
Financial Report 2006-2007



Rutgers, The State University of New Jersey

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DURING THE YEAR ENDED JUNE 30, 2007

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Bruce C. Fehn
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December 6, 2007

President Richard L. McCormick
The Board of Governors
The Board of Trustees
of Rutgers, The State University of New Jersey

I am pleased to submit the Annual Financial Report of Rutgers, The State University of New Jersey for the year ended June 30, 2007. The report contains the KPMG LLP Independent Auditors' Report on the University's financial statements. The financial information presented in this report is designed to assist the reader in comprehending the scope of the University's use of resources in meeting its primary missions of instruction, research and public service.

The report sets forth the complete and permanent record of the financial status of the University for the year.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce C. Fehn". The signature is written in a cursive style with a large, sweeping initial "B".

Bruce C. Fehn
Interim Senior Vice President for Administration
and Chief Financial Officer



KPMG LLP
Suite 402
301 Carnegie Center
Princeton, NJ 08540-6227

INDEPENDENT AUDITORS' REPORT

The Board of Governors
The Board of Trustees
Rutgers, The State University of New Jersey:

We have audited the accompanying statements of net assets of Rutgers, The State University of New Jersey (the University), a component unit of the State of New Jersey, as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rutgers, The State University of New Jersey as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis 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.

KPMG LLP

December 6, 2007

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2007 and 2006

The following management discussion and analysis (MD&A) provides a comprehensive overview of the financial position of Rutgers, the State University of New Jersey (the University) at June 30, 2007 and 2006, and its results of operations for the years then ended. Management has prepared the financial statements and related footnote disclosures along with this MD&A in accordance with generally accepted accounting principles as defined by the Governmental Accounting Standards Board for public colleges and universities. This MD&A should be read in conjunction with the audited financial statements and related footnotes of the University, which directly follow the MD&A.

The University's financial report includes three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements focus on the financial condition of the University, the changes in financial position, and cash flows of the University as a whole rather than the accountability of funds.

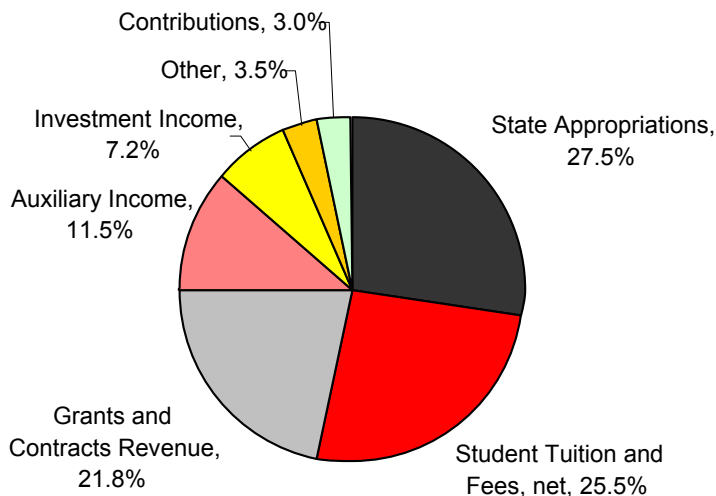
In 2007, the financial reporting entity of Rutgers included 30 degree granting schools, of which 17 offered graduate programs of study. These schools are located on three regional campuses in New Brunswick (Piscataway), Newark and Camden. The financial statements also include the financial activity of the Rutgers University Foundation, which administers the fundraising activities for the University.

Financial Highlights and Economic Outlook

The University increased its net assets in fiscal 2007 by \$178.6 million or 8.8% primarily as a result of the strong performance of the University's endowment. Total operating revenues increased by \$64.1 million or 6.6% with increases of 9.5% in net student tuition and fees, 3.6% in grant and contract revenue, and 5.0% in auxiliary revenues. Nonoperating revenues, net increased 8.3% with significant increases in contributions and investment activity. These increases were offset by a reduction in state appropriations received by the University.

As the State University of New Jersey, the appropriation from the State represents a vital part of the University's funding. In fiscal 2007, the State reduced the University's base appropriation by 4.6% and did not provide funding for salary program increases. The University addressed this shortfall through various means such as an increase in tuition and fee charges, elimination of positions, a reduction of non-salary expenditures and the deferral of planned expenses. In fiscal 2008, the State increased the University's base appropriation by 4.0%.

As presented in the chart below, net student tuition and fees, state appropriations and grants and contracts revenue are the three primary sources of revenue for the University.



Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2007 and 2006

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets (current and noncurrent), liabilities (current and noncurrent) and net assets (the difference between total assets and total liabilities) of the University. Current assets are classified as such if they are available to satisfy current liabilities, which are generally defined as being due within one year of the date of the statement of net assets. Net assets is one indicator of the financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

A summarized comparison of the University's assets, liabilities and net assets at June 30, 2007, 2006 and 2005 is as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Current Assets	\$589,239	\$550,104	\$481,884
Noncurrent Assets:			
Noncurrent cash and cash equivalents and Long term investments	755,001	633,320	690,390
Capital assets, net	1,609,842	1,592,726	1,546,964
Other assets	66,528	48,299	54,818
Total Assets	<u>3,020,610</u>	<u>2,824,449</u>	<u>2,774,056</u>
Liabilities			
Current Liabilities	226,279	175,530	190,056
Noncurrent Liabilities	574,937	608,093	637,665
Total Liabilities	<u>801,216</u>	<u>783,623</u>	<u>827,721</u>
Net Assets (Assets less Liabilities)			
Invested in capital assets, net of related debt	1,032,839	1,017,840	1,012,432
Restricted - expendable	390,575	359,006	333,853
Restricted - nonexpendable	339,324	273,558	243,581
Unrestricted	456,656	390,422	356,469
Total Net Assets	<u>\$2,219,394</u>	<u>\$2,040,826</u>	<u>\$1,946,335</u>

Current Assets and Current Liabilities

Current assets include unrestricted cash and cash equivalents, investments that mature within a year, receivables and pledges due within a year, inventories and other short-term assets. Noncurrent assets include unrestricted investments that mature in more than a year as well as all cash and cash equivalents and investments that are restricted by donors or external parties as to their use. Receivables and pledges deemed to be collectible in more than a year are also included as noncurrent. Current assets increased \$39.1 million in 2007 as opposed to a \$68.2 million increase in 2006.

Current liabilities include all liabilities that are payable within the next fiscal year. Deferred revenues, principally from summer programs, are also presented as current liabilities. Liabilities that are due to be paid beyond the next fiscal year are reported as noncurrent liabilities.

Current liabilities increased \$50.7 million primarily from the issuance of commercial paper in the amount of \$33.1 million in 2007. This commercial paper was issued to defease the University's Series 1997A General Obligation Bonds and to provide temporary financing for the Rutgers Newark Business School relocation project.

The University's current assets cover current liabilities by a factor of 2.6 times, an indicator of good liquidity and the ability to bear short term demands on working capital. This coverage in 2006 was slightly higher at 3.1 times. The University's current assets also cover over five months of its total operating expenses, excluding depreciation.

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2007 and 2006

Endowment and Other Investments

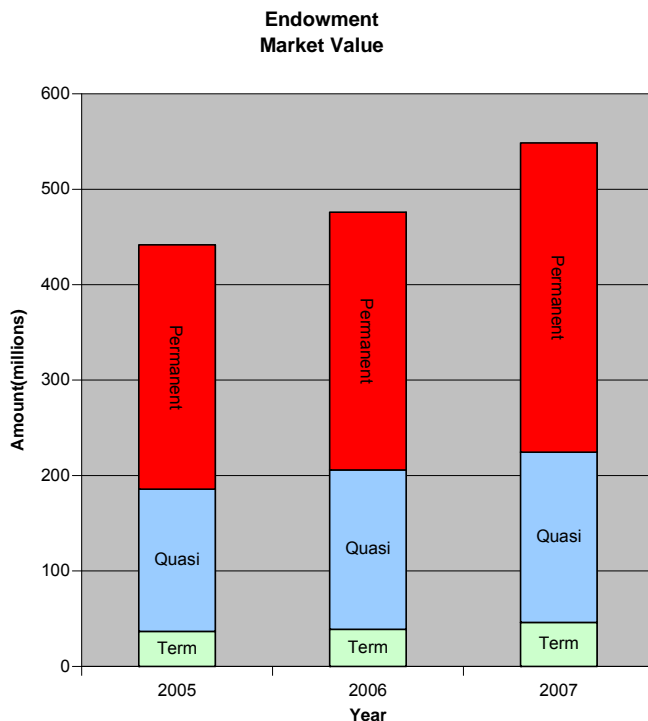
The primary financial objective of the investment management of the Endowment is to preserve and, hopefully, enhance its real (inflation-adjusted) purchasing power while providing a relatively predictable, stable, and constant (in real terms) stream of earnings for current use. The University's endowments increased \$73.3 million from \$476.0 million in 2006 to \$549.3 million in 2007. This growth resulted from market value increases of \$73.3 million. In 2006, the endowment increased \$51.3 million, \$30.5 million from increased market value and \$20.8 million from net additions. A major portion of the University's endowment is maintained in two long term investment pools managed by the University's Joint Investment Committee. The total annual return for the combined long-term investment pools was 18.1% in 2007 and 10.3% in 2006.

The University distributes endowment earnings in a way that balances the annual support needed for operational purposes against the requirement to preserve the future purchasing power of the endowment. The endowment spending-rate policy is based on total return, not just cash earnings. The total distribution for the endowment was \$18.2 million in 2007 and \$16.5 million in 2006.

