the University incurred long term debt interest costs of \$8,383 and \$7,578, of which \$659 and \$75, respectively, was capitalized and will be amortized over the estimated useful lives of the associated capital assets. During fiscal year 2011, the University incurred a short term borrowing interest cost of \$8.

Summary and Outlook

The University finds itself in a sound financial position at June 30, 2012. Overall enrollment increased for the fiscal 2012 academic year. The University continues to pursue its strategy of enhancing its research and development activities. The University's fundraising activities are successful, and have generated a significant endowment.

The University's debt is rated A1 by Moody's Investors Service and A+ by Standard & Poor's. Moody's affirmed its rating in fiscal year 2012, noting the University's "niche market position as the sole public stand-alone technical research university in the State, enrollment growth accompanied by continued net tuition growth, diversified revenue sources, and three consecutive years of positive operating performance with double-digit cash flows to cover rising debt service, offset by significant increase in debt and very thin balance sheet to pro-forma debt and operations." Standard & Poor's affirmed its rating in fiscal year 2012, noting "The stable outlook reflects our opinion that over the two-year outlook period, enrollment will likely remain stable, financial operations will likely be balanced on a full-accrual basis, and any additional debt issuances will be commensurate with maintenance or growth in financial resource ratios. We also expect that management will manage operations effectively through the constrained State funding environment."

The University's relations with its employees are good. A union contract is in place with one of the seven labor unions representing employees on campus. Negotiations are in progress with five of the unions and are about to commence with yet another. It is anticipated that all negotiations will come to mutually favorable conclusions.

The University's endowment is prudently managed, with a broad-based asset allocation. A group of managers, each focused on their sector of the asset allocation, limited exposure to sub-prime investments, and use of alternative investments, including timber, to implement the investment strategy have, to date, been reasonably effective given the overall market conditions.

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As part of its long range plan, the University expects that its activities will continue to increase the total operating budget. As a result of the State's reduction in funding for Higher Education over the past several fiscal years, management initiated steps to increase alternative funding sources and to reduce expenses, including increases in enrollment, cost cutting initiatives, a more aggressive research and development program, a more intensive fund raising program, and increases in tuition and fees. Included in the University's strategic plan are a greater emphasis on expanded outreach programs, increased scholarships for desirable students, the establishment of new programs and extension sites in order to generate increases in enrollment, and the hiring of new faculty members who have a stronger inclination to become involved in research activities in addition to their teaching responsibilities in order to expand its research and development program. The University's efforts in these resource generating and expense reduction initiatives have been and are anticipated to continue to be successful.

Management has been and will continue to be an active participant in the State's planning process, in order to ensure that its voice is heard and the University's needs are properly presented and considered in the State's financial deliberations.

All in all, the University's management is of the opinion that the University's financial condition is sound.

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Statement of Net Assets

(Dollars in thousands)

at June 30,

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 37,474 | \$ 32,686 |
| Short term investments | 5,062 | — |
| Grants and accounts receivable, net | 32,019 | 39,520 |
| Deposits held with trustees | 14,468 | 9,657 |
| Other current assets | <u>2,014</u> | <u>1,965</u> |
| Total current assets | <u>91,037</u> | <u>83,828</u> |
| Noncurrent assets: | | |
| Endowment investments | 74,513 | 75,582 |
| Investments | 8,739 | 7,760 |
| Investments - Warren Street Village construction | 67,706 | — |
| Deposits held with trustees | 24,156 | 18,460 |
| Other assets | 8,839 | 8,874 |
| Capital assets, net of accumulated depreciation of \$284,138 and \$278,707, respectively | <u>234,926</u> | <u>233,274</u> |
| Total noncurrent assets | <u>418,879</u> | <u>343,950</u> |
| Total assets | \$ <u>509,916</u> | \$ <u>427,778</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 24,807 | \$ 19,972 |
| Long term debt, current portion | 8,608 | 6,693 |
| Deferred revenue | 11,433 | 9,580 |
| Due to affiliates | <u>3,135</u> | <u>2,466</u> |
| Total current liabilities | <u>47,983</u> | <u>38,711</u> |
| Noncurrent liabilities: | | |
| Long term debt | 238,828 | 166,558 |
| Other noncurrent liabilities | 9,444 | 9,564 |
| U.S. government grants refundable | <u>1,784</u> | <u>1,741</u> |
| Total noncurrent liabilities | <u>250,056</u> | <u>177,863</u> |
| Total liabilities | \$ <u>298,039</u> | \$ <u>216,574</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | \$ 76,643 | \$ 83,996 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 43,488 | 40,031 |
| Instructional and other | 9,709 | 9,820 |
| Expendable: | | |
| Scholarships and fellowships | 5,336 | 7,845 |
| Instructional and other | 7,149 | 7,228 |
| Research and programs | 276 | 736 |
| Debt service | 4,430 | 4,205 |
| Loans | 1,034 | 1,030 |
| Unrestricted (see note 10) | <u>63,812</u> | <u>56,313</u> |
| Total net assets | \$ <u>211,877</u> | \$ <u>211,204</u> |

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

NEW JERSEY INSTITUTE OF TECHNOLOGY

Statement of Revenues, Expenses, and Changes in Net Assets

(Dollars in thousands)

