KPMG

THE COLLEGE OF NEW JERSEY

(A Component Unit of the State of New Jersey)

Basic Financial Statements, Management's Discussion and Analysis and Schedules of Expenditures of Federal and State of New Jersey Awards

June 30, 2005

(With Independent Auditors' Reports Thereon)

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)

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Overview of Financial Statements and Financial Analysis

This section of The College of New Jersey (the "College") Audited Financial Report presents our discussion and analysis of the financial position and performance of the College during the fiscal year ended June 30, 2005 with the comparative information as of June 30, 2004 and 2003. This discussion and analysis has been prepared by management along with the accompanying financial statements and related footnote disclosures and should be read in conjunction with the financial statements and footnotes. The accompanying financial statements, footnotes and this discussion are the responsibility of the College management.

The financial statements encompass the College and its discretely presented component unit (The College of New Jersey Foundation, Inc); however, the MD&A focuses only on the College. Information relating to the component unit can be found in its separately issued financial statements.

College Overview

The College of New Jersey, located in suburban Ewing, New Jersey, is an institution of post-secondary education. Chartered in 1855 as the New Jersey Normal School, The College of New Jersey is the oldest of the state's public colleges and has upheld a tradition of adherence to the highest standards of academic excellence for generations. Approximately 95% of the student population originates from New Jersey. First to second year retention rate for the fall 2004 cohort is 95%.

Baccalaureate and selected master's degrees are offered through the academic programs of the College's seven schools. These schools include the School of Art, Media and Music; the School of Business; the School of Education; the School of Nursing; the School of Culture and Society; the School of Science, and the School of Engineering. Academic programs are designed to provide students with a well-rounded education with more than fifty liberal arts and professional programs offered through the seven schools.

As of fall 2004, the College enrolled 5,782 full time equivalent undergraduate students and 437 full time equivalent graduate students.

The State of New Jersey recognizes the College as a public institution of higher education. The New Jersey Legislature appropriates funds annually to support the College. However, the College operates autonomously from the State.

The College has been recognized nationally for its excellence by *US News and World Report, The Fiske Guide to Colleges*, *Barron's Profiles of American Colleges* and *Peterson's Competitive Colleges*.

The annual *U.S. News and World Report* issue on The Best American Colleges and Universities ranked the College number one among public universities in the north and number four overall among all universities in its region that offer a master's degree but have no doctoral programs. The College has ranked as the best public college in its region in the *US News and World Report* survey since 1993.

In the 2005 edition of *Barron's Profiles on American Colleges*, the College was named one of the nation's top schools. The College joins the likes of prestigious Ivy League institutions which are among the 75 schools that Barron's lists in its "Most Competitive" category. Previously, the College had been considered a "Highly Competitive" college by the publication.

Governance

A 15 member board of trustees governs the College. The board of trustees is established pursuant to Chapter 64 of Title 18A of the New Jersey Statutes.

The College has a central governance structure intended to support the President by providing an organized forum through which faculty, students, staff and administrators may receive information regarding College processes. The governance structure does not limit the power of the board of trustees to develop and approve policy if and when it may deem necessary.

Academic Profile

Faculty

In fall 2004, the College's overall full-time equivalent (FTE) faculty count was 470. Approximately 74% of the total faculty FTE was full-time (350 FTE) and the remaining 26% (120) included permanent part-time faculty, adjunct, and teaching professional staff. During this same period, the total student FTE was 6,219 and the student-to-faculty ratio was 13:1. Seventy percent of the full-time faculty is tenured and 88% have a doctorate or other terminal degree. The College does not employ graduate teaching assistants and that increases faculty involvement in the curriculum and enriches student learning.

Student

In fall 2004, the full-time freshman class enrolled 1231 students and had a 40% matriculation ratio based upon a 48% acceptance ratio for 6,485 applicants. The mean Scholastic Aptitude Test (SAT) for this group was a combined 1,261. Currently, 96% of the freshman class and 65% of all undergraduate students live on campus. Fall 2004 also brought 232 new transfer students into the College. The transfer matriculation rate was 55% and this was based on a 44% transfer acceptance ratio of 965 applicants.

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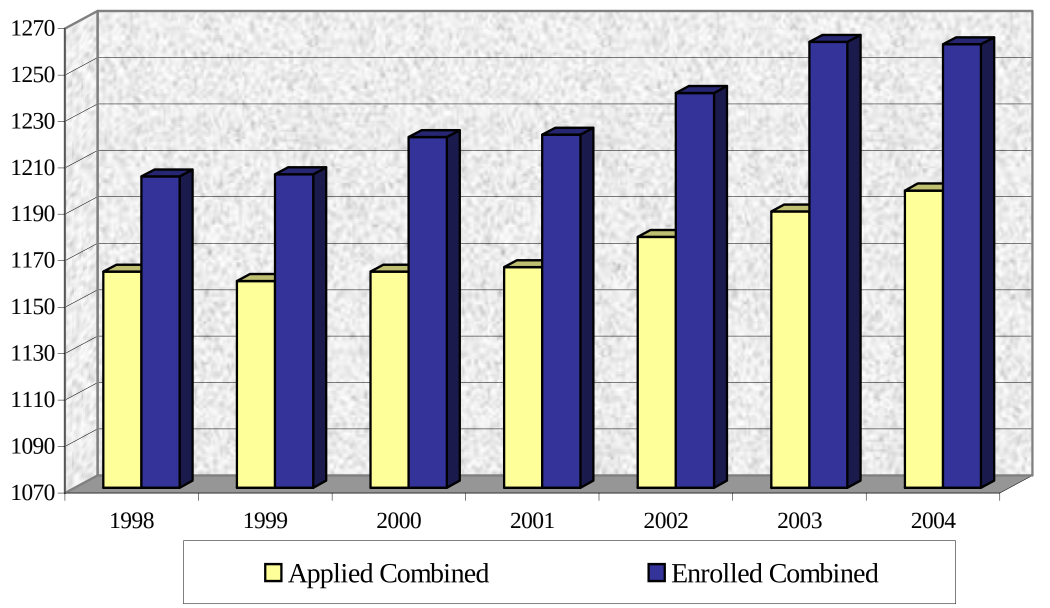
The 2004-2005 academic year concluded with the awarding of 1415 bachelor's degrees, 363 master's degrees, and 52 pre-/post-master's certifications.

Applied and Enrolled by Year, Mean Scholastic Achievement Test
All Entering Freshmen: Fall 1998 to 2004

Combined Scholastic Achievement Test



Using the Financial Statements

The College's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB) principles.

One of the most important questions asked about the College finances is whether the College as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of an institution's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

Significant aspects of the financial statements are as follows:

- Revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the College revenues, including state appropriations and investment income, are considered nonoperating, as defined by GASB Statement No. 35. The net nonoperating revenue totaled $52.3 and $53.1 million for the years ended June 30, 2005 and 2004, respectively.
- Scholarships applied to student accounts are shown as a reduction of student tuition and residence fee revenue. Tuition waivers are reported as a scholarship expense. For the years ended June 30, 2005 and 2004, scholarship allowance totaled $20.8 and $18.7 million, respectively.
- The College is required to report depreciation on its capital assets. Depreciation expense totaled $10.2 million and $9.9 million for the years ended June 30, 2005 and 2004, respectively.
- Unrestricted net assets comprise various subcategories of designated and committed funds; however, GASB Statement No. 35 prohibits a breakdown of these designations on the face of the statement of net assets. A significant portion of these funds have been designated for capital projects and for debt service requirements in fiscal year 2005.

Statement of Net Assets

The statement of net assets is a point of time financial statement which presents the College's financial position at the end of fiscal years 2005 and 2004. Assets are presented at estimated fair value, except for capital assets which are shown at cost, net of accumulated depreciation. Assets are categorized as current or noncurrent. Current assets are generally considered to be convertible to cash within one year.

Liabilities are categorized as current or noncurrent. Current liabilities are defined as becoming due and payable within the next year.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the College's equity in property, plant and equipment. The second asset category is expendable restricted net assets. These assets are available to the College but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on their usage. Finally, unrestricted net assets include amounts institutionally designated or committed to support specific academic and research programs and capital construction projects.

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A summary of the College assets, liabilities and net assets at June 30, 2005, 2004, and 2003 are as follows:

		2005	2004	2003
			(Amounts in thousands)	
Assets:				
Current assets	$	37,847	73,793	58,198
Noncurrent assets		614,318	567,629	561,094
Total assets		652,165	641,422	619,292
Liabilities:				
Current liabilities		29,416	28,787	20,216
Noncurrent liabilities		346,502	349,466	352,465
Total liabilities		375,918	378,253	372,681
Net assets:				
Invested in capital assets, net of related debt		228,620	212,782	190,881
Restricted for:				
Student loans		600	600	515
Debt service		1,096	1,096	1,096
Renewal and replacement		2,362	2,362	2,362
Capitalized interest		—	1,866	6,189
Capital grants		—	13,861	19,341
Unrestricted		43,569	30,602	26,227
Total net assets	$	276,247	263,169	246,611

Statement of Net Assets Financial Highlights

Assets

During fiscal years 2005 and 2004, the College's total assets increased by $10.7 million or 1.7% and $22.1 million or 3.6%, respectively. In fiscal year 2005 cash and cash equivalents decreased significantly by $42.2 million or 89.1% due to the transfer of cash to various investment vehicles. In fiscal year 2005, the board of trustees approved an investment policy and guidelines that gave management the flexibility to diversify the College's investments. During fiscal year 2004 when cash and cash equivalents had a modest increase of 1.7%, it was primarily due to reimbursements from deposits held by bond trustees for capital expenses paid in the previous year.

Deposits held with bond trustees had a net decrease of $26.4 million or 20.2% in fiscal year 2005, and $35.7 million or 21.5% in fiscal year 2004. For both years the change was due to reimbursements from bond construction funds for capital expenses and withdrawals from the capitalized interest account to fund interest payments on the 2002D bond issue.

Capital assets had a net increase in fiscal years 2005 and 2004 of $40.8 and $53.7 million respectively. This was primarily due to construction in progress projects that are funded by various bond issues. The construction of a new state-of-the-art library facility accounted for majority of the increase in fiscal year 2005.

Liabilities

In fiscal year 2005, the College's current liabilities remained relatively stable. Noncurrent liabilities decreased by $2.9 million or 0.8% primarily due to the repayment of outstanding principal on bonds.

In fiscal year 2004, the College's current liabilities increased by $8.6 million or 42.4%. This increase can be attributed in part to increased contractor billings for construction in progress coupled with accrued payroll expenses. Noncurrent liabilities decreased by $3.0 million or 0.9% primarily due to the repayment of outstanding principal on bonds and a reduction in the arbitrage liability.

Net Assets

The change in net assets is one indicator of whether the overall financial condition has improved or worsened during the year. The improvement in the College's overall financial position is reflected in the continuing increase to total net assets.

During fiscal years 2005 and 2004, net assets increased by $13.1 million or 5.0% and $16.6 million or 6.7%, respectively. In both fiscal years the increase was directly related to the College's continued investment in capital assets coupled with positive operating surpluses.

Current Ratio

The College's current ratio measures the institution's ability to satisfy its current obligations as they come due. In fiscal years 2005 and 2004 the College's current assets were sufficient to the cover current liabilities, as the current ratios were 1.3:1 and 3:1 respectively. The decrease in the current ratio was due to the transfer of cash to longer term investment vehicles.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the revenues earned and the expenses incurred during the year, regardless of when cash is received or paid. Activities are reported as either operating or nonoperating. Generally, operating revenues are earned in exchange for providing goods and services. Operating expenses are incurred in the normal operation of the College, including a provision for estimated depreciation on capital assets. Certain revenue sources that the College relies on for operations, including state appropriations and investment income, are required by GASB to be classified as nonoperating revenues. Nonoperating expenses include interest expense and certain costs related to capital assets.