The University's endowments consist of permanent (true), term and quasi endowments. Permanent or true endowments are funds received from donors stipulating that the principle gift remain inviolate and be invested in perpetuity with the income generated from the investment to be expended for a specific purpose as designated by the donor. These permanent endowments increased by \$55.6 million to \$327.1 million in 2007 from \$271.4 million in 2006. Term endowments are those funds received from donors that function as endowment until a specified event occurs. The University's term endowments increased by \$7.2 million to \$46.1 million in 2007 from \$38.9 million in 2006. Quasi endowments consist of restricted gifts and unrestricted funds that have been designated by the University for long-term investment purposes and therefore act as endowments. The University's quasi endowments increased by \$10.5 million to \$176.2 million from \$165.7 million in 2006.

From a net assets perspective, earnings from the endowment, while expendable, are mostly restricted in use by the donors. It is important to note that of the University's endowment funds, only \$103.6 million, or 17.7%, can be classified as unrestricted net assets. From this unrestricted endowment, a significant portion of the income is internally designated by the University for scholarships, fellowships, professorships, and research efforts.

The following chart demonstrates the growth in the University's endowment during this three year period.



Capital Assets and Debt Activities

As a result of increasing student demand and the University's desire to meet such demand with quality academic programs and student life, the University has increased its commitment of resources to infrastructure improvement, construction of new state-of-

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2007 and 2006

the-art academic buildings and residential halls as well as technology enhancement initiatives. The University administration, together with faculty, students and the communities in which each campus is located, is actively developing a strategic and capital development plan for the University, which, when completed will serve as the plan for the University's future development and growth.

Capital asset increases totaled \$17.1 million in 2007, as compared to \$45.8 million in 2006. Capital additions primarily comprise replacement, renovation and new construction of academic and research facilities as well as significant investments in equipment, including information technology. Several major projects completed during 2007 include:

- Major renovations to laboratories in the Wright-Rieman Chemistry Building on the Busch Campus
- Expansion of the Nelson Biology Lab on the Busch Campus.

These additions were funded primarily with the proceeds of bonds and capital appropriations from the State under the Higher Education Capital Improvement Program. As of June 30, 2007, the University had various projects under construction or in the design stage. Significant projects include:

- The renovation and expansion of the existing Law building on the Camden campus.
- Construction of a new building for the College of Nursing in New Brunswick to serve Nursing students on that campus.
- Construction of a new building for the Institute for Health and for the Food Innovation Center.

On June 15, 2006, the Board of Governors and Board of Trustees of the University approved a comprehensive debt policy for the University to provide an internal tactical framework for capital planning and overall debt management. In 2007, the Board of Governors and the Board of Trustees of the University approved a Commercial Paper program. The Commercial Paper program will be used for the financing of capital projects, implementation of cash optimization strategies and to provide financing for the costs of the acquisition and/or leasing of equipment. As part of this program, the University issued Series B General Obligation Commercial Paper in the amount of \$19.6 million to defease the University's outstanding General Obligation Bonds, Series 1997A. This advance refunding will reduce the University's debt service payments by \$5.6 million over the next 20 years resulting in an economic gain of \$1.7 million.

In 2007, the University's Board of Governors authorized the purchase, sale and arrangement of construction financing for the Rutgers Newark Business School's relocation. The building acquired will be converted into a condominium with the Business School occupying 11 floors of the building. As part of the financing of this project, the University is participating in the New Markets Tax Credit program administered by the U.S. Treasury's Community Development Financial Institutions Fund. The University issued \$13.5 million under the Commercial Paper Program to provide funds to cover its costs in this transaction.

Net Assets

Net Assets represent the residual interest in the University's assets after the deduction of its liabilities. The change in net assets measures whether the overall financial condition has improved or deteriorated during the year. Net assets consist of three major categories; invested in capital assets (net of related debt), restricted net assets (nonexpendable and expendable), and unrestricted net assets. Net assets increased by \$178.6 million in 2007 primarily as a result of an increase in the University's endowments. Total endowments increased \$95.8 million. These increases resulted primarily from an increase in market value of \$73.3 million as well as \$17.7 million added to the University's permanent endowments in 2007. In 2006, net assets increased \$94.5 million.

The first category, net assets invested in capital assets, net of related debt, represents the University's capital assets of land, buildings and equipment net of accumulated depreciation and net of outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The increase of \$15.0 million in 2007 is primarily attributable to construction projects including, the addition to the Camden Law School and the Endocrine Research Laboratory at Bartlett Hall on the Newark Campus. In 2006, there was an increase of \$5.4 million in this category.

The second category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable net assets are those resources that have been set aside and invested as required by the provider of the resources. These funds are not available for expenditures, but rather must be invested in perpetuity with the earnings on those investments to be used as specified by the external entity at the time the resources are received. Nonexpendable net assets increased by \$65.8 million in 2007 as a result of increasing market values. In 2006, nonexpendable net assets increased by \$30.0 million primarily from additional gifts raised for endowments.

Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as specified by external entities. The increase of \$31.6 million in 2007 is attributable to an increase in contributions received for scholarships and fellowships for University students of \$18.5 million and for instructional programs of \$9.7 million. In 2006, there was an increase of \$25.2 million in expendable restricted net assets.

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

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The third category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose. Substantially all of the University's unrestricted net assets have been designated by the governing boards or management to support specific programs such as student activities, research projects, continuing education and summer programs, agricultural experiment station activities, junior year abroad programs, auxiliary enterprises and other self-supporting organized activities relating to educational departments as well as capital projects. Many of these designations result from the funds being earned through special purpose fees charged for the specific purposes. The University, therefore, has an obligation to its students to maintain these funds for the purposes that they were received. The increase in unrestricted net assets of \$66.2 million in 2007 is primarily the result of funds designated for deferred maintenance, information system improvements and other capital projects totaling \$17.5 million, as well as \$9.7 million for renovations and improvements to the University's dormitories and dining facilities. In addition, \$12.5 million was designated for academic programs for the coming year. Finally, the University's unrestricted quasi endowments increased \$13.9 million as a result of increased market values. In 2006, unrestricted net assets increased \$34.0 million.

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. Activities are classified as either operating or nonoperating. Revenues received and expenses incurred as a result of the University providing goods and services to its customers are considered operating. Nonoperating revenues are those received for which goods and services are not directly provided. The financial reporting model classifies state appropriations and gifts as nonoperating revenues. The operating deficit demonstrates the University's dependency on state support and gifts. In addition, appropriations, grants and gifts received by the University, specifically for capital expenditures as well as gifts received from donors as endowments, are reported as other revenue.

A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2007, 2006 and 2005 is as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues			
Student tuition and fees (net of scholarship allowance)	\$423,738	\$386,823	\$361,123
Grants and contracts	362,100	349,529	349,938
Auxiliary enterprises (net of scholarship allowance)	190,107	181,079	170,123
Other operating revenues	57,492	51,916	50,660
Total operating revenues	<u>1,033,437</u>	<u>969,347</u>	<u>931,844</u>
Operating expenses	<u>1,486,906</u>	<u>1,459,888</u>	<u>1,394,052</u>
Operating loss	<u>(453,469)</u>	<u>(490,541)</u>	<u>(462,208)</u>
Nonoperating revenues (expenses)			
State appropriations (including fringe benefits paid directly by the state)	455,764	490,689	449,784
Contributions	50,449	10,050	27,659
Endowment and investment income	40,956	35,815	22,426
Unrealized and realized gain on marketable securities	79,165	30,600	29,265
Interest on capital asset related debt	(25,940)	(24,525)	(22,423)
Net other nonoperating revenues (expenses)	<u>(921)</u>	<u>11,051</u>	<u>3,455</u>
Net nonoperating revenues	<u>599,473</u>	<u>553,680</u>	<u>510,166</u>
Income before other revenues and expenses	146,004	63,139	47,958
Other revenues and expenses	<u>32,564</u>	<u>31,352</u>	<u>18,803</u>
Increase in net assets	<u>178,568</u>	<u>94,491</u>	<u>66,761</u>
Net assets at beginning of year	<u>2,040,826</u>	<u>1,946,335</u>	<u>1,879,574</u>
Net assets at end of year	<u>\$2,219,394</u>	<u>\$2,040,826</u>	<u>\$1,946,335</u>

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The University's net assets increased by \$178.6 million in 2007. The \$79.2 million increase in market value of the University's investments contributed to this increase. Another \$50.4 million of this increase was attributable to contributions. In addition, \$41.0 million in Endowment and Investment Income was also a part of this increase.

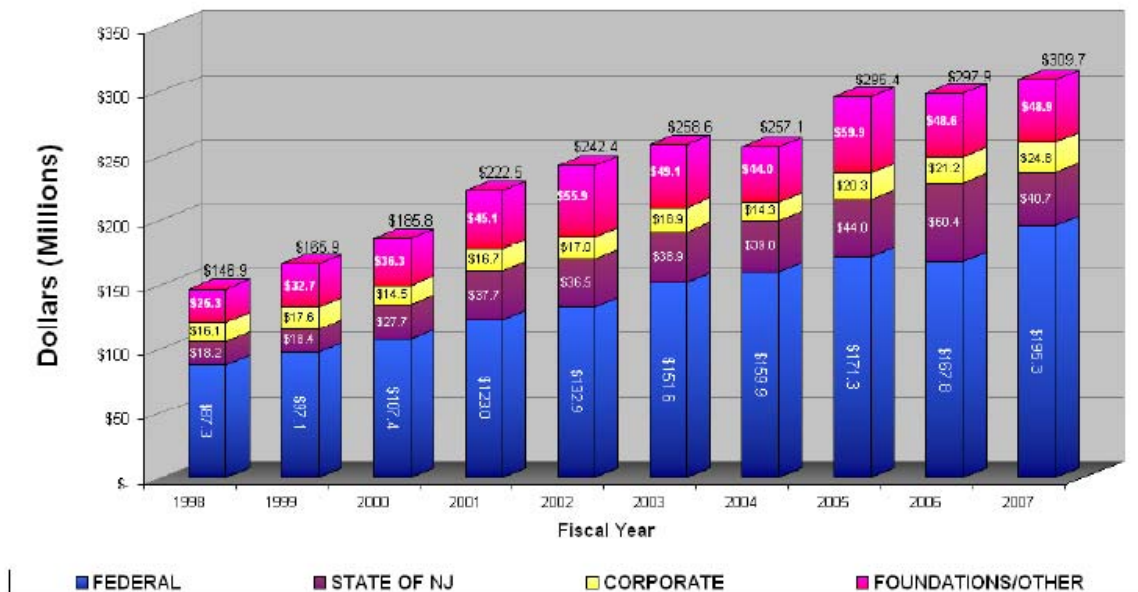
In 2006, net assets increased by \$94.5 million. An increase in market value of the University's investments of \$30.6 million, \$35.8 million in Endowment and Investment Income, and \$11.8 million in grants and gifts used to construct, renovate or acquire capital assets contributed to this increase. In addition, \$19.6 million was received from donors to be added to the University's permanent endowment to generate income that the University will be able to use for specific programs.