For the years ended June 30,

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Operating revenues: | | |
| Student tuition and fees, net of scholarship allowances of \$37,175 and \$33,598, respectively | \$ 94,898 | \$ 88,362 |
| Federal grants and contracts | 66,078 | 60,249 |
| State grants and contracts | 17,781 | 17,230 |
| Other grants and contracts | 4,659 | 4,344 |
| Auxiliary enterprises, net of scholarship allowances of \$3,690 and \$3,470, respectively | 12,258 | 11,887 |
| Other operating revenues | 2,314 | 2,503 |
| Total operating revenues | <u>197,988</u> | <u>184,575</u> |
| Operating expenses: | | |
| Instruction | 77,509 | 74,121 |
| Research and programs | 55,927 | 48,452 |
| Public service | 1,615 | 1,965 |
| Academic support | 22,075 | 19,287 |
| Student services | 17,134 | 15,687 |
| Institutional support | 37,664 | 32,067 |
| Operation and maintenance of plant | 13,532 | 13,524 |
| Scholarships and fellowships | 8,782 | 9,958 |
| Depreciation and amortization | 18,825 | 20,360 |
| Auxiliary enterprises | 9,972 | 9,647 |
| Total operating expenses | <u>263,035</u> | <u>245,068</u> |
| Operating loss | <u>(65,047)</u> | <u>(60,493)</u> |
| Nonoperating revenues (expenses): | | |
| State appropriations | 65,382 | 66,096 |
| Gifts and bequests | 2,730 | 3,354 |
| Interest expense | (7,588) | (7,503) |
| Investment (loss) income | (1,039) | 12,204 |
| Other nonoperating revenues, net | 2,068 | 1,758 |
| Net nonoperating revenues | <u>61,553</u> | <u>75,909</u> |
| (Loss) income before other revenues | <u>(3,494)</u> | <u>15,416</u> |
| Other revenues: | | |
| Capital grants and gifts | 159 | 1,378 |
| Additions to permanent endowments | 4,008 | 2,311 |
| Total other revenues | <u>4,167</u> | <u>3,689</u> |
| Increase in net assets | 673 | 19,105 |
| Net assets, beginning of year | <u>211,204</u> | <u>192,099</u> |
| Net assets, end of year | <u>\$ 211,877</u> | <u>\$ 211,204</u> |

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

NEW JERSEY INSTITUTE OF TECHNOLOGY

Statement of Cash Flows

(Dollars in thousands)

For the years ended June 30,

| | <u>2012</u> | <u>2011</u> |
|---|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Student tuition and fees | \$ 96,857 | \$ 83,616 |
| Grants and contracts | 91,304 | 83,823 |
| Payments for salaries and benefits | (148,792) | (139,103) |
| Payments to suppliers | (60,168) | (54,360) |
| Payments for scholarships and fellowships | (8,782) | (9,958) |
| Loans issued to students | (245) | (111) |
| Loans collected from students | 320 | 284 |
| Auxiliary enterprises | 12,270 | 11,858 |
| University programs | 2,247 | 2,672 |
| Affiliates | 669 | 441 |
| Other receipts | 306 | 247 |
| Net cash used by operating activities | <u>(14,014)</u> | <u>(20,591)</u> |
| Cash flows from noncapital financing activities: | | |
| State appropriations | 46,576 | 48,882 |
| Gifts and bequests for other than capital purposes | 2,059 | 2,702 |
| Additions to permanent endowments | 4,441 | 1,753 |
| Other receipts | 2,050 | 1,429 |
| Net cash provided by noncapital financing activities | <u>55,126</u> | <u>54,766</u> |
| Cash flows from capital financing activities: | | |
| Proceeds from capital debt | 86,117 | 73,904 |
| Capital grants and gifts | 159 | 1,991 |
| Purchase of capital assets | (17,248) | (15,938) |
| Prepaid bond issuance costs | (621) | (631) |
| Principal paid on long term debt | (7,703) | (7,030) |
| Repayment of long term debt | (4,018) | — |
| Refunding of bonds | — | (58,064) |
| Interest paid on long term debt | (8,593) | (7,352) |
| Purchase of investments - Warren Street Village construction | (75,102) | — |
| Sale of investments - Warren Street Village construction | 7,306 | — |
| Deposits with trustees | (25,607) | (80,521) |
| Withdrawals from trustees | 15,075 | 75,021 |
| Net cash used by capital financing activities | <u>(30,235)</u> | <u>(18,620)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 21,512 | 29,687 |
| Interest and dividends on investments | 1,860 | 1,622 |
| Purchase of investments | (29,461) | (26,451) |
| Net cash (used by) provided by investing activities | <u>(6,089)</u> | <u>4,858</u> |
| Net increase in cash and cash equivalents | 4,788 | 20,413 |
| Cash and cash equivalents, beginning of year | <u>32,686</u> | <u>12,273</u> |
| Cash and cash equivalents, end of year | <u>\$ 37,474</u> | <u>\$ 32,686</u> |
| Reconciliation of operating loss to net cash used by operating activities: | | |
| Operating loss | \$ (65,047) | \$ (60,493) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation and amortization | 18,825 | 20,360 |
| Noncash operating expenses | 19,375 | 17,907 |
| Changes in assets and liabilities: | | |
| Grants and accounts receivable | 7,744 | (2,362) |
| Other assets, current and noncurrent | 78 | (48) |
| Accounts payable and accrued liabilities | 2,489 | 3,014 |
| Deferred revenue | 1,853 | 589 |
| Due to affiliates | 669 | 442 |
| Net cash used by operating activities | <u>\$ (14,014)</u> | <u>\$ (20,591)</u> |
| Noncash transactions: | | |
| State appropriations for fringe benefits | \$ 18,776 | \$ 17,447 |
| Gifts and bequests for other than capital purposes | 12 | 476 |
| Additions to permanent endowments | 7 | 123 |
| Capital leases | 65 | 60 |
| Capital assets | 2,137 | 474 |

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

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

1. Organization and Summary of Significant Accounting Policies

New Jersey Institute of Technology (NJIT), a public research university, includes six collegiate units: Newark College of Engineering, College of Computing Sciences, College of Architecture and Design, College of Science and Liberal Arts, School of Management, and Albert Dorman Honors College; a graduate division; a continuing education program; and a number of research centers. Fields of study include engineering, computer science, architecture, applied sciences, management, statistics, and actuarial science. NJIT offers programs and courses leading to bachelors, masters, and doctoral degrees, and also conducts an extensive research program.

The New Jersey Institute of Technology Act of 1995 established NJIT as a body corporate and politic and determined that the exercise of NJIT's powers was a public and essential government function. NJIT has its origins in an 1881 New Jersey statute.

Foundation at New Jersey Institute of Technology (the Foundation) is a component unit of NJIT. The Foundation raises and manages funds to support the further development and growth of programs at NJIT. Because of the significance of its operational and financial relationships with NJIT, the Foundation's financial statements are combined and reported on a blended basis with those of NJIT. Copies of the Foundation's financial statements can be obtained by writing to Foundation at New Jersey Institute of Technology, University Heights, Newark, New Jersey 07102, Attention: University Advancement Office.