The statement of revenues, expenses and changes in net assets reflects a positive year with an increase in net assets at the end of the year. A summary of the College's revenues, expenses and changes in net assets for the years ended June 30, 2005, 2004, and 2003 are as follows:

	2005	2004	2003
		(Amounts in thousands)	
Net student revenues	$ 69,657	65,451	60,738
Government grants and contracts	18,243	16,420	17,032
Auxiliary activities	3,873	3,674	3,503
Other	2,193	2,121	1,109
Operating revenues	93,966	87,666	82,382
Instruction and research	46,478	44,740	46,478
Auxiliary activities	21,480	19,344	18,015
Institutional support	12,105	11,911	11,860
Operation and maintenance of plant	16,043	14,374	13,552
Student services	10,909	10,691	10,370
Academic support	11,487	10,251	9,343
Depreciation	10,241	9,851	9,648
Other	4,487	3,007	2,498
Operating expenses	133,230	124,169	121,764
Operating loss	(39,264)	(36,503)	(39,382)
NJ State and government appropriations	53,474	51,849	52,522
Capital grants	—	2,210	19,341
Other expenses	(1,132)	(998)	(2,213)
Net nonoperating revenue	52,342	53,061	69,650
Increase in net assets	13,078	16,558	30,268
Net assets, beginning of year	263,169	246,611	216,343
Net assets, end of year	$ 276,247	263,169	246,611

Statement of Revenues, Expenses, and Changes in Net Assets Financial Highlights

Operating Revenues

Net student revenues

Net student revenues, which included tuition, housing and fees revenues (less scholarship allowance) are the most significant source of operating revenue for the College, amounting to 74.1% and 74.7% of total operating revenue in fiscal years 2005 and 2004, respectively.

Tuition and fees increased $4.9 million or 8.5% and $5.5 million or 10.6% in fiscal years 2005 and 2004, respectively. These increases were attributed to a general tuition increase of 8.0% and 9.0% in fiscal year 2005 and 2004, respectively, coupled with a modest increase in student enrollment.

Student housing and fees increased approximately $1.4 million or 5.3% and $1.0 million or 3.7% in fiscal years 2005 and 2004, respectively. These increases were attributed to the room and board increase of 4.5% and 4.4% in fiscal year 2005 and 2004, respectively.

In fiscal year 2005, scholarship allowance increased $2.1 million, or 11.2%, which was mainly due to an increase in College and State funded scholarships programs. The College-funded scholarships accounted for $1.4 million of the overall increase. The State funded Tuition Aid Grant (TAG) and the Outstanding Scholars Recruitment Program (OSRP) had a modest increase of $334 thousand and $268 thousand respectively in fiscal year 2005.

In fiscal year 2004, scholarship allowance increased $1.8 million, or 10.4%, which is mainly due to an increase in College-funded scholarships. The College-funded scholarships accounted for $1.6 million of the overall increase. The following is the breakdown of the scholarship allowances for the years ending June 30, 2005, 2004, and 2003:

		2005	**2004**	**2003**
			(Amounts in thousands)	
State scholarships	$	9,563	8,823	8,579
Federal scholarships		2,652	2,716	2,762
College scholarships		8,569	7,148	5,587
Total scholarships	$	20,784	18,687	16,928

Auxiliary activities

Auxiliary activities, which are self-funding activities, accounted for approximately 4.1% and 4.2% of the total operating revenues in both fiscal years 2005 and 2004. Included in auxiliary activities are revenues derived from commissions, conference and meeting services and summer camps activities.

Government grants and contracts

The College recognizes revenues associated with the direct costs of grants and contracts as the related expenditures are incurred. In fiscal year 2005, Government grants and contracts revenue increased by $1.8 million, or 11.1%. State grants and contracts increased significantly with additional revenues of $1.5 million. This was primarily due to an increase in the revenues generated by the Municipal Land Use Center grant plus increased State funding for the Tuition Aid Grant and Outstanding Scholars Recruitment Program.

For fiscal year 2004, Government grants and contracts showed an overall decrease of $612,000, or 3.6% less than the previous fiscal year. State grants and contracts decreased by $1.4 million, or 11.0%, because the High-Tech Workforce Excellence grant ended in the previous fiscal year. This grant generated revenues of $1.0 million during fiscal year 2003. The decrease in state grants was partially offset by increased revenues from federal grants and contracts.

Nonoperating Revenues

New Jersey State appropriations

New Jersey state appropriations represented 35.3% and 35.6% of the total College revenues in fiscal years 2005 and 2004 respectively. The level of state support is therefore a key factor influencing the College's overall financial condition. The state appropriations include amounts appropriated by the state legislature and employees' fringe benefits paid by the state.

The College reimburses the state for the fringe benefit cost of the employees whose salaries are funded by sources other than general operating funds. Even though state appropriations are considered nonoperating revenue, the total amount supports operating expenses. In fiscal year 2005, the gross state support to the College increased by $1.7 million or 3.4% while in fiscal year 2004, the College experienced an overall reduction of $692 thousand or 1.3%.

In response to the reduction in fiscal year 2004, the Board of Trustees and the President implemented a fiscal stabilization plan that allowed the College to retain its academic core and continue its commitment of providing exceptional service to the students and the community. This plan included a series of targeted cost-saving measures in the administrative areas except those that would affect the health and safety of the college community.

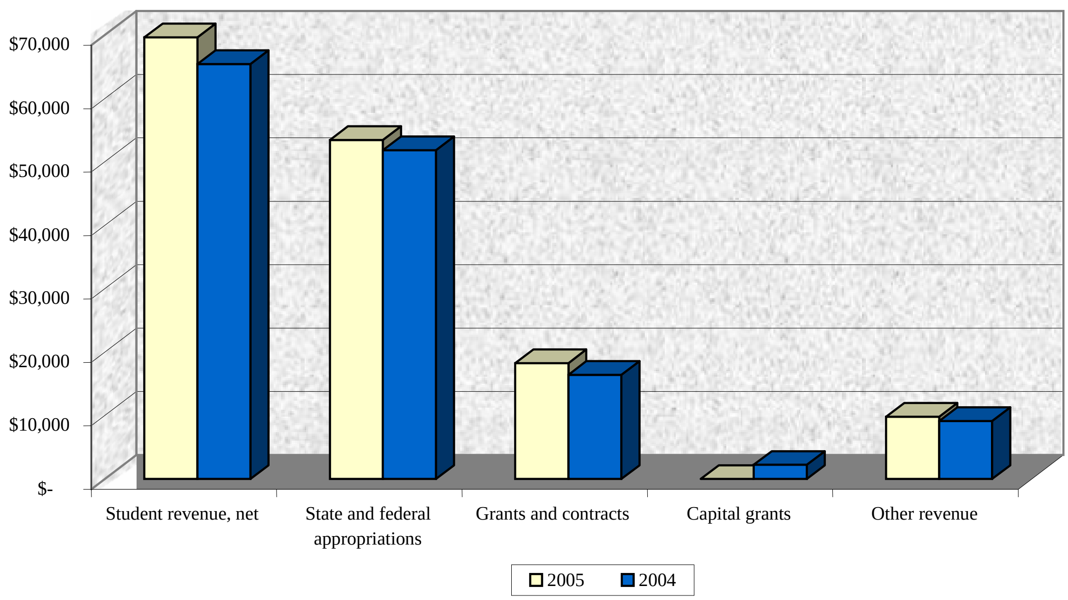
The breakdown of the state appropriations at June 30, 2005, 2004, and 2003 are as follows:

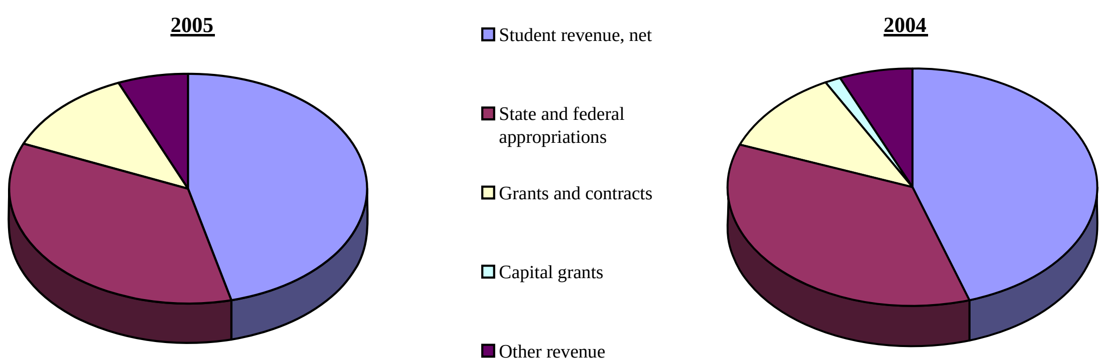
		2005	2004	2003
			(Amounts in thousands)	
Net state appropriations	$	36,807	35,619	36,340
Fringe benefits		16,504	15,957	15,928
Gross state support	$	53,311	51,576	52,268

Capital Grants

Capital grants may only be used for the purchase or construction of the capital assets specified in the grant agreement. In fiscal year 2005, the College did not receive any capital grants. In fiscal year 2004, the College received two capital grants totaling $2.2 million for the Clean Energy Program. The funds were restricted for the acquisition of the fuel cells.

The following is an illustration of revenues by source (both operating and nonoperating), which were used to fund the College's activities for the years ended June 30, 2005 and 2004 (amounts in thousands):





	2005		2004	
	Amount	Percent	Amount	Percent
	(Amounts in thousands)			
Student revenue, net	$ 69,657	46.1%	65,451	45.1%
State and federal appropriations	53,474	35.4%	51,849	35.8%
Grants and contracts	18,243	12.1%	16,420	11.3%
Capital grants	-	0.0%	2,210	1.5%
Other revenue	9,801	6.4%	9,148	6.3%
	$ 151,175	100.0%	145,078	100.0%

Operating Expenses

In fiscal years 2005 and 2004, total operating expenses were $133.2 and $124.2 million, respectively.

The combination of instruction and research represents the College's largest operating expense category. Instructional expenses remained stable, while additional funds were made available for College funded research activities. Research expenditures increased significantly because all eligible faculty was given research alternate assignment under the new academic transformation curriculum. In fiscal year 2004, the overall decrease in instructional expenditures was mainly due to a reduction in grant funded expenditures. The High Tech Workforce Excellence grant incurred a significant amount of instructional expenses during fiscal year 2003, but none in fiscal year 2004 since the grant ended in the prior year.

The increase in academic support in fiscal years 2005 and 2004, were mainly due to the filling of some vacant positions, library acquisitions, additional grant funded expenditures plus reinvestment in computer hardware and software. Institutional support and student services expenditures remained relatively stable in both fiscal years due to the continued cost-saving measures being employed in the administrative areas.

Public service expense increased significantly by $1.4 million, or 74.8% during fiscal year 2005 primarily due to the receipt of new public service-oriented grants and increased expenditures on existing grants. The fiscal year 2004 increase of $0.5 million or 34.8% was also due to the receipt of new public service-oriented grants.

Auxiliary expenses increased by $2.1 and $1.3 million, or 11.0% and 7.4%, in fiscal years 2005 and 2004, respectively. The increases were due to higher meal plan rates and increased student participation. In both fiscal years, a major expense driver was the cost of fuel and utilities for the student residence halls.

Operation and maintenance of plant increased by $1.7 million and $822 thousand, or 11.6% and 6.1%, in fiscal years 2005 and 2004, respectively. These increases were the result of additional maintenance and renovations projects.

Operating Margin

According to GASB Statement No. 35 significant resources of the College are categorized as nonoperating revenues. The fiscal year 2005 and 2004, the operating loss of $39.3 million and $36.5 million, respectively, represents the difference between the operating revenues and operating expenses. The appropriate measure of operating performance is the College's operating margin, which considers government appropriations and investment income as operating revenues and interest expense as an operating expense. Over the years, budgetary practices have led to positive operating margins. The College had an annual operating margin of 8.6% and 9.6% in fiscal years 2005 and 2004, respectively.