Operating revenues increased \$64.1 million in 2007. Significant components of operating revenues include the following:

Student tuition and fees, net of scholarship allowance are the largest component of operating revenues. Tuition and fees are reflected net of scholarship allowances, which represent scholarships and fellowships applied to student accounts for tuition and residence fees. These scholarships and fellowships are funded through federal and state grant programs and gifts raised by the University. The University provided \$124.1 million of a total \$158.7 million of student aid directly to student accounts. The remaining \$34.6 million was paid to students and is reflected as scholarship and fellowship expense. Scholarship allowances allocated to tuition and fees amounted to \$99.2 million. Another \$25.0 million was allocated to residence fees, which are included in auxiliary revenues. Tuition and fees, net of scholarship allowances, increased \$36.9 million in 2007. The increase resulted primarily from an increase in tuition rates of 8.0% for undergraduates and 10.0% for graduate students, as well as an average increase of 9.3% in student fees. In 2006, tuition and fees net of scholarship allowances, increased \$25.7 million. The increase in 2006 resulted from an 8.00% increase in tuition rates offset by a slight decrease in enrollment and an increase of 3.0% in the scholarship allowance for additional aid awarded to students.

Grants and Contracts includes revenues for sponsored programs from federal, state and non-governmental grants and contracts that normally provide for the recovery of direct and indirect costs, or expenses. In 2007, research grants and contracts increased \$7.8 million. The following table summarizes the research awards received by the University over the last 10 years.

**Research, Education, and Public Service Grants
FY 1998-2007**



Federal grants for research increased \$5.6 million in 2007 primarily from increases in awards from the Department of Health and Human Services and the Department of Defense offset by decreases in awards from the National Science Foundation. In 2006, Federal grants for research decreased by \$8.5 million. This decrease resulted primarily from a decrease of \$4.3 million in funding

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from the National Institutes of Health (NIH). Decreases in grants from other federal agencies, included \$1.1 million from the National Science Foundation, and \$1.0 million each from the Department of Defense, the Department of Energy and the Department of Agriculture.

State support for research decreased by \$3.9 million this year. The primary cause of this decrease was the result of a decrease in awards from the Department of the Treasury and the Department of Health and Senior Services. In 2006, the Department of Treasury awarded the University a one-time award of \$1.8 million for stem cell research. In 2006, state support for research increased by \$6.6 million. A significant cause of this increase was a \$1.9 million grant for stem cell research, along with a \$1.9 million increase in awards from the Commission on Science & Technology and a \$1.1 million increase in awards from the Department of Human Services.

Finally, non-governmental grants and contracts increased \$6.1 million in 2007. The University received two major grants in 2007 that caused this increase. A grant of \$3.0 million was received for the Heldrich Center for Workforce Development and a \$2.0 million grant for the Early Learning Research Academy on the University's Camden Campus. In 2006, non-governmental grants and contracts remained relatively constant. Total grant and contract revenue from all three sources, federal, state and non-governmental, for research decreased \$1.8 million. As a result of this decrease in revenue, total expenses for research decreased \$1.9 million.

Auxiliary enterprise revenues include revenues from the University's housing and dining facilities as well as other business type activities such as printing and mail services that provide support to the University's primary missions of education, research and public service. Auxiliary revenue, net of scholarship allowances, increased in 2007 by \$9.0 million while expenditures decreased by \$1.5 million. Auxiliary revenues increased as a result of an increase in housing and dining rates of 6.0% and 5.0% respectively. There was also a 6.0% increase in occupancy on the Camden campus and a 1.0% increase in occupancy on the New Brunswick campus as well as an overall increase of 1.0% in meal plans sold. In 2006, auxiliary revenue, net of scholarship allowances, increased by \$11.0 million while expenditures increased by \$10.0 million. The increase in revenue resulted primarily from an increase in housing rates which ranged between 5.0% and 7.0%. In addition, dining revenue increased due to student board rate increase of 6.5% and the purchases of more meal plans. Revenues for Athletics increased \$2.3 million due to an increase of 10.0% for Intercollegiate Athletics fees, the football team's participation in the Insight Bowl and greater revenue sharing from the Big East as a result of increased TV exposure of the football team.

Operating expenses increased \$27.0 million in 2007 and consist of the following significant components:

Instruction expenditures consist of all expenses incurred in providing academic programs for the University's students. These expenses increased by \$8.1 million this year. Salary increases and increased fringe benefit costs on those salaries accounted for a total of \$18.4 million. This increase was offset by cost reductions totaling \$11.2 million required due to a reduction in the state appropriation. In 2006, these expenditures increased by \$32.3 million. Salary increases and increased fringe benefit costs on those salaries accounted for a total of \$25.0 million. The remaining increase is attributable to non-salary expenses related to modifying and equipping academic offices which were moved to new locations. These included the Center for European Studies, the Center for Bio-Materials Devices, and the establishment of the Bionomics Research and Technology Center at EOHSI.

Expenditures for sponsored programs, funded by grant and contract revenues, increased by \$18.1 million in 2007. The primary increases were from state contracts which increased \$6.0 million, contracts from foundations which increased \$3.7 million and grants from the Department of Health and Human Services of \$2.8 million. In 2006, these expenditures decreased \$2.1 million.

Scholarships and fellowships consist of payments made directly to students as a result of financial aid awarded to the student. These expenditures increased by \$2.9 million in 2007 primarily as a result of increased funding by the University to offset tuition increases. As a result, the University provided the funding for this program. In 2006, these expenditures increased by only \$1.0 million.

Expenditures for operation and maintenance of plant remained relatively flat in 2007 with a slight decrease of \$0.2 million. In 2006, expenditures for operation and maintenance of plant increased by \$13.0 million. This increase was primarily attributable to an increase of \$10.0 million in fuel and utilities. Fuel charges for the Busch Cogeneration Plant increased 53%, as well as, utilities required for new facilities, such as, the new Life Sciences Building in Newark. Salary increases and increased fringe benefits costs on those salaries accounted for an increase of \$3.2 million.

Nonoperating revenues \$45.8 million in 2007 and consist primarily of the following:

State appropriations, including fringe benefits paid directly by the state, decreased \$34.9 million in 2007. The appropriation by the state was reduced by \$46.9 million as a result of budgetary constraints at the State. The reduction to the University's base appropriation and salary funding amounted to \$28.4 million. The remaining reduction resulted from the elimination of other programs funded in 2006, such as the one-time appropriation for the Rutgers Business School in 2006. This was offset by an increase of \$12.0 million in fringe benefits costs covered by the state.

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2007 and 2006

In 2006, total state appropriations, including fringe benefits paid directly by the state, increased \$40.9 million. The appropriation by the state for University operations increased \$29.2 million primarily as a result of an \$18.0 million appropriation for the Rutgers Business School in Newark and an increase in the base appropriation of \$10.6 million. State payments on behalf of the University for fringe benefits, also increased by \$11.7 million. This increase in benefits was primarily attributable to increases in total pensions, FICA and prescription plans combined with increases in costs and enrollment in health plans.

Contributions increased \$40.4 million in 2007. This increase was the result of increased fundraising activities at the Rutgers University Foundation, as well as the receipt of several large bequests this year. Contributions decreased \$17.6 million in 2006.

Endowment and investment income increased by \$5.1 million in 2007 primarily as a result of rising interest rates in 2007. In 2006, the University's endowment and investment income increased by \$13.4 million as a result of short-term interest rates increasing from 3.0% to 5.0%.

Unrealized and realized gains on marketable securities increased \$48.6 million in 2007 as a result of improved market conditions. The University recorded an unrealized gain of \$59.5 million in 2007. In 2006, the University recorded a \$1.0 million unrealized loss. The University, however, received more income from realized gains in 2006 with a total of \$31.5 million. In 2007, the University only received \$12.7 million. In 2007, the University also changed several investment managers to improve returns, however, these transactions resulted in current losses.

Other nonoperating revenues, net of nonoperating expenses decreased \$12.0 million in 2007. This decrease primarily was the result of a one-time payment in the amount of \$8.9 million received in 2006 from the settlement of a litigation for the stadium. This settlement was also the cause of the \$7.6 million increase in this category in 2006.

Other revenues, expenses, gains and losses consist of grants and gifts received by the University for capital projects, as well as additions to permanent endowments. This category increased in 2007, modestly, by \$1.2 million. In 2006, other revenues, expenses, gains and losses increased by \$12.5 million. Additions to permanent endowments increased \$7.6 million from \$12.0 million in 2005 to \$19.6 million in 2006. In addition, capital grants and gifts increased \$5.0 million due to gifts received for the Lab for Cancer Research and the baseball field turf, as well as, fine arts and moveable equipment donations.