Pursuant to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, NJIT, which is financially dependent on the State of New Jersey (the State), is considered to be a component unit of the State for its financial reporting purposes. Accordingly, the financial statements of NJIT and the Foundation (collectively, the University) are included in the State's Comprehensive Annual Financial Report.

(a) *Basis of Presentation*

The University's financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus, in accordance with U.S. generally accepted accounting principles as promulgated by the GASB. All significant transactions between NJIT and the Foundation have been eliminated.

(b) *Use of Estimates*

The financial statements include estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the statement of net assets dates, as well as the reported amounts of revenues and expenses for the fiscal years then ended. Actual results could differ from those estimates.

(c) *Cash and Cash Equivalents*

The University considers money market funds, investments with original maturities of three months or less, and investments in sweep accounts with original maturities of twelve months or less to be cash equivalents, except for those included in endowment investments and deposits held with trustees.

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

Investments in sweep accounts with original maturities greater than twelve months are classified as noncurrent assets, even though their purpose is to be used for operating activities.

(d) Investments and Deposits Held with Trustees

Investments in marketable equity securities, debt instruments, and mutual funds are carried at fair value, based on quoted market prices. Hedge and other investment funds are carried at estimated fair value based on the net asset values reported by the fund managers, which are reviewed by management for reasonableness. Those estimated fair values may differ from the values that would have been used had a ready market for these securities existed.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, changes in the values of investment securities could occur. Such changes could materially affect the amounts reported in the statement of net assets.

(e) Deferred Financing Costs

Deferred financing costs are included in other current assets and other assets, and are amortized over the life of the related long term debt.

(f) Capital Assets

Capital assets are carried at cost or, in the case of gifts, fair value at date of donation. Expenditures for replacements are capitalized, and the replaced items are retired. Expenses resulting from disposal of property are included in other nonoperating revenues, net. Depreciation is calculated on the straight-line basis over the following estimated useful lives:

| | |
|-------------------------------------|----------------|
| Land improvements | 20 years |
| Buildings and building improvements | 20 to 40 years |
| Equipment and other assets | 3 to 10 years |

(g) Due to Affiliates

Due to affiliates consists of amounts the University is holding as agent for the following entities:

| | June 30, | |
|-----------------------|-----------------|-----------------|
| | 2012 | 2011 |
| NJEDge.Net | \$ 2,050 | \$ 1,526 |
| Student organizations | 896 | 935 |
| Other organizations | 189 | 5 |
| | <u>\$ 3,135</u> | <u>\$ 2,466</u> |

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

(h) *Classification of Net Assets*

The University classifies its resources into three net asset categories:

- Invested in capital assets, net of related debt, contains the land and land improvements, buildings and building improvements, equipment and other assets, and construction in progress of the University and the indebtedness incurred to finance their acquisition and construction. Title to capital assets acquired through research grants and contracts remains with the University at the conclusion of the grant or contract period with the permission of the grantor.
- Restricted nonexpendable net assets are comprised of endowment, life income, and annuity funds. Endowments are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the realized income and appreciation be utilized.

Life income and annuity funds consist of annuity and unitrust funds which are given to the University to be invested with the stipulation that the University pay an agreed-upon sum to designated individuals for a period of time or for the beneficiary's lifetime. At the termination of the agreement, the remaining funds either become part of the University's endowment or are used for the purpose designated by the donor.

Restricted expendable net assets include gifts that are restricted to use for specific purposes by the donor, capital appropriations, endowment income and appreciation, and other restricted resources. Funds that are restricted are utilized only for the specified purposes.

- Unrestricted net assets are derived principally from student tuition and fees, gifts and bequests, and investment income, and are spent to meet the objectives of the University. The University designates portions of its unrestricted net assets for certain specific purposes (see note 10).

The University's policy is to first utilize available restricted, and then unrestricted, resources in the conduct of its operations.

(i) *Classification of Revenue*

Operating revenues are those that result from the provision of services related to the University's principal purposes of instruction and research, and are generally associated with exchange transactions. Nonoperating revenues result from activities that are not directly related to the University's principal purposes, but that exist in order to support them, and generally consist of nonexchange transactions. Other revenues arise from nonexchange transactions which provide funding for acquisitions of capital assets and additions to permanent endowments.

(j) *Revenue Recognition*

Student tuition and fees revenues are recognized in the period earned. Student tuition and fees collected in advance of the fiscal year are recorded as deferred revenue in the statement of net assets.

Grants and contracts revenues are recognized when the related expenditures are incurred. The unexpended portion of advance grant payments is recorded as deferred revenue in the statement of net assets.

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

Investment income, which includes interest, dividends, and realized and unrealized gains and losses, is recognized on the accrual basis. Gains and losses on investments are determined using specific identification, except for mutual funds, for which they are based on average cost.

Gifts and bequests are recorded upon their donation to the University. Pledges, other than endowment, are recognized as gift income and recorded at their present value. Additions to permanent endowments are recognized upon their receipt.

(k) *Facilities and Administrative Costs Recovery*

Facilities and administrative costs are recovered at rates specified under the various grants and contracts or at a predetermined rate negotiated with the U.S. Department of Health and Human Services, the University's cognizant Federal agency, and are recorded as grants and contracts revenues.

(l) *Auxiliary Activities*

Auxiliary activities consist primarily of residence hall and parking operations.

(m) *Fringe Benefits Paid by the State*

Certain fringe benefits for the University's employees are paid by the State. Such amounts (\$27,685 and \$26,905 in fiscal years 2012 and 2011, respectively) are included in State appropriations. The offsetting expenses are recorded within the appropriate operating expense categories.

(n) *Tax Status*

NJIT and the Foundation have received determination letters from the Internal Revenue Service stating that they are organizations as described in Sections 115(a)(2) and 501(c)(3), respectively, of the Internal Revenue Code (the Code) and, therefore, are exempt from Federal income taxes under Section 501(a) of the Code.