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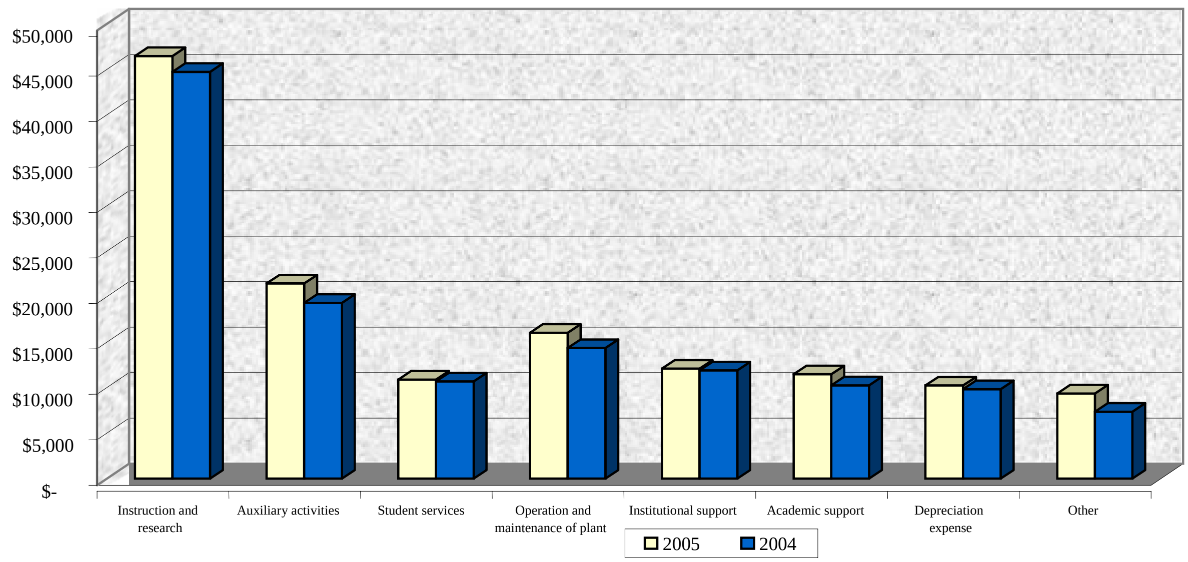
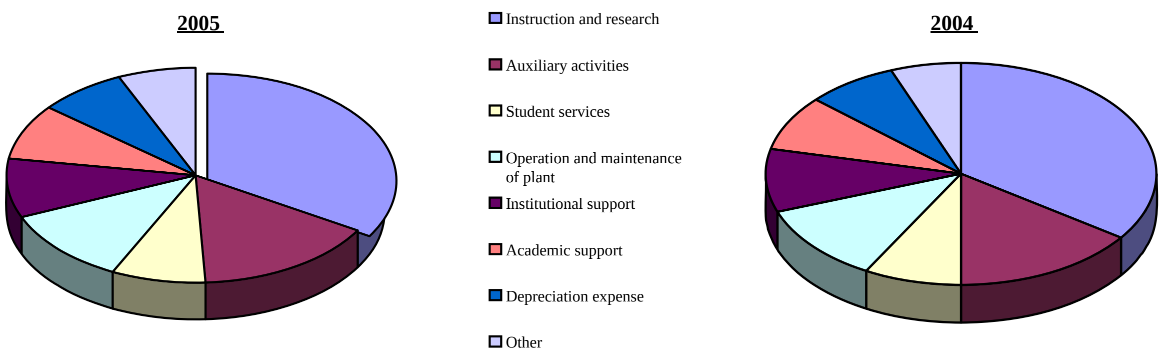
The following is an illustration of expenses by function (both operating and nonoperating) for the fiscal years ended June 30, 2005 and 2004 (amounts in thousands):





	2005		2004	
	Amount	Percent	Amount	Percent
		(Amounts in thousands)		
Instruction and research	$ 46,478	33.6%	44,740	34.8%
Auxiliary activities	21,480	15.6%	19,344	15.0%
Student services	10,909	7.9%	10,691	8.3%
Operation and maintenance of plant	16,043	11.6%	14,374	11.2%
Institutional support	12,105	8.8%	11,911	9.3%
Academic support	11,487	8.3%	10,251	8.0%
Depreciation expense	10,241	7.4%	9,851	7.7%
Interest expense	4,608	3.3%	4,054	3.2%
Public service	3,402	2.5%	1,946	1.5%
Other	1,344	1.0%	1,358	1.0%
	$ 138,097	100.0%	128,520	100.0%

Capital Assets

At June 30, 2005, the College had $471.7 million invested in capital assets, net of accumulated depreciation of $91.6 million. Depreciation charges totaled $10.2 million for the current fiscal year. Capital additions are comprised of new construction of facilities. These additions were funded primarily with the proceeds from bonds. The major capital expenditures during fiscal year 2005 included a new state-of-the-art Library, Metzger Drive parking garage, student housing and underground electric infrastructure. The following is a breakdown of the additions for fiscal years ended June 30, 2005, 2004, and 2003:

		2005	2004	2003
			(Amounts in thousands)	
Additions:				
Land	$	—	147	553
Buildings and building improvements		3,486	905	3,184
Infrastructure		9,356	262	569
Equipment and vehicles		4,586	3,916	1,390
Construction in progress		33,620	58,680	31,734
Total additions	$	51,048	63,910	37,430

Long-Term Debt

At June 30, 2005, the College had $344.8 million in outstanding bonds, compared to $347.6 million at June 30, 2004. Additional information about the College's existing long-term liabilities is presented in footnote number nine to financial statements. No new debt was issued during fiscal year 2005.

In fiscal year 2004, the College received the remainder of the Dorm Safety Trust allocation in the amount of $437,000. The Dorm Safety Trust was established to provide financing for the costs of construction, reconstruction, development, extension or improvement of dormitory safety facilities, including fire prevention and sprinkler systems. The College is required to repay the amount of the allocation, plus interest and administrative fees. The outstanding debt as of June 30, 2005 was $1.4 million.

Economic Factors that will Affect the Future

For the fiscal years ending June 30, 2005 and 2004, the College finished with a $13.1 and $16.6 million or 5.0 % and 6.7% increase in net assets respectively. The increase in net assets is one indicator of the improvement of College's financial health.

A crucial element to maintaining the College's current financial condition will continue to be our relationship with the State of New Jersey, as we work to manage tuition and make it competitive while providing an outstanding college education for our students. There is a direct relationship between the growth of State support and the College's ability to control tuition growth, as declines in state appropriations generally result in increased tuition levels. The level of State support, the impact of wage increases collectively bargained at the State level and the ability of student fee supported activities to meet inflationary pressures determine the limits of program expansion, new initiatives and strategic investments.

There are other issues of College-wide importance that will directly impact the College's future financial condition. These issues include the increasing demand for institutional scholarships, increasing the investment in academic program excellence, expanding fundraising activities, investing in capital assets, and reviewing the organizational structure to effect financial efficiencies and preserve organizational effectiveness.

Through the process of continuing strategic planning and assessment, management believes that the College is well positioned to continue providing excellence in educational programs to our students and service to the State.

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Independent Auditors' Report on Basic Financial Statements and Schedules of Expenditures of Federal and State of New Jersey Awards

The Board of Trustees
The College of New Jersey:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of The College of New Jersey (the College), a component unit of the State of New Jersey, as of and for the years ended June 30, 2005 and 2004, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The College of New Jersey Foundation, Inc., a component unit of The College of New Jersey, were not audited in accordance with *Government Auditing Standards*. 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 College'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of The College of New Jersey as of June 30, 2005 and 2004, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 1 through 14 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The College has presented certain information in management's discussion and analysis that is not required by U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedules of expenditures of Federal and State of New Jersey awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey Office of Management and Budget Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2005 basic financial statements taken as a whole.

KPMG LLP

September 16, 2005

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)
Statement of Net Assets
June 30, 2005
(Amounts in thousands)

Assets		Business-Type Activities The College of New Jersey	Component Unit The College of New Jersey Foundation, Inc.	Total
Current assets:				
Cash and cash equivalents	$	5,159	322	5,481
Receivables:				
Student accounts (less allowance of $82)		1,099	—	1,099
Student loans		826	—	826
Grants		2,788	—	2,788
Due from State of New Jersey (note 5)		882	—	882
TSC Corporation (note 3)		78	—	78
Other		1,227	1	1,228
Total receivables		6,900	1	6,901
Investments (note 4)		15,544	1,134	16,678
Deposits held with bond trustees (note 7)		7,641	—	7,641
Prepaid expenses		2,603	—	2,603
Total current assets		37,847	1,457	39,304
Noncurrent assets:				
Student loans receivable (less allowance of $287)		3,493	—	3,493
Deposits held with bond trustees (note 7)		96,388	—	96,388
Refundable deposits		—	75	75
Investments (note 4)		35,470	5,768	41,238
Deferred financing costs and deferred loss, net of accumulated amortization of $1,412		7,286	—	7,286
Capital assets, net (note 6)		471,681	—	471,681
Total noncurrent assets		614,318	5,843	620,161
Total assets		652,165	7,300	659,465
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses (note 8)		20,513	—	20,513
Compensated absences – current portion (note 12)		2,158	—	2,158
Deferred revenue and student deposits		3,728	—	3,728
Bonds payable – current portion (note 9)		2,617	—	2,617
Other long term obligations – current portion (note 9)		400	—	400
Total current liabilities		29,416	—	29,416
Noncurrent liabilities (note 9):				
Compensated absences – noncurrent (note 12)		319	—	319
U.S. and Government grants refundable		4,401	—	4,401
Bonds payable – noncurrent (note 9)		331,021	—	331,021
Other long term obligations (note 9)		10,761	—	10,761
Total noncurrent liabilities		346,502	—	346,502
Total liabilities		375,918	—	375,918
Net Assets				
Invested in capital assets, net of related debt		228,620	—	228,620
Restricted:				
Nonexpendable:				
Scholarships		—	2,262	2,262
Expendable:				
Scholarships		—	3,223	3,223
Research		—	157	157
Gift annuities		—	230	230
Other		—	404	404
Student loans		600	—	600
Debt service reserve collateral requirement		1,096	—	1,096
Renewal and replacement and maintenance reserves		2,362	—	2,362
Unrestricted (note 13)		43,569	1,024	44,593
Total net assets	$	276,247	7,300	283,547

See accompanying notes to financial statements.

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)
Statement of Net Assets
June 30, 2004
(Amounts in thousands)

Assets		Business-Type Activities The College of New Jersey	Component Unit The College of New Jersey Foundation, Inc.	Total
Current assets:				
Cash and cash equivalents	$	47,393	636	48,029
Receivables:				
Student accounts (less allowance of $82)		1,179	—	1,179
Student loans		795	—	795
Grants		3,512	—	3,512
Due from State of New Jersey (note 5)		961	—	961
The College of New Jersey Foundation (note 3)		905	—	905
Other		1,339	41	1,380
Total receivables		8,691	41	8,732
Investments (note 4)		10,261	2,950	13,211
Deposits held with bond trustees (note 7)		4,712	—	4,712
Prepaid expenses		2,736	—	2,736
Total current assets		73,793	3,627	77,420
Noncurrent assets:				
Student loans receivable (less allowance of $287)		3,336	—	3,336
Deposits held with bond trustees (note 7)		125,705	—	125,705
Refundable deposits		—	75	75
Investments (note 4)		—	4,197	4,197
Deferred financing costs and deferred loss, net of accumulated amortization of $997		7,714	—	7,714
Capital assets, net (note 6)		430,874	—	430,874
Total noncurrent assets		567,629	4,272	571,901
Total assets		641,422	7,899	649,321
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses (note 8)		20,218	—	20,218
Compensated absences – current portion (note 12)		2,427	—	2,427
Due to TSC Corporation (note 3)		27	—	27
Due to The College of New Jersey (note 3)		—	905	905
Deferred revenue and student deposits		3,309	—	3,309
Bonds payable – current portion (note 9)		2,412	—	2,412
Other long term obligations – current portion (note 9)		394	—	394
Total current liabilities		28,787	905	29,692
Noncurrent liabilities (note 9):				
Compensated absences – noncurrent (note 12)		267	—	267
U.S. and Government grants refundable		4,401	—	4,401
Bonds payable – noncurrent (note 9)		333,637	—	333,637
Other long term obligations (note 9)		11,161	—	11,161
Total noncurrent liabilities		349,466	—	349,466
Total liabilities		378,253	905	379,158
Net Assets				
Invested in capital assets, net of related debt		212,782	—	212,782
Restricted:				
Nonexpendable:				
Scholarships		—	2,201	2,201
Expendable:				
Scholarships		—	3,027	3,027
Research		—	77	77
Gift annuities		—	241	241
Other		—	411	411
Student loans		600	—	600
Debt service reserve collateral requirement		1,096	—	1,096
Renewal and replacement and maintenance reserves		2,362	—	2,362
Capitalized interest		1,866	—	1,866
Capital grants		13,861	—	13,861
Unrestricted (note 13)		30,602	1,037	31,639
Total net assets	$	263,169	6,994	270,163

See accompanying notes to financial statements.