Rutgers, The State University of New Jersey

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

(dollars in thousands)

	<u>2007</u>	<u>2006</u>
ASSETS:		
Current Assets		
Cash and Cash Equivalents	\$34,841	\$32,133
Short-Term Investments	424,794	416,818
Accounts Receivable, net	78,825	67,553
Student Notes Receivable, net	8,016	6,226
Contributions Receivable, net	17,761	13,055
Inventories	4,408	4,376
Prepaid Expenses and Deferred Charges	13,342	9,651
Construction Costs Reimbursable	7,252	292
Total Current Assets	<u>589,239</u>	<u>550,104</u>
Noncurrent Assets		
Cash and Cash Equivalents	77,694	57,292
Long-Term Investments	677,307	576,028
Accounts Receivable, net	20,692	
Student Notes Receivable, net	29,309	29,502
Contributions Receivable, net	5,839	7,744
Bond/Commercial Paper Issuance Costs, net	10,688	11,053
Capital Assets, net	1,609,842	1,592,726
Total Noncurrent Assets	<u>2,431,371</u>	<u>2,274,345</u>
TOTAL ASSETS	<u>3,020,610</u>	<u>2,824,449</u>
LIABILITIES:		
Current Liabilities		
Accounts Payable and Accrued Expenses	98,152	94,990
Deferred Revenue	48,170	38,476
Payroll Withholdings	12,665	10,060
Other Payables	1,640	1,736
Annuities Payable	1,015	1,011
Long-Term Liabilities	64,637	29,257
Total Current Liabilities	<u>226,279</u>	<u>175,530</u>
Noncurrent Liabilities		
Accounts Payable and Accrued Expenses	33,986	14,887
Annuities Payable	6,816	6,309
Long-Term Liabilities	534,135	586,897
Total Noncurrent Liabilities	<u>574,937</u>	<u>608,093</u>
TOTAL LIABILITIES	<u>801,216</u>	<u>783,623</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	1,032,839	1,017,840
Restricted for		
Nonexpendable		
Instruction	161,735	129,914
Scholarships and Fellowships	159,813	128,381
Libraries	8,798	7,332
Other	8,978	7,931
Expendable		
Instruction	137,766	128,033
Research	60,081	54,782
Scholarships and Fellowships	78,574	60,123
Libraries	12,338	12,040
Loans	38,550	38,768
Capital Projects	35,393	36,667
Debt Service Reserve	9,542	11,766
Renewal and Replacement Reserve	7,393	7,393
Other	10,938	9,434
Unrestricted	456,656	390,422
TOTAL NET ASSETS	<u>\$2,219,394</u>	<u>\$2,040,826</u>

See accompanying notes to the financial statements

Rutgers, The State University of New Jersey

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2007 and 2006

(dollars in thousands)

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Student Tuition and Fees (net of scholarship allowances of \$99,174 in 2007 and \$91,523 in 2006)	\$423,738	\$386,823
Federal Appropriations	6,069	6,009
Federal Grants & Contracts	199,826	191,707
State & Municipal Grants & Contracts	107,005	105,836
Nongovernmental Grants & Contracts	55,269	51,986
Auxiliary Enterprises (net of scholarship allowances of \$24,954 in 2007 and \$23,122 in 2006)	190,107	181,079
Other Operating Revenues	51,423	45,907
Total Operating Revenues	<u>1,033,437</u>	<u>969,347</u>
OPERATING EXPENSES		
Educational and General		
Instruction	517,896	509,842
Sponsored Research	153,743	151,886
Other Separately Budgeted Research	66,210	68,383
Other Sponsored Programs	82,976	66,747
Extension and Public Service	31,853	30,400
Libraries	35,970	35,857
Student Services	62,172	61,425
Operations and Maintenance of Plant	133,699	133,869
General Administration and Institutional	93,567	95,936
Scholarships and Fellowships	34,559	31,629
Depreciation	92,611	91,145
Auxiliary Enterprises	179,528	181,296
Other Operating Expenses	2,122	1,473
Total Operating Expenses	<u>1,486,906</u>	<u>1,459,888</u>
Operating Loss	<u>(453,469)</u>	<u>(490,541)</u>
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	309,370	356,250
State Paid Fringe Benefits	146,394	134,439
Contributions	50,449	10,050
Endowment and Investment Income (net of investment management fees of \$2,616 in 2007 and \$2,690 in 2006)	40,956	35,815
Unrealized and Realized Gain on Marketable Securities	79,165	30,600
Interest on Capital Asset Related Debt	(25,940)	(24,525)
Loss on Disposal of Capital Assets	(806)	(643)
Other Nonoperating Revenues (Expenses)	(115)	11,694
Net Nonoperating Revenues	<u>599,473</u>	<u>553,680</u>
Income before Other Revenues and Expenses	146,004	63,139
Capital Appropriations	377	
Capital Grants and Gifts	14,514	11,752
Additions to Permanent Endowments	17,673	19,600
Increase in Net Assets	178,568	94,491
Net Assets - Beginning of the Year	<u>2,040,826</u>	<u>1,946,335</u>
Net Assets - End of the Year	<u>\$2,219,394</u>	<u>\$2,040,826</u>

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2007 and 2006
(dollars in thousands)

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Student Tuition and Fees	\$469,749	\$429,557
Research Grants and Contracts	367,476	371,307
Federal Appropriations	5,823	6,090
Payments to Employees and for Benefits	(764,383)	(751,925)
Payments to Suppliers	(400,395)	(398,089)
Payments for Utilities	(70,157)	(72,919)
Payments for Scholarships and Fellowships	(71,954)	(64,480)
Collection of Loans to Students and Employees	8,509	9,949
Auxiliary Enterprises Receipts:		
Housing	89,747	79,618
Dining	47,600	44,177
Athletics	12,250	11,003
Parking	6,085	5,762
Other	18,008	19,154
Other Receipts	59,435	46,164
Net Cash Used by Operating Activities	<u>(222,207)</u>	<u>(264,632)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	312,730	352,078
Contributions for other than Capital Purposes	47,928	31,450
Contributions for Endowment Purposes	25,932	18,646
Net Cash Provided by Noncapital Financing Activities	<u>386,590</u>	<u>402,174</u>
Cash Flows from Financing Activities		
Proceeds from Capital Debt and Leases	34,532	
Capital Appropriations	519	
Capital Grants and Gifts Received	5,432	4,168
Purchases of Capital Assets and Construction	(115,692)	(149,035)
Principal Paid on Capital Debt and Leases	(27,574)	(25,833)
Interest Paid on Capital Debt and Leases	(27,194)	(27,854)
Debt Defeasance	(21,658)	
Bond Issuance Costs	(202)	(120)
Other Receipts	1,591	10,242
Net Cash Used by Financing Activities	<u>(150,246)</u>	<u>(188,432)</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	5,148,749	5,249,082
Investment Income	44,449	37,555
Purchase of Investments	(5,184,225)	(5,246,500)
Net Cash Provided by Investing Activities	<u>8,973</u>	<u>40,137</u>
Net Increase (Decrease) in Cash and Cash Equivalents	23,110	(10,753)
Cash and Cash Equivalents - Beginning of the year	<u>89,425</u>	<u>100,178</u>
Cash and Cash Equivalents - End of the year	<u>\$112,535</u>	<u>\$89,425</u>

(Continued)

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS (continued)

For the Years Ended June 30, 2007 and 2006

(dollars in thousands)

	<u>2007</u>	<u>2006</u>
Reconciliation of Operating Loss to		
Net Cash Used by Operating Activities:		
Operating Loss	(\$453,469)	(\$490,541)
Adjustments to Reconcile Operating Loss to Net Cash		
Used by Operating Activities:		
State Paid Fringe Benefits	146,394	134,439
Depreciation	92,611	91,145
Payment in Lieu of Taxes	700	700
Adjustment of Actuarial Liability for Annuities Payable	(522)	45
Changes in Assets and Liabilities:		
Receivables, net	(21,123)	9,580
Inventories	(32)	(700)
Prepaid Expenses	(3,683)	(1,808)
Accounts Payable and Accrued Expenses	4,784	(10,994)
Deferred Revenue	9,671	1,260
Payroll Withholdings	2,605	1,806
Other Payables	(143)	436
Net Cash Used by Operating Activities	<u>(\$222,207)</u>	<u>(\$264,632)</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Accounting

The financial statements of Rutgers, the State University of New Jersey (the University) have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University reports as a special purpose government engaged only in business type activities as defined in GASB Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* as amended by GASB Statement No. 35 *Basic Financial Statement – and Management’s Discussion and Analysis – Public Colleges and Universities*.

GASB Statement No. 34 requires that the financial statements be presented on a comprehensive entity-wide basis, reporting the University as an economic unit.

The accounting policies of the University conform to U.S. generally accepted accounting principles as applicable to public colleges and universities. The University’s reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (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. The University has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Reporting Entity

The University’s financial statements and notes thereto include the financial statements of the Rutgers University Foundation (the Foundation). The Foundation was formed to aid the University in obtaining private funds and other resources to meet the needs and achieve the goals of the University. Although the Foundation is a legally separate, not-for-profit organization, it exists for the benefit of the University and is considered a component unit of the University. The balances and transactions of the Foundation were blended with those of the University for reporting purposes, in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Copies of the Foundation’s financial statements can be obtained by writing to the Foundation at Rutgers University Foundation, Winants Hall, 7 College Avenue, New Brunswick, NJ 08901.

Under GASB Statement No. 14, as amended by GASB Statement No. 39, the University is considered a component unit of the State of New Jersey for financial reporting purposes. Accordingly, the University’s financial statements are included in the State of New Jersey’s Comprehensive Annual Financial Report.