(o) *Reclassifications*

Certain prior year amounts have been reclassified to conform with the current year's presentation.

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

2. Cash and Cash Equivalents, Investments, and Deposits Held with Trustees

The cost and fair value of cash and cash equivalents, investments, and deposits held with trustees are as follows:

| | June 30, | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | 2012 | | 2011 | |
| | Cost | Fair Value | Cost | Fair Value |
| Cash and cash equivalents: | | | | |
| Cash | \$ 405 | \$ 405 | \$ 405 | \$ 405 |
| Money market funds | 37,069 | 37,069 | 32,281 | 32,281 |
| | <u>37,474</u> | <u>37,474</u> | <u>32,686</u> | <u>32,686</u> |
| Investments: | | | | |
| Money market funds | 23,308 | 23,308 | 2,566 | 2,566 |
| Certificates of deposit | 24,103 | 24,103 | 500 | 500 |
| U.S. Treasury and government agency bonds | 9,183 | 9,590 | 8,301 | 8,481 |
| Commercial paper | 10,185 | 10,197 | — | — |
| Corporate equity securities | 20,857 | 23,531 | 12,479 | 15,381 |
| Corporate debt securities | 15,941 | 15,891 | 587 | 619 |
| Mutual equity funds | 10,825 | 11,179 | 20,437 | 20,991 |
| Mutual bond funds | 13,685 | 14,154 | 8,385 | 8,752 |
| Hedge and other investment funds | 23,876 | 24,067 | 24,649 | 26,052 |
| | <u>151,963</u> | <u>156,020</u> | <u>77,904</u> | <u>83,342</u> |
| Deposits held with trustees: | | | | |
| Money market funds | 24,098 | 24,098 | 16,129 | 16,129 |
| U.S. Treasury and government agency bonds | 14,527 | 14,526 | 10,880 | 10,882 |
| Mutual bond funds | — | — | 1,084 | 1,106 |
| | <u>38,625</u> | <u>38,624</u> | <u>28,093</u> | <u>28,117</u> |
| Total cash and cash equivalents, investments, and deposits held with trustees | <u><u>\$ 228,062</u></u> | <u><u>\$ 232,118</u></u> | <u><u>\$ 138,683</u></u> | <u><u>\$ 144,145</u></u> |

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

Cash and cash equivalents have a bank balance of \$39,907 and \$36,931, including cash held by depositories of \$421 and \$462 at June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, respectively, cash held by depositories of \$256 and \$297 are insured by the Federal Deposit Insurance Corporation (FDIC); cash and cash equivalents of \$19,618 and \$21,607 are collateralized or insured; amounts in excess are neither collateralized nor insured. Investments and deposits held with trustees are either insured or held by the University or its agent in the University's name. Money market and mutual funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Endowment investments totaling \$2,143 and \$2,295 at fair value (\$1,992 and \$2,093 at cost) at June 30, 2012 and 2011, respectively, are held and administered by external trustees, while the remainder are held and administered by the University.

Hedge and other investment funds are comprised of market neutral funds and private equity, real estate, and timber funds. The University is committed to invest an additional \$963 in these funds over the next two fiscal years.

Investments – Warren Street Village construction represent the proceeds of the 2012 Series A bonds (see note 6). These funds are separately invested, and are designated for the costs of construction of the Warren Street Village, a mixed-use residential housing complex.

Deposits held with trustees represent restricted funds held by U.S. Bank and The Bank of New York Mellon under terms of the revenue bond agreements with the New Jersey Educational Facilities Authority (NJEFA), by Deutsche Bank under terms of the 2012 Series A general obligation bond agreement, and by TD Equipment Finance, Inc. under the TD Master Leases in fiscal year 2012, and by SunTrust bank under the terms of the SunTrust Master lease in fiscal year 2011 (see note 6). Of the total deposits held at June 30, 2012 and 2011, \$7,826 is required to be maintained in accordance with the mortgage bond indenture agreements.

The University, NJEFA, U.S. Bank, and Credit Suisse First Boston International (CSFBI) entered into an agreement for the investment of a portion of the University's debt service reserve for the 2004 Series B Bonds. Under this agreement, the University was committed to purchase up to \$4,100 per year of U.S. Treasury securities at maturity value from CSFBI through fiscal year 2024. For these commitments, CSFBI guaranteed the University an annual payment of \$257. For the years ended June 30, 2012 and 2011, this equated to an effective 6.3% rate of return, the arbitrage rebate limit. This agreement was terminated at the end of fiscal year 2012 in conjunction with the fiscal year 2013 advance refunding of the 2004 Series B bonds (see note 12); proceeds of \$2,064 are included in deferred revenue in the statement of net assets.

The University invests in investment grade bonds rated at least BBB (or equivalent) at the time of purchase and in repurchase agreements rated at least A1 (or equivalent) at the time of purchase. The University may also invest in below investment grade bonds to serve as equity substitutes within the overall allocation for equities. There is no limitation placed on the ownership of U.S. Treasury or government agency bonds. The endowment investment policy establishes as an objective that the aggregate fixed income portfolio have an average rating of A or better.

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

The University limits its investments to 5% of the securities of any one company and 15% of the securities of any one industry, in order to achieve a prudent level of portfolio diversification.