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2005

(Amounts in thousands)

		Business-Type Activities The College of New Jersey	Component Unit The College of New Jersey Foundation, Inc.	Total
Operating revenues:				
Student revenues:				
Student tuition and fees	$	62,203	—	62,203
Less: tuition scholarship allowances		(16,149)	—	(16,149)
Net student tuition and fees		46,054	—	46,054
Student housing and fees		28,238	—	28,238
Less: housing scholarship allowances		(4,635)	—	(4,635)
Net student housing and fees		23,603	—	23,603
Federal grants and contracts		5,054	—	5,054
State of New Jersey grants and contracts		13,189	—	13,189
Auxiliary activities		3,873	—	3,873
Interest on student loans receivable		80	—	80
Other operating revenues		2,113	—	2,113
Total operating revenues		93,966	—	93,966
Operating expenses:				
Instruction		40,254	—	40,254
Research		6,224	—	6,224
Academic support		11,487	—	11,487
Public service		3,402	—	3,402
Student services		10,909	—	10,909
Operation and maintenance of plant		16,043	—	16,043
Institutional support		12,105	—	12,105
Scholarships and fellowships		1,085	325	1,410
Auxiliary activities		21,480	—	21,480
Fundraising		—	384	384
Depreciation		10,241	—	10,241
Total operating expenses		133,230	709	133,939
Operating loss		(39,264)	(709)	(39,973)
Nonoperating revenues (expenses):				
State of New Jersey appropriations		36,807	—	36,807
State of New Jersey fringe benefits		16,504	—	16,504
Government appropriations		163	—	163
Contributions		—	1,558	1,558
Investment income		3,418	257	3,675
Interest expense		(4,608)	—	(4,608)
Transactions with affiliates (note 3)		317	(1,048)	(731)
Other (expenses) revenues, net		(259)	248	(11)
Net nonoperating revenues		52,342	1,015	53,357
Increase in net assets		13,078	306	13,384
Net assets as of beginning of year		263,169	6,994	270,163
Net assets as of end of year	$	276,247	7,300	283,547

See accompanying notes to financial statements.

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

(Amounts in thousands)

		Business-Type Activities The College of New Jersey	Component Unit The College of New Jersey Foundation, Inc.	Total
Operating revenues:				
Student revenues:				
Student tuition and fees	$	57,318	—	57,318
Less: tuition scholarship allowances		(15,006)	—	(15,006)
Net student tuition and fees		42,312	—	42,312
Student housing and fees		26,820	—	26,820
Less: housing scholarship allowances		(3,681)	—	(3,681)
Net student housing and fees		23,139	—	23,139
Federal grants and contracts		4,757	—	4,757
State of New Jersey grants and contracts		11,663	—	11,663
Auxiliary activities		3,674	—	3,674
Interest on student loans receivable		80	—	80
Other operating revenues		2,041	—	2,041
Total operating revenues		87,666	—	87,666
Operating expenses:				
Instruction		40,099	—	40,099
Research		4,641	—	4,641
Academic support		10,251	—	10,251
Public service		1,946	—	1,946
Student services		10,691	—	10,691
Operation and maintenance of plant		14,374	—	14,374
Institutional support		11,911	—	11,911
Scholarships and fellowships		1,061	304	1,365
Auxiliary activities		19,344	—	19,344
Fundraising		—	416	416
Depreciation		9,851	—	9,851
Total operating expenses		124,169	720	124,889
Operating loss		(36,503)	(720)	(37,223)
Nonoperating revenues (expenses):				
State of New Jersey appropriations		35,619	—	35,619
State of New Jersey fringe benefits		15,957	—	15,957
Government appropriations		273	—	273
Contributions		—	2,620	2,620
Investment income		2,373	158	2,531
Interest expense		(4,054)	—	(4,054)
Transactions with affiliates (note 3)		980	(967)	13
Other (expenses) revenues, net		(297)	336	39
Net nonoperating revenues		50,851	2,147	52,998
Other revenue:				
Capital grants		2,210	—	2,210
Increase in net assets		16,558	1,427	17,985
Net assets as of beginning of year		246,611	5,567	252,178
Net assets as of end of year	$	263,169	6,994	270,163

See accompanying notes to financial statements.

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

(Business-Type Activities - College only)

Years ended June 30, 2005 and 2004

(Amounts in thousands)

		2005	2004
Cash flows from operating activities:			
Tuition and fees	$	41,339	38,270
Federal, state, and local grants and contracts		17,519	16,600
Payments to suppliers		(30,682)	(42,165)
Payments to employees		(72,477)	(57,220)
Payments for benefits		(2,138)	(1,203)
Student housing and auxiliary activities		14,440	14,838
Other receipts, net		2,193	1,949
Net cash used by operating activities		(29,806)	(28,931)
Cash flows from noncapital financing activities:			
New Jersey State appropriations		36,728	35,488
Other receipts, net		1,463	1,252
Net cash provided by noncapital financing activities		38,191	36,740
Cash flows from capital and related financing activities:			
Purchase of capital assets		(21,338)	(28,176)
Withdrawals from deposits held with bond trustees		25,912	33,966
Principal payments on bonds and other obligations		(2,849)	(2,589)
Interest payments on bonds and other obligations		(15,078)	(12,307)
Other disbursements, net		(259)	(296)
Net cash used by capital and related financing activities		(13,612)	(9,402)
Cash flows from investing activities:			
Interest on investments		3,418	2,373
Purchases of investments		(96,095)	—
Maturities of investments		55,670	—
Net cash (used) provided by investing activities		(37,007)	2,373
Net (decrease) increase in cash and cash equivalents		(42,234)	780
Cash and cash equivalents as of beginning of year		47,393	46,613
Cash and cash equivalents as of end of year	$	5,159	47,393
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$	(39,264)	(36,503)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation		10,241	9,851
Changes in assets and liabilities:			
Receivables, net		(937)	917
Prepaid expenses		(547)	1,230
Accounts payable and accrued expenses		3,720	(3,939)
Accrued salaries		(1,116)	(2,912)
Compensated absences		217	437
Other accrued expenses		(2,539)	2,081
Deferred revenue and student deposits		419	(93)
Net cash used by operating activities	$	(29,806)	(28,931)

See accompanying notes to financial statements.

(1) Organization

The College of New Jersey (formerly, Trenton State College) (the College) is a mid-sized, comprehensive public college which concentrates primarily on the undergraduate experience. Baccalaureate and master's degrees are offered through the academic programs of the College's seven schools (Art, Media and Music, Science, Culture and Society, Business, Education, Nursing and Engineering). In the fall of 2004, the College enrolled 5,782 full-time equated undergraduate students and 437 full-time equated graduate students. The College has residential facilities that house more than half of the students on campus and another third of the student population in housing nearby.

The College is recognized as a public institution of higher education by the State of New Jersey (the State) and, accordingly, the State Legislature appropriates funds annually to support the College. Under the law, the College is an instrumentality of the State with a high degree of autonomy. However, 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, the College, which is financially dependent on the State of New Jersey, (the State), is considered to be a component unit of the State for financial reporting purposes. Accordingly, the financial statements of the College are included in the State's Comprehensive Annual Financial Report.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accounting policies of the College conform to all U.S. generally accepted accounting principles as applicable to public colleges and universities. The College's financial statements are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Boards (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

- ***Invested in capital assets, net of related debt****:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- ***Restricted****:*

  Nonexpendable: Net assets subject to externally imposed stipulations that must be maintained permanently by the College.

Expendable: Net assets whose use by the College a subject to externally-imposed stipulations that can be fulfilled by actions of College pursuant to the stipulations or that expire by the passage of time.

- ***Unrestricted****:* Net assets that are not subject to externally-imposed stipulations and may be designated for specific purposes by action of management to the board of trustees or may otherwise be limited by contractual agreements with outside parties.

(b) Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. The College reports as a business type activity, as defined by GASB Statement No. 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of investments with the New Jersey State Cash Management Fund and are combined into a large-scale investment program with amounts contributed by other state entities. These investments consist primarily of U.S. Treasury issues. All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

(d) Deposits Held with Bond Trustees

Deposits held with bond trustees are reflected at fair value, which is based on quoted market prices. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on an accrual basis. Changes in fair value (including both realized and unrealized gains and losses) are reported in investment income. The College's financial statements for fiscal years 2005 and 2004 reflect net increase in fair value of investments of $13 and $11, respectively.

(e) Investments

Investments are reflected at fair value, which is based on quoted market prices. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on an accrual basis. Realized and unrealized gains and losses are reported in investment income.

Effective July 1, 2004, the College adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures", an amendment of GASB Statement No. 3. This Statement establishes and modifies disclosure requirements related to investment and deposit risks. Comparative information as of June 30, 2004 is not presented in the accompanying notes to the financial statements.

(Continued)

(Dollar amounts in thousands)

(f) Capital Assets

Capital assets include buildings, equipment, and infrastructure assets, such as roads and sidewalks. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the College are depreciated using the straight-line method over the following useful lives:

Capital asset	Useful lives
Buildings	30 to 50
Infrastructure	35
Land and building improvements	25
Equipment	5 to 10
Vehicles	7

Estimated obligations to complete construction in progress as of June 30, 2005 and 2004 are approximately $32,588 and $43,055, respectively. Such construction is principally financed by proceeds from long-term debt.

(g) Deferred Revenue

Deferred revenue represents tuition and fees collected in advance of the fiscal year.

(h) Student Activity Fees

It is the policy of the College to collect the student activity fees for the Student Finance Board. Revenues and related remittance of these fees to the Student Finance Board of $694 and $634 in fiscal years 2005 and 2004, respectively, have not been included in the accompanying financial statements.

(i) Tuition and Fees

Student tuition and fees are presented net of scholarships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship expense.

(j) Operating Activities

The College's policy for defining operating activities as reported on the statements of revenues, expenses, and changes in net assets are those that serve the College's principal purpose and generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Examples include: student tuition and fees, net of scholarship allowances, and most Federal, State and private grants and contracts. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue, as defined by GASB Statement No. 34, including state appropriations, gifts, and investment income.

(k) Student Housing and Fees

Student housing and fees are comprised mainly of revenues received from student housing and student center fees.

(l) Income Taxes

The College is a political subdivision and as such, is exempt from New Jersey State and Federal income taxes under Internal Revenue Service code Section 115.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(3) Transactions with Affiliates

(a) The College of New Jersey Foundation

The College of New Jersey Foundation (the Foundation) has approved payments to the College for support of scholarships and restricted funds of $1,048 and $967 during fiscal years 2005 and 2004, respectively. As of June 30, 2004 net receivables of $905 were due from the Foundation (see note 16). No amounts were due at June 30, 2005.

(b) Trenton State College Corporation

Trenton State College Corporation (TSC Corporation or the Corporation) assists in the development and growth of the College through property acquisitions and facilities management. The accompanying financial statements do not include the activities of the TSC Corporation. The New Jersey Board of Higher Education approved the Corporation on April 15, 1988, in accordance with the Public College Auxiliary Organizations Act, P.L. 1982.

During 2005 and 2004 the College incurred $234 and $178, respectively in rent and related expenses paid to the Corporation for usage of space in homes owned by the Corporation. In addition, the College reimbursed the Corporation for expenses associated with the maintenance of College owned properties. As of June 30, 2005 and 2004, there were outstanding payables relating to these expenses of $31 and $40, respectively.

Additionally, the Corporation pays the College for the portion of salaries and benefits of College employees who perform functions for the Corporation and any expenses applicable to the Corporation. This amounted to $321 for 2005 and $285 for 2004 of which $25 and $13 were outstanding as of June 30, 2005 and 2004, respectively.

The Corporation purchased the Country Club Apartments and Transfer Housing facilities in order to provide additional housing for the College's students. The Corporation pays for the maintenance of these facilities, and the College in return remits all room revenues earned by these facilities to the Corporation. During fiscal 2005 and 2004, the net revenues remitted from the College to the Corporation were $806 and $663, respectively. During fiscal year 2005 the College incurred expenses related to a Transfer Housing utility project. The Corporation is obligated to reimburse the College for these expenses since the Corporation receives all related revenues. As of June 30, 2005 the Corporation owed the College $84 for a utility project expense.

During fiscal year 2004, the Corporation contributed the title of four properties with a net book value of $534 back to the College for future capital expansion. There were no contributions during fiscal year 2005.