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 University reports as a business type activity, as defined by GASB Statement No. 34. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, and all highly liquid investments with an original maturity of three months or less (cash on deposit with money market funds, treasury bills and repurchase agreements). Cash and cash equivalents that are externally restricted to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the statements of net assets.

Investments

Investments are recorded at fair value in the statements of net assets. The year-to-year change in the fair value of investments is reported in the statements of revenues, expenses, and changes in net assets.

The fair value of investments is based on the last sale price on the last business day of the fiscal year as quoted by an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued by this pricing service based on market evaluations using standard trade publications and other quote devices. Investments in non-marketable securities are reported in the financial statements based upon values provided by external investment managers which are reviewed and evaluated by the University’s management for reasonableness. Investments with a maturity greater than one year and investments externally restricted for endowment purposes and to maintain sinking or reserve

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

funds, or to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the statements of net assets.

Funds Held in Trust

Funds held in trust by others and not in the possession of, nor under the control of, the University are not included in the University's cash and investments. The market value of such funds aggregated approximately \$71.7 million at June 30, 2007 (\$67.2 million in 2006). Income derived from such irrevocable trust funds held by others, aggregating approximately \$2.5 million in 2007 and \$2.5 million in 2006, is reported in the accompanying financial statements as nonoperating revenues.

Inventories

Inventories are stated at lower of cost or market. Cost is determined principally on a first-in, first-out basis.

Bond/Commercial Paper Issuance Costs

The University capitalizes costs incurred in connection with its bond/commercial paper issues and amortizes these costs over the life of the respective obligations.

Capital Assets

Capital assets consist of land, buildings, land improvements and infrastructure, equipment, construction in progress and art collections. Capital assets are recorded at cost at the date of acquisition, or fair market value on the date of gift if donated, and are shown net of accumulated depreciation. Depreciation on buildings, land improvements and infrastructure, and equipment is calculated using the straight-line method over the assets' estimated useful lives, ranging from 5 to 50 years. Library books totaling approximately 5.2 million (5.1 million in 2006) volumes have not been capitalized.

Deferred Revenue and Deferred Charges

Deferred revenue and deferred charges include summer session activity which will be recognized as revenue and expense in the following fiscal year.

Net Assets

Net assets is the difference between the University's assets and its liabilities. GASB Statement No. 34 requires that these resources be classified for accounting and reporting purposes into four categories as follows:

Invested in capital assets, net of related debt represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted net assets – nonexpendable consist of endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing income, which may either be expended or added to principal.

Restricted net assets – expendable includes all resources for which the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external third parties as well as Perkins loans and U.S. government grants refundable.

Unrestricted net assets represent resources available to the University for educational and general operations and spendable endowment income. These resources are derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. Auxiliary enterprises and several academic programs, such as summer session and continuing education, are substantially self-supporting activities that provide services for students, faculty and staff.

Under the University's decentralized management structure, it is the responsibility of individual departments to determine whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

Revenue Recognition

Revenues from student tuition and fees and auxiliary enterprises are presented net of scholarships applied to student accounts and are recognized in the period earned. Other payments made directly to students are presented as scholarships and are included in operating expenses in the period incurred.

Grants and contracts revenue is comprised mainly of funds received from grants from the federal, State of New Jersey and municipal and other nongovernmental sources and is recognized as the related expenses are incurred.

Revenue from State appropriations is recognized in the fiscal year during which the State of New Jersey appropriates the funds to the University. The University is fiscally dependent upon these appropriations.

Contributions, including pledges other than endowment, are recognized as revenues in the period donated. Additions to permanent endowments are recognized upon receipt. Endowment and investment income is recognized in the period earned.

Classification of Revenue

The University's policy for defining operating activities in the statements of revenues, expenses, and changes in net assets are those that serve the University'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 (1) student tuition and fees, net of scholarship allowances, (2) auxiliary enterprises, net of scholarship allowances, and (3) most federal, state and municipal and other nongovernmental grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as operating appropriations from the State, endowment and investment income and contributions.

Scholarships and Fellowships

Scholarships, fellowships or stipends include payments made directly to students in the form of student aid. Any aid applied directly to the students' accounts in payment of tuition and fees, housing charges and dining services is reflected as a scholarship allowance and is deducted from the University's revenues. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

The University distributes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and unsubsidized loans, through schools, directly to students. During the year ended June 30, 2007, the University disbursed \$158.3 million (\$155.5 million in 2006) under the Federal Direct Student Loan Program. Direct student loans receivable are not included in the University's statements of net assets since they are repayable directly to the U.S. Department of Education.

Income Taxes

The University is exempt from income taxes on related income pursuant to federal and State tax laws as an instrumentality of the State of New Jersey.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principals 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 reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The University's cash and cash equivalents balance at June 30, 2007 includes a cash book balance \$10.5 million (negative \$0.5 million in 2006). The actual amount of cash on deposit in the University's bank accounts at June 30, 2007 was \$25.7 million (\$21.1 million in 2006). Of this amount, \$0.4 million (\$0.4 million in 2006) was insured by the Federal Deposit Insurance Corporation at

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

June 30, 2007. At June 30, 2007, \$25.3 million (\$20.6 million in 2006) was collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes, and no cash was uninsured and uncollateralized at June 30, 2007 (\$0.1 million in 2006.).

The Foundation's cash and cash equivalents includes uncollateralized deposits, including any bank balance that is collateralized with securities held by a pledging financial institution, or by its trust department or agent but not in the Foundation's name. As of June 30, 2007 and 2006, the Foundation had insured deposits up to the Federal Deposit Insurance Corporation (FDIC) coverage limits totaling \$0.4 million and \$0.3 million, respectively. Cash and cash equivalents in excess of those balances are uncollateralized.

The University and Foundation's cash and cash equivalents are carried in the financial statements at fair value and consist of the following as of June 30, 2007 and 2006 (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Money Market Funds	\$74,197	\$45,881
Repurchase Agreements	4,644	26,821
Cash and Deposits	33,694	16,723
Total Cash and Cash Equivalents	<u>\$112,535</u>	<u>\$89,425</u>

Investments

Effective July 1, 2004, the University and Foundation adopted Statement No. 40 GASB, *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.

The Board of Governors and the Board of Trustees, through a Joint Investment Committee, have authority over the investment of the University's funds. Professional investment managers are engaged by the University to manage the investment of funds in accordance with the investment policies and objectives established by the Joint Investment Committee. In addition, under the terms of the University's bond indentures, bond proceeds and debt service funds may be invested and reinvested only in obligations which will by their terms mature on or before the date funds are needed for expenditure or withdrawal.

The primary financial objective of the investment management of the University's endowment is to preserve and enhance the endowment's real purchasing power while providing a relatively constant stream of earnings for current use. The long-term investment objective for the endowment is to attain an average annual real total return of at least 5%, as measured over rolling five-year periods and current income adjusted for inflation. The University's annual spending policy is to spend an amount not to exceed 4.5% of a trailing 13-quarter average of the endowment's market values. Current earned income will be used for ongoing spending requirements. The endowment's assets are divided into an Equity Fund, a Fixed Income Fund and other investment classes. The endowment's investments are diversified by asset class. The Equity Fund, the Fixed Income Fund and other asset classes are placed with professional managers with different investment philosophies to ensure that no single security or class of securities will have a disproportionate impact on the endowment's aggregate results.

The University's investments are carried in the financial statements at fair value and consist of the following at June 30, 2007 and 2006 (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Commercial Paper	\$238,238	\$280,106
U.S. Government Direct Securities	145,162	93,124
U.S. Government Agency Securities	153,285	155,683
Commodities	38,657	40,361
U.S. Corporate Equities	248,900	216,986
Foreign Corporate Equities	138,988	99,336
Real Estate	91,206	85,345
Other Investments	3,715	1,026
Total Investments	<u>\$1,058,151</u>	<u>\$971,967</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

The Board of Overseers, through its Investment Committee, has authority over the investment of the Foundation's funds. Professional investment managers are engaged by the Foundation and have full discretion to buy, sell, invest and reinvest portions of the assets in accordance with the investment policies and objectives established by the Investment Committee.

The primary financial objective of the Foundation's investment management of assets for the General Endowment Fund is to earn the highest yield possible without unnecessary risk to principal. To achieve the goals of safety, liquidity and return, the assets in the General Endowment Fund are invested in laddered high quality short term fixed income securities and/or an institutional money market fund. The objective for the Planned Giving Portfolio is to maximize long-term total return through a combination of income and capital appreciation in a prudent manner. To achieve the goals of growth and income, the assets within the Planned Giving Portfolio are divided into an Equity Portion (equities including convertibles and cash devoted to equities) and a Fixed Income Portion (bonds, notes, nonconvertible preferred stock and cash devoted to fixed income).