At June 30, 2012 and 2011, fixed income investments included in cash and cash equivalents, investments, and deposits held with trustees have the following maturities:

| Investment Type | Fair Value | June 30, 2012 | | | |
|---|------------|----------------------------------|----------|-----------|--------------|
| | | Investment Maturities (in years) | | | |
| | | Less Than 1 | 1 to 5 | 5 to 10 | More Than 10 |
| Money market funds | \$ 84,475 | \$ 84,475 | \$ — | \$ — | \$ — |
| Certificates of deposit | 24,103 | 24,103 | — | — | — |
| U.S. Treasury and government agency bonds | 24,116 | 15,605 | 3,839 | 4,629 | 43 |
| Commercial paper | 10,197 | 10,197 | — | — | — |
| Corporate debt securities | 15,891 | 15,272 | 318 | 111 | 190 |
| Mutual bond funds | 14,154 | 5,116 | 3,265 | 5,773 | — |
| Total fixed income investments | \$ 172,936 | \$ 154,768 | \$ 7,422 | \$ 10,513 | \$ 233 |

| Investment Type | Fair Value | June 30, 2011 | | | |
|---|------------|----------------------------------|-----------|----------|--------------|
| | | Investment Maturities (in years) | | | |
| | | Less Than 1 | 1 to 5 | 5 to 10 | More Than 10 |
| Money market funds | \$ 50,976 | \$ 50,976 | \$ — | \$ — | \$ — |
| Certificate of deposit | 500 | 500 | — | — | — |
| U.S. Treasury and government agency bonds | 19,363 | 10,901 | 4,994 | 3,430 | 38 |
| Corporate debt securities | 619 | 82 | 221 | 146 | 170 |
| Mutual bond funds | 9,858 | 37 | 7,276 | 2,545 | — |
| Total fixed income investments | \$ 81,316 | \$ 62,496 | \$ 12,491 | \$ 6,121 | \$ 208 |

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

The University invests its endowment funds in accordance with applicable limitations set forth in gift instruments or guidelines established by NJIT's Board of Trustees and the Foundation's Board of Overseers.

A portion of the University's endowment investments are held in an endowment investment pool. The cost and fair value of the pooled investments are as follows:

| | June 30, | | | |
|--|------------------|-------------------|------------------|-------------------|
| | 2012 | | 2011 | |
| | Cost | Fair Value | Cost | Fair Value |
| Money market funds | \$ 4,294 | \$ 4,294 | \$ 2,223 | \$ 2,223 |
| Corporate equity securities | 20,493 | 23,154 | 12,283 | 15,171 |
| Mutual equity funds | 8,520 | 8,927 | 17,221 | 17,682 |
| Mutual bond funds | 7,051 | 7,474 | 6,744 | 7,078 |
| Hedge and other investment funds | 23,653 | 23,829 | 24,441 | 25,847 |
| Total endowment investment pool | \$ 64,011 | \$ 67,678 | \$ 62,912 | \$ 68,001 |

In order to limit the risks associated with changes in interest rates, the University's endowment investment policy calls for a weighted average portfolio duration of not more than seven and one-half years for fixed income securities. At June 30, 2012 and 2011, the weighted average portfolio duration of fixed income securities included in the University's endowment investment pool was 4.4 years and 4.1 years, respectively.

Endowment investment pool units are assigned to new gifts based upon the value of the pool at the end of the quarter in which the gifts are received. There were 352,948 and 329,157 pool units with a fair unit value of \$191.75 and \$206.59 at June 30, 2012 and 2011, respectively. For the years ended June 30, 2012 and 2011, the average return per pool unit was (7.0%) and 16.0%, respectively.

The spending policy for endowment funds requires an annual calculation based on a three year rolling average of the market value per pool unit. The spending rates for the years ended June 30, 2012 and 2011 were 5.4% and 5.1%, respectively.

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

3. Capital Assets

The activity in capital assets and accumulated depreciation for the years ended June 30, 2012 and 2011 was as follows:

| | <u>June 30,</u> <u>2011</u> | <u>Additions</u> | <u>Retirements</u> | <u>Placed Into</u> <u>Service</u> | <u>June 30,</u> <u>2012</u> |
|-------------------------------------|--------------------------------|-------------------|--------------------|--------------------------------------|--------------------------------|
| Depreciable assets: | | | | | |
| Land improvements | \$ 8,368 | \$ 454 | \$ — | \$ — | \$ 8,822 |
| Buildings and building improvements | 383,712 | — | (201) | 2,394 | 385,905 |
| Equipment and other assets | 100,564 | 2,987 | (12,825) | 19 | 90,745 |
| | <u>492,644</u> | <u>3,441</u> | <u>(13,026)</u> | <u>2,413</u> | <u>485,472</u> |
| Accumulated depreciation: | | | | | |
| Land improvements | 2,927 | 494 | — | — | 3,421 |
| Buildings and building improvements | 199,901 | 12,434 | (201) | — | 212,134 |
| Equipment and other assets | 75,879 | 5,340 | (12,636) | — | 68,583 |
| | <u>278,707</u> | <u>18,268</u> | <u>(12,837)</u> | <u>—</u> | <u>284,138</u> |
| | 213,937 | (14,827) | (189) | 2,413 | 201,334 |
| Nondepreciable assets: | | | | | |
| Land | 17,870 | — | — | — | 17,870 |
| Construction in progress | 1,467 | 16,668 | — | (2,413) | 15,722 |
| | <u>\$ 233,274</u> | <u>\$ 1,841</u> | <u>\$ (189)</u> | <u>\$ —</u> | <u>\$ 234,926</u> |
| | | | | | |
| | <u>June 30,</u> <u>2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>Placed Into</u> <u>Service</u> | <u>June 30,</u> <u>2011</u> |
| Depreciable assets: | | | | | |
| Land improvements | \$ 8,368 | \$ — | \$ — | \$ — | \$ 8,368 |
| Buildings and building improvements | 372,071 | 64 | — | 11,577 | 383,712 |
| Equipment and other assets | 91,870 | 4,382 | (240) | 4,552 | 100,564 |
| | <u>472,309</u> | <u>4,446</u> | <u>(240)</u> | <u>16,129</u> | <u>492,644</u> |
| Accumulated depreciation: | | | | | |
| Land improvements | 2,508 | 419 | — | — | 2,927 |
| Buildings and building improvements | 186,691 | 13,210 | — | — | 199,901 |
| Equipment and other assets | 69,840 | 6,277 | (238) | — | 75,879 |
| | <u>259,039</u> | <u>19,906</u> | <u>(238)</u> | <u>—</u> | <u>278,707</u> |
| | 213,270 | (15,460) | (2) | 16,129 | 213,937 |
| Nondepreciable assets: | | | | | |
| Land | 17,870 | — | — | — | 17,870 |
| Construction in progress | 6,443 | 11,153 | — | (16,129) | 1,467 |
| | <u>\$ 237,583</u> | <u>\$ (4,307)</u> | <u>\$ (2)</u> | <u>\$ —</u> | <u>\$ 233,274</u> |