(4) Cash, Cash Equivalents, and Investments

Cash and cash equivalents are carried in the financial statements at fair value. Cash and cash equivalents were $5,159 and $47,393 as of June 30, 2005 and 2004, respectively, which included $1,491 and $45,508, respectively, held in the State of New Jersey Cash Management fund and $3,668 and $1,885, respectively, held in various accounts at Wachovia Bank. Of the amounts held at Wachovia Bank, $100 was insured by the Federal Deposit Insurance Corporation and the remaining balance was collateralized in accordance with Chapter 64 Title 18A of New Jersey Statutes.

The College has an investment policy which establishes guidelines for permissible investments. The College may invest in obligations of the United States Government, obligations of the State of New Jersey; collateralized certificates of deposit; Commonfund Investments and other securities which shall be authorized by the Board of Trustees of the College. The Commonfund is a non-profit provider of short and intermediate term fixed income investment products for nonprofit institutional clients.

(Dollar amounts in thousands)

The College's investments as of June 30, 2005 and 2004 are as follows:

		2005	2004
U.S. Treasury securities	$	14,916	—
Commonfund-Short-term fund		628	—
Commonfund-Intermediate term fund		35,470	—
Corporate bond		—	10,261
Total	$	51,014	10,261

Treasury securities comprise 26% of the intermediate fund and 21% of the short-term fund.

The College's investments are subject to various risks. Among these risks are credit risk, concentration of credit risk and interest rate risk. Each one of these risks are discussed in more detail below.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's). At June 30, 2005, the College's investments in U.S. Agency bonds were rated AAA. Of the total investment pool, 70.8% was invested with the Commonfund.

The Commonfund is a mutual fund. As of June 30, 2005 the credit quality of the investments which comprise the Commonfund intermediate and short-term funds are as follows:

	Intermediate	Short Term
AAA	42%	50%
AA	12%	10%
A	17%	0%
A1+/P1 or A1/P1	0%	19%
Other	3%	0%

Interest rate risks is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's investment policy provides limitations in the maturities of various types of investments.

(Dollar amounts in thousands)

(5) Due from State of New Jersey

Due from the State of New Jersey consists of the following as of June 30, 2005 and 2004:

		2005	2004
FICA benefit reimbursement	$	341	360
Asbestos Abatement Project		6	105
Alternative Benefit Programs (ABP)		535	496
Total	$	882	961

(6) Capital Assets

Capital asset activity for the years ended June 30, 2005 and 2004 was as follows:

2005		Beginning balance	Additions	Retirements	Ending balance
Nondepreciable assets:					
Land	$	21,157	—	—	21,157
Construction in progress		139,247	33,620	—	172,867
Total nondepreciable assets		160,404	33,620	—	194,024
Depreciable assets:					
Land improvements		230	—	—	230
Buildings		285,615	—	—	285,615
Building improvements		25,687	3,486	—	29,173
Infrastructure		7,810	9,356	—	17,166
Equipment		31,876	4,502	—	36,378
Vehicles		657	84	—	741
Total depreciable assets		351,875	17,428	—	369,303
Total capital assets		512,279	51,048	—	563,327
Accumulated depreciation:					
Land improvements		(83)	(9)	—	(92)
Buildings		(55,073)	(5,760)	—	(60,833)
Building improvements		(5,998)	(1,027)	—	(7,025)
Infrastructure		(1,165)	(223)	—	(1,388)
Equipment		(18,833)	(3,128)	—	(21,961)
Vehicles		(253)	(94)	—	(347)
Total accumulated depreciation		(81,405)	(10,241)	—	(91,646)
Capital assets, net	$	430,874	40,807	—	471,681

(Dollar amounts in thousands)

2004		Beginning balance	Additions	Retirements	Ending balance
Nondepreciable assets:					
Land	$	21,010	147	—	21,157
Construction in progress		80,567	58,680	—	139,247
Total nondepreciable assets		101,577	58,827	—	160,404
Depreciable assets:					
Land improvements		230	—	—	230
Buildings		285,623	405	(413)	285,615
Building improvements		25,187	500	—	25,687
Infrastructure		7,548	262	—	7,810
Equipment		28,028	3,848	—	31,876
Vehicles		589	68	—	657
Total depreciable assets		347,205	5,083	(413)	351,875
Total capital assets		448,782	63,910	(413)	512,279
Accumulated depreciation:					
Land improvements		(74)	(9)	—	(83)
Buildings		(49,423)	(5,733)	83	(55,073)
Building improvements		(4,990)	(1,008)	—	(5,998)
Infrastructure		(949)	(216)	—	(1,165)
Equipment		(16,032)	(2,801)	—	(18,833)
Vehicles		(169)	(84)	—	(253)
Total accumulated depreciation		(71,637)	(9,851)	83	(81,405)
Capital assets, net	$	377,145	54,059	(330)	430,874

As of June 30, 2005 and 2004 the College's bond obligations were collateralized by buildings and equipment with book values of $371,941 and $324,596, respectively. During fiscal year 2005 and 2004, net interest costs of $11,405 and $11,660, respectively, were capitalized and included in construction in progress.

(Continued)

(Dollar amounts in thousands)

(7) Deposits Held with Bond Trustees

Deposits held with bond trustees represent restricted funds held by Wachovia Bank and The Bank of New York, "the trustees", under the terms of various lease agreements and bond indentures. Pursuant to these agreements, the trustees must maintain in aggregate approximately $1,096 in reserves for debt service. Deposits with bond trustees are carried in the financial statements at fair value and consist of short-term investments and government securities. As of June 30, 2005 and 2004 deposits with bond trustees include the following:

		2005	2004
Construction funds	$	97,556	121,804
Renewal and replacement funds		1,012	1,003
Debt service reserve funds		1,111	1,121
Rental pledge		4,350	4,547
Capitalized interest		—	1,866
Cost of issuance		—	76
Total	$	104,029	130,417

Under the terms of various bond resolutions, the College is required to establish and maintain reserves for renewal and replacement costs of certain projects, capitalized interest to pay interest expense on certain bonds and debt service reserves for payment of principal and interest.

As of June 30, 2005 deposits held with bond trustees included $7,641 in U.S. Treasury notes rated AAA maturing within the next fiscal year.

(8) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of June 30, 2005 and 2004:

		2005	2004
Bond principal and interest	$	4,788	4,712
Vendors		7,260	8,729
Accrued salaries and benefits		4,266	5,477
Accrued expense – construction		4,199	1,300
Total	$	20,513	20,218

(Dollar amounts in thousands)

(9) Noncurrent Liabilities

The College is obligated under lease agreements associated with various revenue bonds issued by the New Jersey Educational Facilities Authority (the Authority) to finance the construction of dormitories, a student parking garage, academic equipment, academic facilities, a co-generation plant and student recreational facilities.

The following is a breakout of all bonds payable, and other long term obligations, as of June 30, 2005 and 2004:

		2005	2004
Bonds payable:			
New Jersey Educational Facilities Authority:			
1972 Series A (interest 5.95%, maturing on July 1, 2007)	$	1,195	1,740
1976 Series D (interest 6.85%, maturing on July 1, 2008)		1,165	1,500
1999 Series A (interest 4.60%, maturing on July 1, 2029)		144,855	144,855
2002 Series C (interest 4.67%, maturing on July 1, 2019)		48,820	50,395
2002 Series D (interest 4.10%, maturing on July 1, 2035)		138,550	138,550
Subtotal bonds payable		334,585	337,040
Less bond discount / premium		(947)	(991)
Total bonds payable	$	333,638	336,049
Other long term obligations:			
Dormitory Safety Trust Fund (interest 5%, maturing on January 15, 2018)	$	1,357	1,480
PSE&G Capital Lease (interest 5.25%, maturing on June 1, 2008)		610	793
Equipment Leasing Series 2003A (interest 3.4%, maturing on August 1, 2011)		689	777
Higher Education Capital Improvement Fund (interest 3% to 5.25% maturing on August 15, 2022)		8,505	8,505
Total other long term obligations	$	11,161	11,555

(Continued)

(Dollar amounts in thousands)

Aggregate principal and interest repayments required during the next five fiscal years and thereafter are as follows as of June 30, 2005:

		Bond Principal	Other long term obligations principal	Bond interest	Other long term obligations interest
Year ending June 30:					
2006	$	2,660	400	15,094	484
2007		3,965	660	14,966	466
2008		3,180	683	14,777	440
2009		3,410	488	14,637	416
2010		2,845	506	14,501	398
2011-2015		17,460	2,467	70,556	1,724
2016-2020		43,760	2,315	65,180	1,237
2021-2025		91,405	3,642	48,522	340
2026-2030		89,050	—	27,815	—
2031-2035		76,850	—	9,717	—
	$	334,585	11,161	295,765	5,505

The College has defeased certain indebtedness during fiscal years 1999 and 2002 by depositing funds into escrow accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. These bonds are not considered outstanding obligations of the College and therefore, neither the assets of the escrow accounts nor the defeased indebtedness are included in the accompanying statements of net assets. The principal outstanding on the defeased bonds as of June 30, 2005 and 2004 were as follows:

		Principal amount	
		2005	2004
Bond Series:			
1994B	$	20,610	21,185
1996A		75,185	75,185
	$	95,795	96,370

(Dollar amounts in thousands)

Noncurrent liabilities activity for the years ended June 30, 2005 and 2004 is as follows:

2005		Beginning balance	Additions	Deductions	Ending balance	Current portion
Noncurrent liabilities:						
Compensated absences	$	2,694	—	(217)	2,477	2,158
U.S. and Government grants refundable		4,401	—	—	4,401	—
Bonds payable		336,049	44	(2,455)	333,638	2,617
Other long term obligations		11,555	—	(394)	11,161	400
Total noncurrent liabilities	$	354,699	44	(3,066)	351,677	5,175

2004		Beginning balance	Additions	Deductions	Ending balance	Current portion
Noncurrent liabilities:						
Compensated absences	$	3,131	—	(437)	2,694	2,427
Arbitrage payable		334	—	(334)	—	—
U.S. and Government grants refundable		4,633	—	(232)	4,401	—
Bonds payable		338,322	41	(2,314)	336,049	2,412
Other long term obligations		11,391	427	(263)	11,555	394
Total noncurrent liabilities	$	357,811	468	(3,580)	354,699	5,233

The agreements with the Authority require the College to pledge all the fees, charges and rentals collected from the operations of the facilities. The terms of the agreements require annual rental payments equal to at least one hundred fifteen percent (115%) for 1976 Series D; one hundred ten percent (110%) for 1972 Series A of the principal and interest due in any bond year. In addition, the terms provide for the funding of a project renewal and replacement fund and certain other costs incurred in the administration of the agreement.

The New Jersey Educational Facilities Authority, on behalf of the College, issued debt in a variable rate mode that has been synthetically fixed through interest rate swaps. The par amounts were $146,455 and $138,550 for Series 1999A and Series 2002D, respectively.

The swap's notional amount of Series 1999A is $146,455. Based on the swap agreement, the College owes interest calculated at a fixed rate of 4.6% to the counterparty of the swap. In return, the counterparty owes the College floating rate interest based on 96% of BMA (The Bond Market Association Municipal Swap Index). Only the net difference in interest payments is actually exchanged with the counterparty. The $146,455 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

(Dollar amounts in thousands)

Because interest rates have declined since execution of the swap, the swap had a negative fair value of $20,833 as of June 30, 2005. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic rate. Because the coupons on the College's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was provided by an independent investment management group.

As of June 30, 2005, the College was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the College would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty had ratings of AAA by Standard & Poor's and Aaa by Moody's at June 30, 2005. The swap does not expose the College to basis risk because it was based on the BMA index.

Under certain scenarios, the swap could be terminated prior to its scheduled termination date of July 1, 2029. The full listing of termination events is in the Master Agreement and the Schedule to the Master Agreement. In addition to standard events of default or illegalities, an early termination could be triggered by a credit event or a failure of the counterparty to make certain payments under the terms of the swap agreement.

If at the time of termination the swap has a negative fair value, the College would be liable to the counterparty for a payment equal to the market value of the swap, including accrued interest.