The Foundation's investments are carried in the financial statements at fair value, based on quoted market values, and consist of the following as of June 30, 2007 and 2006 (dollars in thousands):

	<u>2007</u>	<u>2006</u>
U.S. Government Treasury Securities	\$27,467	\$782
U.S. Government Agency Securities	2,429	6,508
Corporate Bonds	2,716	2,318
Mortgage-backed Securities	2,149	3,483
Common Stock	7,324	7,140
Other Investments	1,865	648
Total Investments	<u>\$43,950</u>	<u>\$20,879</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The operating funds of the University are managed against the expected cash requirements of these funds. The University projects its cash requirements and arranges investment maturities accordingly. Special attention is given to the interest rate environment in times of economic growth or downturns. The table below reflects the operation of this process. Endowment funds have a much longer outlook and are invested by professional managers against an index as provided in the University's investment guidelines. For the University, the following table summarizes the maturities as of June 30, 2007 and 2006 (dollars in thousands):

Investment Type	Market Value	<u>2007</u>			
		<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Government Treasury Securities	\$145,162	\$115,955	\$28,288		\$919
U.S. Government Agency Securities	82,954		82,666	\$2	286
Corporate Bonds	531		274	257	
Commercial Paper	308,469	308,469			
Total	537,116	<u>\$424,424</u>	<u>\$111,228</u>	<u>\$259</u>	<u>\$1,205</u>
Common Stock	386,857				
Other Investments	134,178				
Total	<u>\$1,058,151</u>				

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Notes to the Financial Statements

JUNE 30, 2007 and 2006

Investment Type	Market Value	2006 Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Treasury Securities	\$93,124	\$73,200	\$19,009		\$915
U.S. Government Agency Securities	71,573	48,019	23,150	\$2	402
Corporate Bonds	1,026	500	269	257	
Commercial Paper	364,117	364,117			
Total	529,840	\$485,836	\$42,428	\$259	\$1,317
Common Stock	314,855				
Other Investments	127,272				
Total	\$971,967				

The Foundation does not have a provision in the investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. While the general provisions of the investment strategy should be implemented with a long-term prospective, all holdings must be sufficiently liquid so as to allow liquidation of the entire portfolio on one month's notice. In addition, annuity pooled investments in the planned giving portion of the portfolio are governed by the New Jersey Prudent Investor Act. The required reserves for this pool are reviewed utilizing actuarial assumptions of the charitable gift annuity assets. For the Foundation, the following table summarizes the maturities as of June 30, 2007 and 2006 (dollars in thousands):

Investment Type	Market Value	2007 Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Treasury Securities	\$27,467	\$99	\$20,274	\$349	\$6,745
U.S. Government Agency Securities	2,429	936		335	1,158
Corporate Bonds	2,716	10	527	467	1,712
Mortgage-backed Securities	2,149		112		2,037
Total	\$34,761	\$1,045	\$20,913	\$1,151	\$11,652

Investment Type	Market Value	2006 Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Treasury Securities	\$782		\$77	\$496	\$209
U.S. Government Agency Securities	6,508	\$5,522	157	287	542
Corporate Bonds	2,318		213	694	1,411
Mortgage-backed Securities	3,483		184	536	2,763
Total	\$13,091	\$5,522	\$631	\$2,013	\$4,925

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's Investment Policy states that individual bonds shall be rated with an investment grade by at least two of the three rating agencies (Moody's, Fitch, and Standard & Poor's). The average credit quality of the Core Fixed Income Fund shall be maintained at AA (by S&P or equivalent rating by Moody's or Fitch) or higher. The prospect of credit risk or risk of permanent loss shall be avoided in the Core Fixed Income Fund. Issues of state or municipal agencies shall not be purchased except in unusual circumstances. A fixed income manager may invest in foreign securities up to a limit of 20% of the portfolio. At June 30, 2007 and 2006, the University's investment quality ratings as rated by Standard & Poor's were as follows (dollars in thousands):

<u>Investment Type</u>	<u>Quality Rating</u>	<u>2007</u>	<u>2006</u>
U.S. Government Agency Securities	AAA	\$228,116	\$164,697
Corporate Bonds	AA+	72	73
Corporate Bonds	AA	303	298
Corporate Bonds	A	9	9
Corporate Bonds	A-	49	548
Corporate Bonds	BBB+	98	98
Commercial Paper	A-1+	227,177	242,804
Commercial Paper	A-1	81,292	121,313
Total		<u>\$537,116</u>	<u>\$529,840</u>

The Foundation's Investment Policy states that individual bonds shall be rated an investment grade by at least two rating agencies (Moody's and Standard & Poor's). The average credit quality of the Fixed Income Securities must be maintained at a class BBB/Baa or higher as rated by both standard services (Moody's and Standard & Poor's). Up to 10% of the investment manager's portfolio may be invested in securities rated BBB/Baa or higher as rated by both standard services (Moody's and Standard & Poor's). The dollar-weighted average rating of the fixed income portfolio for each manager of marketable bonds shall be A/A or better.

At June 30, 2007 and 2006, the Foundation's investment quality ratings, at fair value, as rated by Standards & Poors were as follows (dollars in thousands):

<u>Investment Type</u>	<u>Quality Rating</u>	<u>2007</u>	<u>2006</u>
U.S. Government Treasury and Agency Securities	AAA	\$29,896	\$7,290
Mortgage-backed Securities	AAA	2,149	3,483
Corporate Bonds	AAA	30	
Corporate Bonds	AA	1,739	1,741
Corporate Bonds	A	657	418
Corporate Bonds	A1		71
Corporate Bonds	BBB+	290	56
Corporate Bonds	BB+		32
Total		<u>\$34,761</u>	<u>\$13,091</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. Custodial credit risk should not be confused with market risk, which is the risk that the market value of a security may decline. The University's investment securities are exposed to custodial credit risk if the securities are uninsured and unregistered and held by the counterparty, or by its trust department or agent but not in the University's name. Money market and mutual funds are subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At June 30, 2007 and 2006, the University had \$389.7 million and \$342.6 million, respectively, of investments that were uninsured or unregistered but not in the University's name.

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Notes to the Financial Statements

JUNE 30, 2007 and 2006

As of June 30, 2007 and 2006, the Foundation's investments were either insured, registered, or held by the Foundation's agent in the Foundation's name, except for money market and mutual funds, which are subject to custodial credit risk because their existence is not evidence by securities that exist in physical or book entry form.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The University and the Foundation limit the concentration of credit risk by placing a limit on the amount the investment managers may invest in any one issuer. No single transaction may exceed 5% of the portfolio nor shall a single security exceed 10% of the market value of the equity fund at purchase. Additionally, no single industry shall represent more than 25% of the market value of the Equity Fund.

Investments - Endowment Funds

The majority of endowment funds assets are combined into two separate investment pools. Each individual fund subscribes to or disposes of units in the pools on the basis of the per-unit market value at the beginning of the three-month period within which the transaction takes place. At June 30, 2007, the pooled cash, receivables and investments had a total market value of \$501.5 million (\$436.5 million in 2006). In addition, the aggregate market value of endowment funds, cash, receivables and investments separately invested was \$85.6 million at June 30, 2007 (\$61.4 million in 2006). The investment appreciation was \$97.4 million at June 30, 2007 (appreciation of \$37.5 million in 2006). These amounts are included in restricted nonexpendable, restricted expendable and unrestricted net assets.

The University employs a spending policy which provides for annual spending at a stated rate determined by the Joint Investment Committee of the Board of Governors and the Board of Trustees. Income earned above the stated rate is reinvested and added to the endowment principal, while any shortfall is covered by capital appreciation.

Alternative Investments

As part of its investment strategy, the University has committed to invest a total of \$95.0 million to 16 non-marketable alternative asset partnerships. As of June 30, 2007, the University has \$32.1 million of paid-in capital to these partnerships and \$62.9 million in unfunded commitments.

NOTE 3 - RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are shown net of the allowance for doubtful accounts and are comprised of the following at June 30, 2007 and 2006 (dollars in thousands):

	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net 2007</u>	<u>Net 2006</u>
Government Grants Receivable and Other Sponsored Programs	\$51,431	\$420	\$51,011	\$43,843
Student Accounts Receivable	5,565	1,970	3,595	2,517
Other	46,041	1,130	44,911	21,193
Total	<u>\$103,037</u>	<u>\$3,520</u>	<u>\$99,517</u>	<u>\$67,553</u>

Students' notes receivable in the statements of net assets are also shown net of the allowance for doubtful notes which amounted to \$3.6 million at June 30, 2007 (\$3.3 million in 2006).

The allowances for doubtful accounts and notes are based upon management's best estimate of uncollectible accounts and notes at June 30, 2007 and 2006, considering type, age, collection history and other appropriate factors.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

NOTE 4 – CONTRIBUTIONS RECEIVABLE

The anticipated receipt of contributions receivable is as follows at June 30, 2007 and 2006 (dollars in thousands):

Year Ending June 30:	<u>2007</u>	<u>2006</u>
Within one year	\$18,086	\$17,730
Two to five years	8,146	7,744
	<u>26,232</u>	<u>25,474</u>
Less allowance for uncollectible contributions	(2,632)	(4,675)
Total Contributions Receivable	<u>\$23,600</u>	<u>\$20,799</u>

Contributions receivable related to permanent endowments and term endowments do not meet the recognition criteria of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. These contributions receivable, which approximated \$26.9 million at June 30, 2007 (\$27.0 million in 2006) have not been included in the accompanying statements of net assets.

NOTE 5 – CAPITAL ASSETS

The detail of Capital Assets activity for the years ended June 30, 2007 and 2006 is as follows (dollars in thousands):

	<u>Balance 2006</u>	<u>Additions</u>	<u>Retirements/ Capitalization</u>	<u>Balance 2007</u>
Capital Assets Not Being Depreciated:				
Land	\$51,859	\$705	\$2	\$52,562
Capitalized Collections	47,327	1,918		49,245
Construction in Progress	41,379	59,368	49,252	51,495
Total	<u>140,565</u>	<u>61,991</u>	<u>49,254</u>	<u>153,302</u>
Capital Assets Being Depreciated:				
Land Improvements	210,787	5,108		215,895
Buildings	1,787,201	68,934		1,856,135
Equipment	424,890	23,752	35,974	412,668
Total	<u>2,422,878</u>	<u>97,794</u>	<u>35,974</u>	<u>2,484,698</u>
Less Accumulated Depreciation:				
Land Improvements	104,643	17,442		122,085
Buildings	565,932	43,391		609,323
Equipment	300,142	31,778	35,170	296,750
Total	<u>970,717</u>	<u>92,611</u>	<u>35,170</u>	<u>1,028,158</u>
Net Capital Assets Being Depreciated	<u>1,452,161</u>	<u>5,183</u>	<u>804</u>	<u>1,456,540</u>
Total Capital Assets, net	<u>\$1,592,726</u>	<u>\$67,174</u>	<u>\$50,058</u>	<u>\$1,609,842</u>

During 2007, the University has capitalized interest expense of \$1,211 thousand in construction in progress in the accompanying statements of net assets.