NEW JERSEY INSTITUTE OF TECHNOLOGY

Notes to Financial Statements

(Dollars in thousands)

June 30, 2012 and 2011

4. Supplementary Statement of Net Assets Detail

| | June 30, | |
|--|------------------|------------------|
| | 2012 | 2011 |
| Grants and accounts receivable: | | |
| Federal and State grants and accounts receivable | \$ 25,915 | \$ 27,761 |
| Student accounts receivable | 6,312 | 11,819 |
| Program services accounts receivable | 1,147 | 1,401 |
| Other grants and accounts receivable | 2,132 | 1,821 |
| Pledges receivable, current portion | 630 | 487 |
| Student loans receivable, current portion | 321 | 282 |
| Accrued interest receivable | 281 | 64 |
| | <u>36,738</u> | <u>43,635</u> |
| Less: allowance for doubtful accounts | 4,719 | 4,115 |
| | <u>\$ 32,019</u> | <u>\$ 39,520</u> |
| Other assets, noncurrent: | | |
| Deferred financing costs | \$ 6,160 | \$ 6,017 |
| Student loans receivable | 1,555 | 1,669 |
| Pledges receivable | 850 | 888 |
| Other | 274 | 300 |
| | <u>\$ 8,839</u> | <u>\$ 8,874</u> |
| Accounts payable and accrued liabilities: | | |
| Salaries and fringe benefits | \$ 11,144 | \$ 8,729 |
| Accrued interest expense | 4,688 | 4,431 |
| Accounts payable – construction | 2,384 | 247 |
| Accounts payable – other | 5,388 | 5,476 |
| Other noncurrent liabilities, current portion | 1,203 | 1,089 |
| | <u>\$ 24,807</u> | <u>\$ 19,972</u> |

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5. Noncurrent Liabilities

The activity in noncurrent liabilities for the years ended June 30, 2012 and 2011 was as follows:

| | <u>June 30, 2011</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2012</u> | <u>Current Portion</u> |
|------------------------------------|--------------------------|------------------|--------------------|--------------------------|----------------------------|
| Long term debt | \$ 168,091 | \$ 79,719 | \$ (11,515) | \$ 236,295 | \$ 8,032 |
| Unamortized net premium | 5,160 | 6,463 | (482) | 11,141 | 576 |
| Total long term debt | <u>173,251</u> | <u>86,182</u> | <u>(11,997)</u> | <u>247,436</u> | <u>8,608</u> |
| Retirement incentive programs | 3,716 | 791 | (698) | 3,809 | 499 |
| Annuity funds liability | 2,364 | 522 | (702) | 2,184 | 489 |
| Insurance liability reserve | 1,447 | 4 | — | 1,451 | — |
| Compensated absences | 2,659 | 298 | (188) | 2,769 | 190 |
| Other | 467 | 97 | (130) | 434 | 25 |
| Total other noncurrent liabilities | <u>10,653</u> | <u>1,712</u> | <u>(1,718)</u> | <u>10,647</u> | <u>1,203</u> |
| U.S. government grants refundable | 1,741 | 43 | — | 1,784 | — |
| Total noncurrent liabilities | <u>\$ 185,645</u> | <u>\$ 87,937</u> | <u>\$ (13,715)</u> | <u>\$ 259,867</u> | <u>\$ 9,811</u> |

| | <u>June 30, 2010</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2011</u> | <u>Current Portion</u> |
|------------------------------------|--------------------------|------------------|--------------------|--------------------------|----------------------------|
| Long term debt | \$ 159,951 | \$ 71,475 | \$ (63,335) | \$ 168,091 | \$ 6,311 |
| Unamortized net premium | 2,939 | 2,489 | (268) | 5,160 | 382 |
| Total long term debt | <u>162,890</u> | <u>73,964</u> | <u>(63,603)</u> | <u>173,251</u> | <u>6,693</u> |
| Retirement incentive programs | 2,344 | 1,900 | (528) | 3,716 | 376 |
| Annuity funds liability | 2,577 | 895 | (1,108) | 2,364 | 506 |
| Insurance liability reserve | 1,449 | — | (2) | 1,447 | — |
| Compensated absences | 2,618 | 206 | (165) | 2,659 | 165 |
| Other | 485 | 66 | (84) | 467 | 42 |
| Total other noncurrent liabilities | <u>9,473</u> | <u>3,067</u> | <u>(1,887)</u> | <u>10,653</u> | <u>1,089</u> |
| U.S. government grants refundable | 1,713 | 31 | (3) | 1,741 | — |
| Total noncurrent liabilities | <u>\$ 174,076</u> | <u>\$ 77,062</u> | <u>\$ (65,493)</u> | <u>\$ 185,645</u> | <u>\$ 7,782</u> |

The current portion of other noncurrent liabilities is included in accounts payable and accrued liabilities.

Included in annuity funds liability are a net decrease of \$95 and a net increase of \$814 in the fair value of investments at June 30, 2012 and 2011, respectively.

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6. Long Term Debt

Long term debt is composed of:

| | June 30, | |
|--|-----------------|-------------|
| | 2012 | 2011 |
| General Obligation Bonds: | | |
| 2012 Series A issue: | | |
| Serial bonds (interest rates of 4.00% and 5.00%, due on various dates through fiscal year 2028) | \$ 5,470 | \$ — |
| Term bonds (interest rate at 5.00%, final maturity in fiscal year 2043) | 60,025 | — |
| Revenue Bonds: | | |
| 2010 Series H issue: | | |
| Serial bonds (interest rates between 3.00% to 5.00%, due on various dates through fiscal year 2026) | 29,760 | 29,760 |
| Term bonds (interest rate at 5.00%, final maturity in fiscal year 2032) | 21,205 | 21,205 |
| 2010 Series I issue: | | |
| Term bonds (interest rate at 6.41%, final maturity in fiscal year 2041) | 20,450 | 20,450 |
| 2004 Series B issue: | | |
| Serial bonds (interest rates between 2.00% to 5.25%, due on various dates through fiscal year 2026) | 63,180 | 66,465 |
| 2001 Series H issue: | | |
| Term bonds (interest rate at 6.05%, final maturity in fiscal year 2017) | 5,505 | 6,425 |
| Other Long Term Debt: | | |
| Higher Education Capital Improvement Fund | 15,878 | 16,716 |
| TD Master Leases | 12,277 | — |
| New Jersey Economic Development Authority note | 2,217 | 2,357 |
| SunTrust Master Lease | — | 4,315 |
| Other | 328 | 398 |
| | 236,295 | 168,091 |
| Unamortized net premium on obligations | 11,141 | 5,160 |
| | 247,436 | 173,251 |
| Less: current portion | 8,608 | 6,693 |
| Long term debt | \$ 238,828 | \$ 166,558 |