Using rates as of June 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

1999A	**Terms**	**Rates**
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.60 %
Variable payment from counterparty	96% of BMA	(2.19)
Net interest rate swap payments		2.41
Variable rate bond coupon payments		2.27
Synthetic interest rate on bonds		4.68 %

(Dollar amounts in thousands)

Fiscal year ending June 30	Variable-rate bonds Principal	Variable-rate bonds Interest	Interest rate swaps, net	Total
2006	$ —	3,288	3,493	6,781
2007	1,000	3,288	3,493	7,781
2008	—	3,266	3,469	6,735
2009	—	3,266	3,469	6,735
2010	—	3,266	3,469	6,735
2011-2015	—	16,328	17,343	33,671
2016-2020	25,100	16,122	17,125	58,347
2021-2025	91,405	9,425	10,012	110,842
2026-2029	27,350	2,000	2,125	31,475
Total	$ 144,855	60,249	63,998	269,102

The swap notional amount of the Series 2002D is $138,550. Based on the swap agreement, the College owes interest calculated at a fixed rate of 4.1% to the counterparty of the swap. In return, the counterparty owes the College floating rate interest based on 67% of 1-month LIBOR. Only the net difference in interest payments is actually exchanged with the counterparty. The $138,550 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of $21,981 as of June 30, 2005. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic rate. Because the coupons on the College's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was provided by an independent investment management group.

As of June 30, 2005, the College was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the College would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty had ratings of A+ by Standard & Poor's and Aa3 by Moody's as of June 30, 2005 and 2004.

The swap exposes the College to basis risk. The variable bond rate that the College pays on its R-FLOAT bonds is based on a tax-exempt rate, while the variable rate that it receives from its swap, 67% of 1-month LIBOR, is based on a percentage of a short-term taxable rate. These cash flows will tend to offset each other. However, to the extent that 67% of LIBOR is less than the bond rate, the College's cost of funds will increase and vice versa. Theoretically, the college is compensated for this risk because it pays a substantially lower fixed rate on a 67% of LIBOR swap than it would have paid had it executed a BMA swap or sold traditional fixed rate bonds. As of June 30, 2005, 1-month LIBOR was 3.34% and the College's variable bond rate was 2.30%.

(Continued)

(Dollar amounts in thousands)

Under certain scenarios, the swap could be terminated prior to its scheduled termination date of July 1, 2035. The full listing of termination events is in the Master Agreement and the Schedule to the Master Agreement. In addition to standard events of default or illegalities, an early termination could be triggered by a credit event or a failure to post collateral.

Upon the occurrence of a standard ISDA event of default or termination event, neither the counterparty nor the College shall designate an early termination unless the insurer has failed to pay under the terms of the insurance policy or the insurer otherwise so consents. Additional termination events are limited to the insurer failure to meets its obligations under the insurance policy, or if the unenhanced, unsecured senior debt rating of either party falls below BBB– as rated by Standard & Poor's or below Baa3 as rated by Moody's. If at the time of termination the swap has a negative fair value, the College would be liable to the counterparty for a payment equal to the market value of the swap, including accrued interest.

Using rates as of June 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

2002D	**Terms**	**Rates**
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.10 %
Variable payment from counterparty	67% of LIBOR	(2.24)
Net interest rate swap payments		1.86
Variable rate bond coupon payments		2.30
Synthetic interest rate on bonds		4.16 %

Fiscal year ending June 30	**Variable-rate bonds Principal**	**Variable-rate bonds Interest**	**Interest rate swaps, net**	**Total**
2006	$ —	3,190	2,580	5,770
2007	—	3,190	2,580	5,770
2008	—	3,190	2,580	5,770
2009	—	3,190	2,580	5,770
2010	—	3,190	2,580	5,770
2011-2015	—	15,952	12,900	28,852
2016-2020	—	15,952	12,900	28,852
2021-2025	—	15,952	12,900	28,852
2026-2030	61,700	13,236	10,704	85,640
2031-2036	76,850	5,464	4,419	86,733
Total	$ 138,550	82,506	66,723	287,779

(10) Benefits Paid by the State of New Jersey

The State, through separate appropriations, principally pension costs and FICA taxes, pays certain fringe benefits on behalf of College employees. The costs of these benefits, $16,504 and $15,957 in 2005 and 2004, respectively, were paid directly by the State on behalf of the College and are included in the accompanying financial statements as part of nonoperating revenues under New Jersey State Appropriations revenues and as operating expenses in various functional expense categories.

(11) Retirement Plans

(a) Plan Descriptions

The College participates in several retirement plans covering its employees – the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF), the Police and Firemen's Retirement System (PFRS) and the Alternative Benefit Program (ABP). Generally all employees, except certain part-time employees, participate in one of these plans.

PERS was established under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full-time employees of the State or public agency provided the employee is not a member of another state-administered retirement system. PERS is a cost-saving, multiple-employer defined benefit pension plan administered by the State.

All police officers and firefighters appointed after June, 1944, in municipalities where local police and fire pension funds existed, or where this system was adopted by referendum or resolution, are required to become members of the PFRS. PFRS is a cost-saving, multiple-employer defined benefit pension plan administered by the State.

ABP presently makes contributions to Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA/CREF), Aetna Investment Services, Lincoln National, Metropolitan Life, Copeland Companies and VALIC. A separate board of trustees administers ABP alternatives.

Certain faculty members of the College participate in the TPAF, which is a State cost-sharing, single-employer defined benefit pension plan. TPAF was established under the provisions of N.J.S.A. 18A:66 to provide coverage to substantially all full-time public school teachers of the State.

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

(Continued)

(Dollar amounts in thousands)

(b) Funding Policies

PERS, TPAF, and PFRS covered employees are required by State statute to contribute a certain percentage of their salaries to the plan. Each member's percentage is based on age determined at the effective date of enrollment. In addition, the required contributions are made on the College's behalf by the State of New Jersey annually at an actuarially determined rate. The contribution requirements of plan members and the College are established and may be amended by the board of trustees of the respective plan. The College's contributions to the plans (plus amounts made by the State) for the years ended June 30, 2005 and 2004 was $926 and $875, respectively, for PERS, TPAF and PFRS, which is equal to the required contributions.

(c) Alternate Benefit Program (ABP) Information

ABP provides the choice of six investment carriers. The College assumes no liability for ABP members other than payment of contributions. ABP provides retirement and death benefits for or on behalf of those full-time professional employees and faculty members electing to participate in this optional retirement program. The State and Social Security Law establish participation eligibility as well as contributory and noncontributory requirements.

Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits vest after the completion of one year of service. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting. Participating College employees contribute 5% of salary and may contribute a voluntary additional contribution up to the maximum Federal statutory limit, on a pre-tax basis. Employer contributions are 8%. During the years ended June 30, 2005 and 2004, ABP investment carriers received employer and employee contributions as follows:

		2005	2004
Employer contributions	$	3,020	2,833
Employee contributions		4,299	3,859
Participating employee salaries		37,756	35,466

Employer contributions to the ABP are paid by the State and are reflected in the accompanying financial statements as nonoperating revenue under New Jersey State appropriations and as operating expenses in various functional expense categories.

(Continued)

(Dollar amounts in thousands)

(12) Compensated Absences

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the sick leave accumulation at the pay rate in effect at the time of retirement up to a maximum of $15 per employee. Employees separating from college service prior to retirement are not entitled to payments for accumulated sick leave balances. Accordingly, the College recorded a liability for accumulated sick leave balances in the amount of $319 and $267 as of June 30, 2005 and 2004, respectively, which is reflected in the compensated absences.

The College is required to pay nonfaculty employees for their accumulated vacation time upon their separation or retirement. These liabilities were $2,081 and $1,935 as of June 30, 2005 and 2004, respectively, and is reflected in compensated absences in the accompanying financial statements.

During fiscal year 2002 the State of New Jersey passed an Early Retirement Incentive (ERI) legislation. This program was available to current full-time faculty and staff employees who met certain eligibility requirement. Under the terms of the program, employees in the ABP retirement plan will received a lump sum payout equal to 60% of one years base salary to be paid two installments. These payments will be made directly into the employee’s Alternative Benefit Program (ABP) retirement account. As of June 30, 2004, the College balance of the ERI liability was $493, which is reflected in compensated absences in the accompanying financial statements.

(13) Unrestricted Net Assets

As discussed in note 2 to the financial statements, net assets are required to be classified for accounting and reporting purposes into one of four net asset categories according to externally imposed restrictions. Unrestricted net assets, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations, however, they may be subject to internal designations. For example, unrestricted net assets may be designated for specific purposes by action of management or the board of trustees. Substantially all unrestricted net assets of the College as of June 30, 2005 are designated to academic and student services, and capital program initiatives. Below is the detail of unrestricted net assets as of June 30, 2005 and 2004:

	2005	2004
Designated:		
Capital – academic and administrative buildings	$ 7,308	3,573
Capital – auxiliary buildings	16,010	7,676
Operating reserve	4,099	1,985
Debt service reserve	16,152	17,368
Total unrestricted net assets	$ 43,569	30,602

(14) Contingencies

The College is a party to various pending legal actions and other claims in the normal course of business. Management of the College is of the opinion that the outcome thereof will not have a material effect on its financial position.

In 2005, management terminated the contractor for a $27.5 million on-campus apartment complex (the Project) as a result of water damage in the buildings. The College has incurred costs for the Project totaling approximately $18.9 million as of June 30, 2005 which are recorded as construction in progress in the accompanying statement of net assets as of June 30, 2005. Management cannot predict if remediation can help avoid Project demolition and if remediation is undertaken, how much remediation would cost the College. The College is in negotiations with several parties to resolve these matters. However, due to the uncertainty with respect to the Project, management has not adjusted its carrying value in the accompanying statement of net assets as of June 30, 2005.

(15) Government Relations and Legal Fees

The New Jersey Higher Education Restructuring Act of 1994 requires the College to make available the costs incurred associated with government and public relations and legal costs. During the years ended June 30, 2005 and 2004 the College expended $364 and $284, respectively, for government and public relations, and $628 and $319, respectively, for legal fees.

(16) Component Unit

The College of New Jersey Foundation, Inc. (the Foundation) is a legally separate, tax-exempt component unit of the organization with a fiscal year end of June 30. The Foundation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation acts primarily as a fund-raising entity to supplement the resources that are available to the College in support of its programs. Although the College does not control the timing or amount of receipts from the Foundation, the Foundation’s assets are used exclusively for the benefit, support and promotion of the College and its educational activities. Because these resources held by the Foundation can only be used by, or are for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements.

Complete financial statements for the Foundation can be obtained from the College at 2000 Pennington Road, Ewing, NJ 08628.

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)
Schedule of Expenditures of Federal Awards
Year ended June 30, 2005

Federal grantor/pass-through grantor/ program or cluster title	Federal CFDA number		Current year expenditures
Student Financial Assistance Cluster:			
U.S. Department of Health and Human Services:			
Nursing Student Loans	93.364	$	50,287
U.S. Department of Education:			
Federal Supplemental Educational Opportunity Grants	84.007		206,635
Federal Family Education Loans	84.032		18,283,776
Federal Work-Study Program (including administrative cost allowance of $13,521)	84.033		207,506
Federal Perkins Loan Program (including administrative cost allowance of $48,163)	84.038		1,011,430
Federal Pell Grant Program	84.063		2,179,799
Total Student Financial Assistance Cluster			21,939,433
Research and Development Cluster:			
U.S. Department of Agriculture:			
Grants for Agricultural Research - Competitive Research Grants	10.206		10,106
U.S. Department of Health and Human Services:			
Passed through Medical Diagnostic Research Foundation:			
Adaptation to Sexual Abuse	93.242		56,816
Maternal and Child Health Federal Consolidated Programs	93.110		4,950
National Science Foundation:			
Biological Sciences - Studies of Methyl Farnesoate	47.074		28,239
Social, Behavioral, and Economic Sciences	47.075		2,185
CISE Research Resources	47.070		6,377
MRI/RUI Acquisition of Computational Modeling Facilities	47.070		15,598
Digital Particle Image Engineering Grants	47.041		74,453
U. S. Department of Justice:			
Grants to Reduce Violent Crimes Against Women on Campus	16.522		98,585
Passed through State of New Jersey Department of Corrections:			
Byrne Formula Grant Program – SANE Program	16.579		30,434
Total Research and Development Cluster			327,743
Other Programs:			
U.S. Department of Housing and Urban Development:			
Fair Housing Assistance Program	14.401		163,374
U.S. Department of Health and Human Services:			
Passed through Thomas Jefferson University:			
Advanced Education Nursing Grant Program	93.247		13,679
Passed through New Jersey Department of Human Services:			
Passed through Rowan University:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959		11,155
National Science Foundation:			
Education and Human Resources - Intro to Software Tools	47.076		49,058
Passed through Rutgers University:			
Education and Human Resources:			
Adapting ATLAST	47.076		25,877
Math and Science Urban Initiative	47.076		3,032
NJSSI – Partnership	47.076		2,403
U.S. Department of Education:			
Fund for the Improvement of Postsecondary Education:			
Inquiry and Design	84.116		78,863
Forensic Science Program	84.116		133,090
Bonner Center Operating	84.116		115
TRIO Student Support Services	84.042		238,636
International Overseas Studies	84.021		19,000
Demonstration Projects to Ensure Students with Disabilities Receive Higher Education	84.333		263,395
Business and International Education Projects	84.153		73,339
Undergraduate International Studies and Foreign Language Programs	84.016		81,306
Special Education, Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		303,767
Passed through New Jersey Department, Special Education Programs:			
Special Education, Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326C		51,549
U.S. Department of Transportation:			
Passed through New Jersey Department of Law and Public Safety:			
State and Community Highway Safety	20.600		23,215
Passed through New Jersey Division of Highway Traffic Safety:			
New Jersey Peer Institute	20.605		23,720
Corporation for National and Community Service:			
Planning and Program Development Grants	94.007		27,140
Small Business Administration:			
Small Business Development Center:			
Passed through Rutgers University	59.037		87,658
Direct	59.037		79,143
Total expenditures of federal awards		$	24,019,690

See accompanying notes to schedules of expenditures of Federal and State of New Jersey awards.