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Notes to the Financial Statements

JUNE 30, 2007 and 2006

	<u>Balance 2005</u>	<u>Additions</u>	<u>Retirements/ Capitalization</u>	<u>Balance 2006</u>
Capital Assets Not Being Depreciated:				
Land	\$51,637	\$231	\$9	\$51,859
Capitalized Collections	44,998	2,329		47,327
Construction in Progress	118,587	100,740	177,948	41,379
Total	<u>215,222</u>	<u>103,300</u>	<u>177,957</u>	<u>140,565</u>
Capital Assets Being Depreciated:				
Land Improvements	200,586	10,201		210,787
Buildings	1,608,154	179,116	69	1,787,201
Equipment	426,056	22,941	24,107	424,890
Total	<u>2,234,796</u>	<u>212,258</u>	<u>24,176</u>	<u>2,422,878</u>
Less Accumulated Depreciation:				
Land Improvements	88,141	16,502		104,643
Buildings	525,259	40,692	19	565,932
Equipment	289,654	33,951	23,463	300,142
Total	<u>903,054</u>	<u>91,145</u>	<u>23,482</u>	<u>970,717</u>
Net Capital Assets Being Depreciated	<u>1,331,742</u>	<u>121,113</u>	<u>694</u>	<u>1,452,161</u>
Total Capital Assets, net	<u>\$1,546,964</u>	<u>\$224,413</u>	<u>\$178,651</u>	<u>\$1,592,726</u>

During 2006, the University has capitalized interest income of \$920 thousand and interest expense of \$3,213 thousand in construction in progress in the accompanying statements of net assets.

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2007 and 2006 (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Compensated Absences	\$42,228	\$41,076
Vendors	28,363	31,294
Accrued Salaries and Benefits	14,628	12,961
Workers Compensation	10,722	8,859
Retainage	3,705	6,164
Interest Payable	3,431	3,572
Other Accrued Expenses	29,061	5,951
Total Accounts Payable and Accrued Expenses	<u>\$132,138</u>	<u>\$109,877</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2007 and 2006 is as follows (dollars in thousands):

	<u>Balance 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2007</u>	<u>Current Portion</u>
Accounts Payable and Accrued Expenses	\$109,877	\$28,485	\$6,224	\$132,138	\$98,152
Annuities Payable	7,320	511		7,831	1,015
Long-Term Liabilities	616,154	33,533	50,915	598,772	64,637
Total Noncurrent Liabilities	<u>\$733,351</u>	<u>\$62,529</u>	<u>\$57,139</u>	<u>\$738,741</u>	<u>\$163,804</u>

	<u>Balance 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2006</u>	<u>Current Portion</u>
Accounts Payable and Accrued Expenses	\$129,642		\$19,765	\$109,877	\$94,990
Annuities Payable	7,275	\$45		7,320	1,011
Long-Term Liabilities	644,096	1,106	29,048	616,154	29,257
Total Noncurrent Liabilities	<u>\$781,013</u>	<u>\$1,151</u>	<u>\$48,813</u>	<u>\$733,351</u>	<u>\$125,258</u>

NOTE 8 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2007 and 2006 is as follows (dollars in thousands):

	<u>Balance 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 2007</u>	<u>Current Portion</u>
General Obligation Bonds Payable	\$425,009	\$302	\$39,831	\$385,480	\$20,674
Revenue Bonds Payable	28,921	9	2,475	26,455	1,961
Lease Obligations	160,052	153	8,500	151,705	8,820
Commercial Paper		33,069		33,069	33,069
Notes Payable	2,172		109	2,063	113
Total Long-Term Liabilities	<u>\$616,154</u>	<u>\$33,533</u>	<u>\$50,915</u>	<u>\$598,772</u>	<u>\$64,637</u>

	<u>Balance 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 2006</u>	<u>Current Portion</u>
General Obligation Bonds Payable	\$443,232	\$68	\$18,291	\$425,009	\$19,093
Revenue Bonds Payable	31,272	9	2,360	28,921	2,466
Lease Obligations	167,316	1,029	8,293	160,052	7,589
Notes Payable	2,276		104	2,172	109
Total Long-Term Liabilities	<u>\$644,096</u>	<u>\$1,106</u>	<u>\$29,048</u>	<u>\$616,154</u>	<u>\$29,257</u>

(Continued)

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

OTHER OBLIGATIONS OF THE UNIVERSITY

Notes Payable

Notes payable at June 30, 2007 and 2006 consist of an unsecured note payable to the U.S. Department of Education with interest at 5.5%, final installment due January 1, 2021.

The University has an unsecured \$20.0 million line of credit with a bank to be used for interim financing requirements for construction projects. The amount available under the line of credit is reduced by a \$0.1 million letter of credit which is collateral for a lease obligation. No portion of the line of credit is in use, and no funds have been drawn on the letter of credit at June 30, 2007 or 2006.

Rutgers Community Park

In 1999, the University and the City of Camden entered into a joint venture for the acquisition, development and construction of an outdoor recreational complex designated the Rutgers Community Park which was made available to University students and the public. On June 26, 2002, the University agreed to assume the obligation for debt service payable on an aggregate of \$1.0 million in loans that the City of Camden received from the Green Acres Program of the State of New Jersey in connection with the Rutgers Community Park, pursuant to an Amended and Restated Interlocal Services Agreement between the City of Camden and the University. The assumption of the debt service payable on the Green Acres Program of the State of New Jersey loan is a general obligation of the University secured by the full faith and credit of the University. At June 30, 2007, the outstanding amount due on the loans was \$0.7 million (\$0.8 million in 2006).

Guaranty of LEAP School Bond Financing

The Delaware River Port Authority (the Authority) issued \$8.5 million of Charter School Project Bonds, Series 2003 (LEAP Academy University Charter School, Inc.) on October 2, 2003 pursuant to the Compact, the New Jersey Act, the Pennsylvania Act and an Indenture of Trust dated as of September 1, 2003, by and between the Authority and Commerce Bank, National Association, as trustee (the Guaranty), for the purpose of financing the costs of the design, development, construction and equipping of the LEAP Academy University Charter School (the LEAP School) in Camden, New Jersey. The LEAP School will be owned and managed by the LEAP Academy University Charter School, Inc., a New Jersey not-for-profit corporation, and will serve approximately 216 students in grades 9-12. The LEAP School site is adjacent to the Camden Campus. The University's obligations under the Guaranty are a general obligation of the University secured by the full faith and credit of the University.

College Hall Student Housing Project

The University entered into a Limited Minimum Revenue Guaranty, dated January 22, 2004, pursuant to which the University agreed to pay the debt service payable for a two-year period on, and thereafter to replenish the debt service reserve account established in connection with, the Middlesex County Improvement Authority's (the MCIA) \$4.2 million aggregate principal amount of Revenue Bonds (George Street Student Housing Project), 2004 Series B. The 2004 Series B Bonds mature on August 15, 2011 and were issued, together with the MCIA's \$49.9 million Revenue Bonds (George Street Student Housing Project), 2004 Series A, to finance the cost of the planning, design, development, supervision, construction, furnishing, equipping and opening of a student housing facility for use primarily by the University's students. The University's obligations under the Limited Revenue Guaranty are a general obligation of the University secured by the full faith and credit of the University.

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Notes to the Financial Statements

JUNE 30, 2007 and 2006

Bonds Payable – General Obligation and Revenue

A summary of bonds issued and outstanding at June 30, 2007 and 2006 is as follows (dollars in thousands):

	Date of Series	Original Amount	Outstanding June 30,	
			2007	2006
Revenue Refunding Bonds:				
Series U, 4.89% effective, due serially to May 1, 2021	Dec. 1, 1997	\$40,015	\$25,440	\$27,220
Total Revenue Refunding Bonds		40,015	25,440	27,220
Revenue Bonds:				
Series E, 3.75%, due serially to May 1, 2016	May 1, 1967	1,200	410	450
Series F, 3.00%, due serially to May 1, 2016	Nov. 1, 1967	2,350	730	800
Series H, 5.90% effective, due serially to May 1, 2007	Nov. 1, 1970	8,300		585
Total Revenue Bonds		11,850	1,140	1,835
General Obligation Refunding Bonds:				
1992 Series A, 6.51% effective, due serially to May 1, 2007 and term bonds due May 1, 2013 and 2018	Feb. 1, 1992	94,370	26,605	26,605
2002 Series A, 3.96% effective, due serially to May 1, 2018	Feb. 1, 2002	110,000	76,300	83,300
2003 Series C, 3.41% effective, due serially to May 1, 2019	July 15, 2003	111,320	80,500	87,700
Total General Obligation Refunding Bonds		315,690	183,405	197,605
General Obligation Bonds:				
1997 Series A, 5.34% effective, due serially to May 1, 2017 and term bonds due May 1, 2002 and 2027	June 1, 1997	25,385		21,245
1998 Series A, 4.89% effective, due serially to May 1, 2018 and term bonds due May 1, 2020, 2023 and 2029	Nov. 1, 1998	50,000	42,295	43,395
2002 Series B, 4.60% effective, due serially to May 1, 2023 and term bonds due May 1, 2027, 2032 and 2034	Nov. 1, 2002	50,000	46,415	47,340
2003 Series D, 3.74% effective, due serially to May 1, 2019	Dec. 1, 2003	24,805	19,570	20,930
2004 Series E, 4.69% effective, due serially to May 1, 2029 and term bonds due May 1, 2031 and 2034	July 1, 2004	86,725	86,190	86,550
Total General Obligation Bonds		236,915	194,470	219,460
Total Bonds		\$604,470	\$404,455	\$446,120

The General Obligation Bonds Payable includes premium on bonds, net of bond discounts, of \$7.6 million at June 30, 2007 (\$7.9 million in 2006, premium on bonds, net of bond discounts) related to Series 1992 A, Series 1997 A, Series 1998 A, Series 2002 B, Series 2003 C, Series 2003 D and Series 2004 E.