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The 2012 Series A Bonds were issued by the University to provide funds to finance, in part, the costs of constructing the Warren Street Village. The bonds were issued at a premium of \$6,463, which is being amortized against interest expense over the life of the bonds.

The 2012 Series A Bonds are subject to optional redemption prior to maturity on or after July 1, 2022 at a price of 100%.

The 2010 Series H and 2010 Series I Bonds were issued by NJEFA pursuant to an agreement with the University for the purpose of advance refunding a prior issue of revenue bonds and financing, in whole or in part, the costs of the acquisition, rehabilitation, and renovation of an academic facility and of campus deferred maintenance. The 2010 Series H Bonds were issued at a premium of \$2,489, which is being amortized against interest expense over the life of the bonds.

The 2010 Series H Bonds maturing on or before July 1, 2020 are not subject to optional redemption prior to maturity. The 2010 Series H Bonds maturing on or after July 1, 2021 are subject to redemption prior to maturity on or after July 1, 2020 at a price of 100%.

The 2010 Series I Bonds have been designated as "Build America Bonds". Thirty-five percent of the interest payments will be paid by the Federal government. For the fiscal years ended June 30, 2012 and 2011, \$459 and \$292, respectively, of Federal government interest payments is included in interest expense and in other nonoperating revenues, net in the statement of revenues, expenses, and changes in net assets.

The 2010 Series I Bonds are subject to optional redemption prior to maturity on or after July 1, 2020 at a price of 100%.

The 2004 Series B Bonds were issued by NJEFA pursuant to an agreement with the University for the purpose of refunding two prior issues of revenue bonds. The University's mortgage obligation to NJEFA is collateralized by certain land, buildings and building improvements, and equipment.

Except for extraordinary optional redemption as described in the debt agreement, the 2004 Series B Bonds maturing on or prior to July 1, 2013 are not subject to redemption prior to maturity. The 2004 Series B Bonds maturing on or after July 1, 2014 are subject to redemption prior to maturity on or after January 1, 2014 at a price of 100%.

The 2001 Series H Bonds were issued by NJEFA pursuant to an agreement with the University to provide funds to finance the costs of constructing a small business incubator facility. The University's mortgage obligations to NJEFA are collateralized by certain land, buildings and building improvements, and equipment.

The 2001 Series H Bonds are not subject to optional redemption, except for extraordinary optional redemption as described in the debt agreement.

The Higher Education Capital Improvement Fund (HECIF) obligation was issued by NJEFA to provide funds for certain construction and facilities improvements at the State's public institutions of higher education. The University is responsible for one third of its allocated debt service payments and related

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program expenses. The HECIF debt bears an effective interest rate of 4.31% and matures in fiscal year 2025.

The TD Master Leases were entered into for the purpose of repaying the SunTrust Master Lease and financing the costs of an upgrade to the University's information technology and research infrastructure. The TD debt bears interest rates of between 1.35% and 1.72% with final maturity in fiscal year 2019.

The New Jersey Economic Development Authority (NJEDA) note, which matures in fiscal year 2028, is noninterest bearing and payable monthly. Imputed interest expense totaled \$85 and \$88 in fiscal years 2012 and 2011, respectively.

At June 30, 2012, deposits held with trustees included \$4,430 for principal payments on revenue bonds due on July 1, 2012. Payments due on long term debt, including mandatory sinking fund payments on the revenue bonds, are as follows for the fiscal years ending June 30:

| | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|--------------|-------------------|----|-----------------|----|----------------|
| 2013 | \$ 8,267 | \$ | 10,896 | \$ | 19,163 |
| 2014 | 8,494 | | 10,622 | | 19,116 |
| 2015 | 9,710 | | 10,273 | | 19,983 |
| 2016 | 9,040 | | 9,949 | | 18,989 |
| 2017 | 9,453 | | 9,544 | | 18,997 |
| 2018 to 2022 | 50,404 | | 40,473 | | 90,877 |
| 2023 to 2027 | 42,370 | | 29,600 | | 71,970 |
| 2028 to 2032 | 28,122 | | 21,889 | | 50,011 |
| 2033 to 2037 | 31,040 | | 14,577 | | 45,617 |
| 2038 to 2042 | 34,965 | | 5,235 | | 40,200 |
| | <u>\$ 231,865</u> | \$ | <u>163,058</u> | \$ | <u>394,923</u> |

The University has credit agreements with two banks permitting it to borrow up to \$6,000 in total, at the London Interbank Offered Rate (LIBOR) plus 1.0% and at LIBOR plus 1.4% (1.2% and 1.6% at June 30, 2012, respectively) at the time of utilization. At June 30, 2012 and 2011, there were no outstanding borrowings against these agreements.

Deferred financing costs associated with the University's long term debt totaled \$6,792 and \$6,547, net of accumulated amortization of \$3,988 and \$3,421, at June 30, 2012 and 2011, respectively.

Interest charges incurred in fiscal years 2012 and 2011 totaled \$8,383 and \$7,586, respectively. Of these amounts, \$659 and \$75 were capitalized in fiscal years 2012 and 2011, respectively. During fiscal year 2011, the University incurred a short term borrowing interest cost of \$8.

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7. **Compensated Absences**

Eligible employees accrue vacation leave based upon time employed with a maximum accumulation at June 30 of 10 to 50 days. In addition, eligible employees who retire are paid 50% of their unused sick time up to a maximum of \$15 per employee.