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)

Schedule of Expenditures of State of New Jersey Awards

Year ended June 30, 2005

State of New Jersey grantor/pass-through grantor/ program or cluster title	Grant/account number	Grant amount	Grant period	Current year expenditures
New Jersey Department of Education:				
Student Financial Assistance Cluster:				
Distinguished Scholarship Program	100-082-2150-007-KKKK-6151	$ 1,148,750	07/01/04 – 06/30/05	$ 1,148,750
Educational Opportunity Fund Scholarship	100-074-2601-001-KKKK-6140	393,612	07/01/04 – 06/30/05	393,612
Educational Opportunity Fund Scholarship – Summer School	100-074-2601-001-KKKK-6140	146,174	07/01/04 – 06/30/05	146,174
New Jersey Gear Up Scholarship	—	6,000	07/01/04 – 06/30/05	6,000
New Jersey CLASS Loans	—	3,764,453	07/01/04 – 06/30/05	3,764,453
Outstanding Scholarship Recruiting Program	100-082-2150-007-KKKK-6150	4,082,711	07/01/04 – 06/30/05	4,082,711
Tuition Aid Grant	100-082-2150-007-KKKK-6150	3,624,262	07/01/04 – 06/30/05	3,624,262
Urban Scholarship Program	100-082-2150-007-KKKK-6150	162,750	07/01/04 – 06/30/05	162,750
Total Student Financial Assistance Cluster				13,328,712
Other Assistance:				
Adaptive Technology Program	100-074-2600-005-KKKK-6140	300,000	07/01/03 – 06/30/05	146,324
Cisco / Pre Algebra	—	6,600	01/20/05 – 03/20/05	6,600
Collegebound Program	100-074-2400-012-KKKK-6140	912,240	07/01/03 – 06/30/06	313,218
Educational Opportunity Fund Program	100-074-2601-002-KKKK-6140	855,813	07/01/03 – 06/30/06	375,126
Governor's School	100-037-5063-226-H300-6030	389,000	07/01/04 – 06/30/05	148,532
Governor's School for the Arts	100-034-5063-226-H300-6031	973,076	07/01/03 – 06/30/04	323,008
Improving Teacher Quality Partnership Grant/TALL	05-ER01-G03	549,964	09/01/03 – 08/31/05	295,217
MAC Incentive Hiring	100-074-2400-025-KKKK-6140	59,947	04/01/02 – 06/30/05	20,000
Conference Promoting Success	100-074-2400-014-KKKK-6140	8,650	07/01/04 – 06/30/05	8,278
Restructuring Teacher Prep	04-100-034-5060-053-H070-D004-2004	175,000	08/01/04 – 08/31/05	118,803
Teacher Effectiveness	100-074-2400-036-KKKK-6140	257,408	07/01/02 – 08/31/04	22,830
Teacher Quality and Capacity	100-074-2400-036-KKKK-6140	270,503	07/01/03 – 08/31/04	15,680
Teacher Quality Enhancement Grant	5063-100-034-5063-294-H300-3891	260,000	12/01/03 – 12/31/05	139,051
Teacher Quality Enhancement Grant - IHE Stipend	03-100-034-5060-085-H300-6130-D003	52,150	08/13/03 – 12/31/04	40,298
Teacher Quality Enhancement Grant - IHE Stipend Year 2	04-100-034-5060-085-H300-6130-D004	52,250	09/01/04 – 08/31/05	25,713
Technical Assistance	05-100-034-5063-294-H300-3610-2005	131,218	01/01/05 – 12/31/05	3,298
Vocational Student Organization	04-AG45-G06	235,124	07/01/04 – 06/30/06	104,166
Passed through Trenton Public School System:				
Palmer Project	—	37,500	08/01/03 – 11/30/04	6,045
Palmer Project	—	97,375	09/01/04 – 06/30/05	97,375
Institute for Educational Leadership	—	10,000	12/17/03 – 11/30/05	2,840
Passed through Newark Public School System:				
Newark Lead	3827H	65,000	07/01/98 – 06/30/05	2,048
Passed through Rowan University:				
Rebel Rocs	—	4,500	07/15/04 – 06/30/05	4,500
New Jersey Council on the Arts:				
Passed through Mercer County Cultural Heritage Commission:				
Gallery Grant	—	2,000	01/01/04 – 07/31/05	2,000
New Jersey Department of Community Affairs:				
Smart Future / Sypek Center	04-0219-00	50,000	06/01/04 – 12/31/05	1,680

(Continued)

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)

Schedule of Expenditures of State of New Jersey Awards

Year ended June 30, 2005

State of New Jersey grantor/pass-through grantor/ program or cluster title	Grant/account number	Grant amount	Grant period	Current year expenditures
New Jersey Commission on Higher Education:				
Program for the Education of Language Minority Students	100-074-2400-015-KKKK-6140	$ 198,475	07/01/03 – 06/30/05	$ 94,921
New Jersey Department of Law and Public Safety:				
Lollanobooza	100-066-1400-014-YABC-6020	10,000	06/01/03 – 05/31/05	9,919
New Jersey Department of Human Services:				
City of Trenton	—	47,700	07/01/04 – 06/30/05	34,150
New Jersey State Police Department:				
New Jersey State Police Interns	—	95,000	05/15/04 – 06/30/06	47,180
New Jersey Marine Science Consortium:				
Antioxidant Production	—	4,980	06/01/04 – 05/31/05	4,447
New Jersey Department of Transportation:				
Municipal Land Use Center	01TCNJ	1,982,615	10/01/03 – 11/30/06	558,078
NJ Smart Choices Initiative	TCNJ2004-2204097	375,016	10/01/03 – 08/31/06	21,192
New Jersey Department of Treasury:				
Passed through Rutgers University:				
NJSSI Regional Center, Phase 2, Year 4	HE-05-04-00	205,000	07/01/03 – 12/31/05	117,521
Family Tools and Technology	03NSS05 – 4-29694	25,000	07/01/02 – 08/31/04	177
Small Business Development Center	4-20324	69,238	01/01/04 – 12/31/05	23,532
New Jersey Board of Public Utilities:				
Global Learning Center	DE-FG43-98R340502	160,000	11/01/02 – 01/31/05	51,818
Solar Electric Equipment	20145858358	46,120	06/29/04 – 06/28/05	1,910
Wireless Energy Pilot Program	20146000013,2SECPXXX	60,000	03/08/05 – 03/07/06	44,820
New Jersey Department of State:				
Passed through New Jersey Historical Commission:				
Chambersburg	PRO 04-049	14,000	06/01/04 – 05/31/05	13,238
State of New Jersey Appropriations	—	36,807,000	07/01/04 – 06/30/05	36,807,000
Bonner Foundation/Americorps	05-100-074-2505-074-6130	406,101	09/01/03 – 12/31/05	268,594
New Jersey Educational Facilities Authority:				
Equipment Leasing Fund	—	3,108,000	11/22/02 – 06/30/05	249,213
Higher Education Capital Improvement Fund	—	25,515,000	11/21/02 – 06/30/05	16,892,645
Interdepartmental Accounts:				
State Fringe Benefits Other Than FICA	—	12,206,888	07/01/04 – 06/30/05	12,206,888
FICA – State Colleges and Universities Reimbursement Program	—	4,296,936	07/01/04 – 06/30/05	4,296,936
Total expenditures of State of New Jersey Awards				$ 87,295,521

See accompanying notes to schedules of expenditures of Federal and State of New Jersey awards.

THE COLLEGE OF NEW JERSEY
(A Component Unit of the State of New Jersey)

Notes to Schedules of Expenditures of Federal and
State of New Jersey Awards

Year ended June 30, 2005

(1) Basis of Presentation

The accompanying schedules of expenditures of Federal and State of New Jersey awards include the Federal and State of New Jersey grant activity of The College of New Jersey (the College) and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey Office of Management and Budget Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the 2005 basic financial statements.

(2) Federal Perkins Loan and Nursing Student Loan Programs

The College administers and accounts for certain aspects of the Federal Perkins Loan and Nursing Student Loan Programs. The balance of loans outstanding under these programs as of June 30, 2005 was $4,503,313 and $102,687, respectively.

(3) Other Loan Programs

The College is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loans program and the New Jersey College Loans to Assist State Students (CLASS) program and, accordingly, these loans are not included in the College's basic financial statements. It is not practical to determine the balance of loans outstanding to students of the College under these programs as of June 30, 2005.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
The College of New Jersey:

We have audited the financial statements of the business-type activities and the discretely presented component unit of The College of New Jersey (the College), a component unit of the State of New Jersey, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of The College of New Jersey Foundation, Inc., a component unit of The College of New Jersey, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees and management of the College and Federal and State of New Jersey awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 16, 2005

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Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With Federal OMB Circular A-133 and New Jersey OMB Circular 04-04

The Board of Trustees
The College of New Jersey:

Compliance

We have audited the compliance of The College of New Jersey (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (Federal OMB) *Circular A-133 Compliance Supplement* and the New Jersey Office of Management and Budget (New Jersey OMB) *State Grant Compliance Supplement* (the Compliance Supplements) that are applicable to each of its major Federal and State of New Jersey programs for the year ended June 30, 2005, except those requirements discussed in the third following paragraph. The College's major Federal and State of New Jersey programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal and State of New Jersey programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Federal OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations;* and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, Federal OMB Circular A-133 and New Jersey OMB Circular 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal or State of New Jersey program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, The College of New Jersey complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal and State of New Jersey programs for the year ended June 30, 2005, other than those requirements discussed in the following paragraph. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with Federal OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-1, 05-2, 05-3, 05-4 and 05-5.

We did not audit the College's compliance with requirements governing student loan repayments of the Federal Perkins Loan Program. Those requirements govern functions that are performed by Educational Computer Systems, Inc. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.

Educational Computer Systems, Inc.'s compliance with the requirements governing the functions that it performs for the College was examined by other accountants whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountants' report, we have determined that all of the compliance requirements included in the Compliance Supplements that are applicable to the major Federal and State of New Jersey programs in which the College participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountants' report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the College's major Federal or State of New Jersey programs.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal and State of New Jersey programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major Federal or State of New Jersey program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Federal OMB Circular A-133 and New Jersey OMB Circular 04-04.

Requirements governing student loan repayments of the Federal Perkins Loan Program are performed by Educational Computer Systems, Inc. Internal control over compliance relating to such functions was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. A copy of the service organization accountants' report has been furnished to us. However, the scope of our work did not extend to internal control maintained at Educational Computer Systems, Inc.

We noted a certain matter involving internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the College's ability to administer a major Federal or State of New Jersey program in accordance with the applicable requirement of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-6.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal or State of New Jersey program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the board of trustees and management of the College and Federal and State of New Jersey awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 3, 2006

(1) Summary of Auditors' Results:

(a) Unqualified opinions were issued on the financial statements of the business-type activities and the discretely presented component unit of The College of New Jersey (the College), a component unit of the State of New Jersey, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements.

(b) The audit disclosed no material weaknesses and no reportable conditions were reported in connection with the financial statements of the College as of and for the year ended June 30, 2005.

(c) The audit disclosed no instances of noncompliance which are material to the financial statements of the College as of and for the year ended June 30, 2005.

(d) The audit disclosed no material weaknesses in connection with major Federal or State of New Jersey programs of the College for the year ended June 30, 2005. One reportable condition (05-6) was reported in connection with major Federal programs and no reportable conditions were reported in connection with major State of New Jersey programs of the College for the year ended June 30, 2005.

(e) An unqualified opinion was issued on the College's compliance with its major Federal and State of New Jersey programs for the year ended June 30, 2005.

(f) There were six audit findings (05-1, 05-2, 05-3, 05-4, 05-5 and 05-6) which are required to be reported under Section 510(a) of Federal OMB Circular A-133 and no audit findings which are required to be reported under New Jersey OMB Circular 04-04 for the year ended June 30, 2005.

(g) The major Federal and State of New Jersey programs of the College for the year ended June 30, 2005 were as follows:

Federal:

- Student Financial Assistance Cluster (CFDA #93.364, 84.007, 84.032, 84.033, 84.038 and 84.063)
- Special Education, Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities (CFDA #84.326 and 84.326C)

State of New Jersey:

- Student Financial Assistance Cluster
- State Fringe Benefits Other Than FICA
- FICA – State Colleges and Universities Reimbursement Program

(h) The dollar threshold used to distinguish between type A and type B programs was $300,000 for Federal awards and $1,401,722 for State of New Jersey awards for the year ended June 30, 2005.

(i) The College qualified as a low risk auditee for Federal and State of New Jersey awards for the year ended June 30, 2005.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards:*

No findings which are required to be reported.

(3) Findings and Questioned Costs Relating to Federal or State of New Jersey Awards:

Federal Awards:

05-1 – Allowability – Calculation of Benefits
Student Financial Assistance Cluster:
U.S. Department of Education:
Federal Pell Grant Program (CFDA #84.063)

Criteria:

The determination of Student Financial Assistance award amounts is based on financial need. Each year, based on the maximum Pell grant established by Congress, the U.S. Department of Education provides to institutions Payment and Disbursement Schedules (the Schedule) for determining Pell awards. The Schedule provides the maximum annual amount a student would receive for a full academic year for a given enrollment status, expected family contribution (EFC) and cost of attendance. The Schedule is used to determine the annual award for a full-time student. There are separate disbursement schedules for three-quarter time, half-time, and less-than-half-time students.

Condition and Effect:

Two out of a sample of thirty students selected for testwork were awarded and received disbursements of Pell grants based on an incorrect EFC. As a result, these students received amounts in excess of the maximum amount each student was eligible. One student received $3,900, while eligible to receive $3,500. The second student received $4,050, while eligible to receive $2,900.

Questioned Costs:

Known questioned costs are calculated to be $1,550 and represents the difference between what the students received and the amount they were eligible for.

Cause:

Management disbursed the Pell grants based on the information provided in the ISIR. However, these two students were selected for the verification process and in both cases documented that they had less family members that indicated on the ISIR. This changed their EFC and therefore, the amount of Pell grant that they were eligible for. However, management did not revise the Pell grant award based on this new information.

Recommendation:

We recommend that the College ensure that all information obtained through the verification process be reviewed and compared against existing information to determine if student financial assistance awards require adjustment.

View of Responsible Official:

Errors were discovered after close of the year and thus, could not be corrected via the Central Processing System. A process of primary and secondary verification will be implemented in which files will be reviewed initially by the primary verification officer and then have a secondary review by another officer.

05-2 – Disbursements
Student Financial Assistance Cluster:
U.S. Department of Education:
Federal Family Education Loans (CFDA #84.032)

Criteria:

Loan funds may not be disbursed earlier than: 30 days after the first day of classes of the first payment period for a first-year, first-time loan borrower; or 10 days before the first day of classes for any subsequent payment period. Loan funds must be disbursed within 3 business days of receipt if the lender provided the funds by EFT or master check or 30 days if the lender provided the funds by check payable to the borrower or copayable to the borrower and the institution.

Condition and Effect:

Three out of a sample of thirty students, who were first-time loan borrowers, received their first installment of loans before the end of 30 days from the first day of classes (on the 28th day from the start of classes). Additionally, two out of a sample of thirty students received their loan disbursements more than three business days after the College received the EFT payment.

Questioned Costs:

There are no known questioned costs related to this finding.

Cause:

The College's calculation for the 30 day delayed disbursement was incorrect. The College receives disbursements from it servicer, Sallie Mae, on Tuesdays and classes began on a Tuesday that fall. The delayed disbursement was incorrectly requested for 4 weeks from the first day of classes which was only 28 days.

The reasons for failed EFT disbursements vary and in some cases, an individual student can have more than one reason. The current Student Information System delivered error reports that allow only one error code to appear at a time. By the time the students with multiple errors were reviewed and corrected the three day time period had passed.

(Continued)

Recommendation:

We recommend that the College ensure that the appropriate time frame is followed with respect to the loan disbursements.

View of Responsible Official:

The scheduling of the 30 day delayed disbursement will require the review of two individuals, including the office director, to insure that it is accurate.

The staff in the loan processing area will limit the response to external calls and visitors for the 3 days following the first large disbursement of each semester. Additional staff will be trained in diagnosing and correcting failed EFT disbursements. A pro-active step will be added in that an SIS job will be written that reconciles the enrollment status of all loan recipients at the end of the drop/add period each semester and produces an exception report. The exceptions will be re-calculated prior to the College receiving the disbursements. This will greatly reduce the number of failed EFT disbursements.

05-3 – Refunds

Student Financial Assistance Cluster:
U.S. Department of Education:
Federal Family Education Loans (CFDA #84.032)

Criteria:

Federal regulations require that refunds of Federal Pell Grants, Federal Supplemental Educational Opportunity Grants, Federal Perkins Loans and Federal Family Education Loan programs be returned to the Federal program within 30 days of the student's withdrawal date or date that the institution became aware of the student's withdrawal. For unofficial withdrawals, the institution has 30 days from the last day of the semester to determine if a student withdrew. Federal regulations require institutions to follow a formula for calculating the amount of funds that must be returned to Title IV programs. This formula includes six steps that result in either a post-withdrawal disbursement to be made to the student or a refund of Title IV funds to be made to the Federal program.

Condition and Effect:

There was one student out of a sample of ten students whose refund was miscalculated. As a result, the refund was not returned to the Federal program within the appropriate time frame.

Questioned Costs:

The questioned costs represent the interest on the late refund amounting to $1,067.

Cause:

The refund was miscalculated because the wrong withdrawal date was used to calculate the refund.

Recommendation:

We recommend that the College review its policies for Federal refund calculations and implement procedures to timely communicate a student's withdrawal and review of the calculations.

View of Responsible Official:

The Office of Student Financial Assistance will insure that refund calculations are performed in the timeframe allowed by Federal law. A reconciliation process has been implemented which employs another staff member, trained in the area of refund calculations, to complete a second review of the calculation prior to submitting and returning funds.

05-4 – Student Status Changes
Student Financial Assistance Cluster:
U.S. Department of Education:
Federal Family Education Loans (CFDA #84.032)

Criteria:

The Federal Family Education Loan program requires institutions to complete and return within 30 days of receipt, roster files sent by the National Student Loan Data System (NSLDS). Unless the institution expects to complete its next roster file within 60 days, the institution must notify NSLDS within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

Condition and Effect:

The College did not report within 30 days of receipt, roster files sent by NSLDS or notify NSLDS within 30 days that the roster file would be filed within 60 days for three of thirty students who received a loan and did not enroll or ceased to be enrolled on at least a half-time basis. Additionally, for three of the thirty students selected for testwork, the students' change in status was not reported to NSLDS. Lastly, for two of the six students previously noted, the status was incorrectly reported as withdrawn, while it should have been reported as graduate.

A similar finding was noted in the 2004, 2003 and 2002 prior year single audit report as finding number 04-1, 03-2 and 02-1, respectively.

Questioned Costs:

There are no known questioned costs related to this finding as these student status changes were subsequently reported.

Cause:

The College uses the National Student Clearinghouse (the Clearinghouse) as a third party vendor to process student enrollment verification information. In this relationship the Clearinghouse transmits College student enrollment, withdrawal, and graduation data directly to NSLDS. On an annual basis, the College establishes data transmission dates with the Clearinghouse that are in compliance with the 30 day

(Continued)

notification requirement. In turn, the Clearinghouse establishes transmission dates with NSLDS to insure that colleges and universities are in compliance. The College has had a pervasive problem with the Clearinghouse over the last three years in synchronizing the College's data feeds with the Clearinghouse data feeds to NSLDS. The timing of these feeds has resulted in non-compliance for reporting of some students' status changes.

Recommendation:

We recommend that the College implement procedures to ensure that all student status changes are correctly and timely reported.

View of Responsible Official:

The College has been working with the Clearinghouse over the past years to rectify this problem. The College has made several modifications to the reporting time table including increasing the Clearinghouse reporting from the recommended 7 reports to 13 during an academic year. This has helped with reducing the number of incidents; however, a small number of students who have changed their status are still being missed due to the timing with the Clearinghouse.

For security purposes, a students' social security number (SSN) is no longer used as their College identification number. As an alternative, a unique College identification number has been assigned to each student. This change has resulted in some delays in transmitting data due to discrepancies between SSN and College ID numbers. The College will continue to work with the Clearinghouse to synchronize reporting and will implement procedures to insure a prompt correction of student identification discrepancies.

05-5 – Allowable Costs

U.S. Department of Education:
Special Education, Technical Assistance and Dissemination to Improve
Services and Results for Children with Disabilities (CFDA #84.326)

Criteria:

Indirect cost rates are to be applied in accordance with the approved special award provisions or limitations. Billings or reimbursement requests should be the result of applying the approved rate to the proper base amount.

Condition and Effect:

The College was not applying the correct fringe benefit rate as prescribed in the approved budget from the U.S. Department of Education during the year. As a result, the College requested reimbursements of fringe benefits that were in excess of the actual and budget amounts.

Questioned Costs:

The difference between what the College charged as fringe benefits and the amount using the correct fringe benefit rate is $13,023. The fringe benefits that were charged exceeded the amount budgeted for fringe benefits by $545.

(Continued)

Cause:

The State of New Jersey issues an annual circular which dictates the approved reimbursement rates for fringe benefits. This rate for fiscal year 2005 full time employees was greater than the grant's budgeted amount for fringe benefits expense. Since the State of New Jersey rate was used to calculate the expense, it exceeded the grant's budgeted amount.

Recommendation:

We recommend that the College implement procedures to ensure that all reimbursements are in accordance with special provisions that may exist in the grant agreement.

View of Responsible Official:

A reconciliation process has been implemented to monitor the grant's budgeted fringe benefit expense vs. the State of New Jersey reimbursement rates. In cases where the two are not equal, the grant's budgeted amount will take precedence over the State of New Jersey rates.

05-6 – Internal Controls Over Eligibility

U.S. Department of Education:

Special Education, Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities (CFDA #84.326)

Criteria:

This grant has specific requirements for eligibility that are unique to the Federal program. The institution is responsible for establishing and maintaining effective internal controls over compliance with the requirements of eligibility that are applicable to this program.

Condition and Effect:

Registration forms are completed by the program participants prior to acceptance into the program. However, these forms are not maintained by the program staff. As a result, there is no evidence that a member of the program staff reviews the forms to ensure that the participant is eligible to participate in this program.

Questioned Costs:

There are no known questioned costs related to this finding.

Cause:

The reason that the Deafblind Registry has not conformed to the recommended parameters for record-keeping is due to the fact that there was no requirements by the funding agency to maintain records in any specific manner.

Recommendation:

We recommend that the College implement procedures to ensure that these registration forms are maintained. Additionally, a member of the program staff should review these forms to determine the eligibility of the participants and sign and date the forms to evidence the review of a qualified individual.

View of Responsible Official:

The recommendation to design and implement procedures to ensure the secure maintenance of the Deafblind Registry has been accepted and a plan for revised procedures have been put into place. At this time, the registry is being translated into a Filemaker-Pro format and each name is being verified and cross checked with the New Jersey Commission for the Blind and Visually Impaired. Individual files are being revised that include (1) a signed and dated registration form verifying eligibility by a project staff; and (2) a signed parental consent or student consent form (if the student is at the age of majority). These files are being housed in a locked project file cabinet in the project resource room. The data base is being maintained by a specific CATIES staff member in a secure server that is password protected.

State of New Jersey Awards:

No findings or questioned costs which are required to be reported.