At June 30, 2012 and 2011, accounts payable and accrued liabilities include accrued vacation and related fringe benefits of \$4,761 and \$4,750, respectively, and unused sick time of \$190 and \$165, respectively. At June 30, 2012 and 2011, other noncurrent liabilities include \$2,579 and \$2,494, respectively, of unused sick time. In fiscal years 2012 and 2011, payments for unused sick time totaled \$188 and \$165, respectively.

8. **Retirement Programs**

Eligible full-time employees and certain part-time employees of the University participate in one of four retirement systems – the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), the Teachers' Pension and Annuity Fund (TPAF), or the Alternate Benefits Program (ABP). PERS, PFRS, and TPAF are cost-sharing, multiple-employer plans administered by the State of New Jersey. ABP is administered by a separate board of trustees.

By statute, the University's employees are considered to be State employees for purposes of pension contribution and postemployment benefits. Accordingly, the University bears none of the normal costs of its employees' participation, all of which are borne by the State. However, the University is responsible for retirement incentive program contributions to PERS and TPAF.

PERS is a defined benefit retirement program which provides coverage, including post-retirement health care, to substantially all full-time employees and certain part-time employees of the State or public agencies who are not members of another State-administered retirement system. Membership is mandatory for such employees. Vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage. Members are eligible for retirement at age 60, with a benefit generally determined to be 1/55th of the average of the three highest years of compensation for each year of service credit. The current employee contribution rate is 3% of base salary. The University's retirement incentive program contributions to PERS for the years ended June 30, 2012 and 2011 were \$174 and \$167, respectively.

TPAF is a defined benefit retirement program which provides coverage, including post-retirement health care, to substantially all full-time public school teachers of the State. The University no longer enrolls new employees in TPAF. Vesting occurs after 10 years of credited service for pension benefits and 25 years for post-retirement health care coverage. The employee contribution rate is 3% of base salary. Members are eligible for retirement at age 60, with a benefit generally determined to be 1/55th of the average of the three highest years of compensation for each year of service credit. The University's retirement incentive program contributions to TPAF for the years ended June 30, 2012 and 2011 were \$53 and \$52, respectively.

PFRS is a defined benefit retirement program which provides coverage, including post-retirement health care, to substantially all permanent, full-time police officers and firemen in the State. Membership is mandatory for such employees. Vesting occurs after 10 years of service. The employee contribution rate is 8.5% of base salary. A member may retire at age 55 with a benefit equal to two percent of final

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compensation for each year of creditable service up to 30 years, plus one percent for each year in excess of 30 years.

The State issues publicly available financial reports that include financial statements and required supplementary information for PERS, TPAF, and PFRS. These reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

ABP is a defined contribution retirement program for eligible full-time employees, providing retirement, disability, and death benefits for professionals and faculty members. Membership is mandatory for such employees. Vesting occurs after one year of service. The employee contribution rate is 5% of total base salary, and the employer contribution rate is 8% of base salary up to \$141. Benefits are determined by the amount of individual accumulations and the retirement income option selected. For the years ended June 30, 2012 and 2011, the University's contributions to ABP were \$6,182 and \$6,079, respectively.

To offset the State limit, a supplemental benefit program, a defined contribution plan, exists for ABP participants whose base salary is in excess of \$141, but not in excess of the Federal limit. Vesting occurs after one year of service. Employer contributions are at the discretion of the University, while employees may not contribute. For the year ended June 30, 2012, the University's contribution was \$337.

9. Investment (Loss) Income

Investment (loss) income is comprised of the following for the fiscal years ended June 30:

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|------------------|
| Interest and dividends | \$ 1,975 | \$ 1,599 |
| Realized net (loss) gain on sale of investments | (1,703) | 2,344 |
| Net (decrease) increase in the fair value of investments | <u>(1,311)</u> | <u>8,261</u> |
| Investment (loss) income | <u>\$ (1,039)</u> | <u>\$ 12,204</u> |

Interest income of \$145 and \$8 was capitalized in fiscal years 2012 and 2011, respectively, and is netted against interest expense.

At June 30, 2012 and 2011, \$2,118 and \$1,571 were transferred from restricted nonexpendable net assets—scholarships and fellowships, and \$141 and \$26 were transferred from restricted nonexpendable net assets—instructional and other, respectively, to the corresponding restricted expendable net assets to temporarily fund deficits therein.

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10. Unrestricted Net Assets

The components of unrestricted net assets are as follows:

| | June 30, | |
|--------------------------------------|------------------------|------------------------|
| | 2012 | 2011 |
| | <hr/> | <hr/> |
| Designated unrestricted net assets: | | |
| Scholarships and fellowships | \$ 5,433 | \$ 5,853 |
| Instructional and other | 7,413 | 7,731 |
| Debt service | 3,698 | 5,209 |
| Deferred financing costs | 1,679 | 1,182 |
| Outstanding purchase orders | 3,615 | 2,770 |
| Construction and capital programs | 16,000 | 13,412 |
| Warren Street Village construction | 10,000 | — |
| | <hr/> | <hr/> |
| | 47,838 | 36,157 |
| Undesignated unrestricted net assets | <hr/> 15,974 | <hr/> 20,156 |
| Unrestricted net assets | <hr/> \$ 63,812 | <hr/> \$ 56,313 |

11. Commitments and Contingencies

At June 30, 2012, open purchase orders totaled \$58,177, primarily for construction and capital program and research expenditures.

In the normal course of business, the University is subject to various lawsuits and claims. Management believes that the ultimate resolution of these matters will not have a significant effect on the University's financial position.

12. Subsequent Event

On July 10, 2012, the University issued 2012 Series B General Obligation Bonds in the amount of \$55,475 for the purpose of advance refunding the 2004 Series B Bonds. The advance refunding resulted in a fiscal year 2013 loss on defeasance of \$1,744. Aggregate debt service payments over the next fourteen fiscal years will be reduced by \$3,534, representing an economic gain (difference between the present value of the old and new debt service payments) of \$3,881.