The Revenue Refunding Bonds Payable are net of \$125 thousand at June 30, 2007 (\$134 thousand in 2006) of unamortized bond discounts related to Series U.

Revenue and Revenue Refunding Bonds

The Revenue Refunding Bonds, Series U, and the Revenue Bonds, Series E, F and H, were issued under an open-ended Indenture of Trust dated May 1, 1967 to finance the construction of auxiliary enterprise facilities and to consolidate previously outstanding bond indebtedness. Under the terms of the indenture, all bonds issued are direct and general obligations of the University and are in no way an obligation of the State of New Jersey. All revenues from auxiliary enterprise facilities constructed from the proceeds of the bonds, together with revenues from certain other such facilities, are pledged to secure the indebtedness and must be applied to (1) annual interest and amortization payments, (2) debt service reserve deficiencies, if any, (3) operating and maintenance expenses and (4) the funding of repair and replacement reserves. The excess of funds, after satisfying these requirements, is available to the University. The University has covenanted that so long as the bonds are outstanding it will not incur any other indebtedness secured by a pledge of the facility revenues, nor sell, mortgage or otherwise dispose of such facilities.

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Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2007 and 2006

General Obligation and General Obligation Refunding Bonds

The General Obligation Refunding Bonds, 1992 Series A, and General Obligation Bonds, 1997 and 1998 Series A, were issued under an open-ended Indenture of Trust, dated May 1, 1987, as supplemented, and the General Obligation Refunding Bonds, 2002 Series A, were issued under an Indenture of Trust, dated February 1, 2002. These bonds were issued to finance a portion of the cost of the renovation, construction and equipping of certain academic, research support and other facilities, as well as infrastructure development and land acquisitions of the University. Under the terms of the indentures, all bonds issued are direct and general obligations of the University and are in no way an obligation of the State of New Jersey.

The General Obligation Bonds, 2002 Series B, were issued in the amount of \$50.0 million and dated November 1, 2002. The 2002 Series B Bonds are secured under the provisions of an Indenture of Trust, dated as of February 1, 2002, as supplemented by a First Supplemental Indenture of Trust, dated as of February 1, 2002, each between the University and First Union National Bank (now known as Wachovia Bank, National Association), as trustee and a Second Supplemental Indenture of Trust, dated as of November 1, 2002, between the University and the Trustee. In September 2006, Wachovia Bank sold all trustee rights to U.S. Bank. The proceeds of the 2002 Series B Bonds, together with certain other monies available to the University, are being used to finance, in part, the costs of the construction of new buildings for the Department of Biomedical Engineering and the Department of Human Genetics on the Busch Campus; the renovation of Olson Hall on the Newark Campus to upgrade and expand laboratory space, conference room space, classroom space and faculty offices for the Biological Sciences and Chemistry Departments; implementation of the Housing Fire Safety Program mandating installation of automatic fire suspension systems in all student residences and certain environmental remediation, health and safety and infrastructure support in accordance with State regulations; and the financing of certain deferred maintenance and other capital improvements in accordance with the State Higher Education Capital Improvement Fund Act of 1999.

The General Obligation Refunding Bonds, 2003 Series C, were issued in the amount of \$111.3 million and dated July 15, 2003. The bonds were issued under the terms of an Indenture of Trust, dated February 1, 2002, as supplemented, and a Third Supplemental Indenture of Trust, dated as of July 1, 2003. The 2003 Series C Bonds were issued to refund in whole the University's outstanding (i) Revenue Refunding Bonds, Series S, (ii) Revenue Refunding Bonds, Series T, (iii) General Obligation Refunding Bonds, 1993 Series 1, (iv) General Obligation Refunding Bonds, 1993 Series A, and (v) General Obligation Bonds, 1993 Series B. The proceeds of the 2003 Series C Bonds, along with certain other moneys provided, were used to (i) redeem the above mentioned bonds prior to maturity, in whole on July 31, 2003, at their appropriate respective principal amounts plus the applicable redemption premium, if any and interest, and (ii) to pay certain administrative, legal, financing and incidental expenses relating to the issuance of the 2003 Series C Bonds. The University completed the advance refunding to reduce its total debt service payments over the next 16 years by \$33.8 million and to obtain an economic gain (difference between the present values of the old and new debt service payments less escrow funds used) of \$12.0 million. The difference between the reacquisition price and the net carrying amount of the old debt, \$4.4 million, is being deferred and amortized as interest expense through the year 2019 using the effective interest method. In 2007, \$0.3 million has been expensed leaving \$3.3 million as deferred charges.

The General Obligation Bonds, 2003 Series D, were issued in the amount of \$24.8 million and dated December 1, 2003. The Series 2003 D Bonds are secured under the provisions of the Indenture of Trust, dated as of February 1, 2002, as supplemented between the University and First Union National Bank (now known as Wachovia Bank, National Association), as Trustee and a Fourth Supplemental Indenture of Trust, dated as of December 1, 2003, between the University and the Trustee. In September 2006, Wachovia Bank sold all trustee rights to U.S. Bank. The proceeds of the 2003 Series D Bonds are being used to finance (i) the costs of construction of certain deferred capital maintenance projects on the New Brunswick Campus, the Camden Campus and the Newark Campus, each project with a minimum economic life of ten years, and (ii) certain administrative, legal, financing and incidental expenses relating to the issuance of these Bonds.

The General Obligation Bonds, 2004 Series E, were issued in the amount of \$86.7 million on July 1, 2004. The bonds were issued under the terms of an Indenture of Trust, dated as of February 1, 2002, as supplemented, between the University and the First Union National Bank (now known as Wachovia Bank, National Association), as Trustee, and a Fifth Supplemental Indenture of Trust, dated July 1, 2004, between the University and the Trustee. In September 2006, Wachovia Bank sold all trustee rights to U.S. Bank. The 2004 Series E Bonds are authorized to be issued pursuant to the terms of the Fifth Supplemental Indenture, supplemental to and amendatory of the Master Indenture. The 2004 Series E Bonds are authorized under the provisions of Rutgers, The State University Law, constituting Chapter 65 of Title 18A of the New Jersey Statutes Annotated, and the Indenture. The 2004 Series E Bonds were issued to fund capital projects for sites and buildings located at the New Brunswick, Newark and Camden campuses of the University, which include: (i) the construction of a student-housing facility with ancillary student-related and retail space on the Newark Campus; (ii) the expansion to and renovation of the Camden Law School; (iii) the complete interior and exterior reconstruction of the Administrative Services Building II located on the New Brunswick Campus; (iv) the fit-out and equipping of the Public Safety Building on the New Brunswick Campus; and (v) the construction of a new College of Nursing Building for academic and administrative offices and teaching laboratories.

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Debt service payments to maturity at June 30, 2007 on the University's bonds are as follows (dollars in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$22,050	\$18,604	\$40,654
2009	23,005	17,735	40,740
2010	24,100	16,618	40,718
2011	25,200	15,481	40,681
2012	24,730	14,286	39,016
2013-2017	127,925	53,534	181,459
2018-2022	60,240	30,287	90,527
2023-2027	39,935	19,965	59,900
2028-2032	40,755	9,783	50,538
2033-2034	16,515	1,227	17,742
Total	<u>\$404,455</u>	<u>\$197,520</u>	<u>\$601,975</u>

Commercial Paper Program

On February 28, 2007, the University issued commercial paper to provide interim or short-term financing of various capital projects, equipment, refundings, and to refinance all outstanding general obligation bond anticipation notes of the University. The commercial paper will be issued either as Tax-Exempt Commercial Paper or as Taxable Commercial Paper.

The commercial paper constitute direct general obligations of the University for the payment of which, as to both principal and interest, the full faith and credit of the University are pledged. Principal of the commercial paper, to the extent not paid from proceeds of general obligation bonds and proceeds of other commercial paper, and interest on the commercial paper is payable from other available University funds. The University has entered into a Standby Commercial Paper Purchase Agreement (the Standby Commercial Paper Purchase Agreement) with Wachovia Bank, National Association (the Liquidity Provider) under which the Liquidity Provider is obligated to purchase newly issued commercial paper to pay the principal of other commercial paper, subject to suspension or termination upon the occurrence of certain events. The Standby Commercial Paper Purchase Agreement will terminate at the close of business on February 28, 2012, unless terminated prior to such date in accordance with its terms.

Morgan Stanley & Co. Incorporated will be the exclusive dealer in connection with the offering and issuance of the Series A Tax-Exempt Commercial Paper, the Series C Taxable Commercial Paper and the Series D Extendable Commercial Paper. UBS Securities LLC (UBS) will be the exclusive dealer in connection with the offering and issuance of the Series B Tax-Exempt Commercial Paper.

On March 12, 2007, the Series B General Obligation Commercial Paper was issued to defease the University's outstanding General Obligation Bonds, Series 1997A, dated June 1, 1997. The proceeds of the Series B General Obligation Commercial Paper were used: (i) to deposit funds into Series 1997A Debt Service Fund held by the Trustee sufficient to pay the principal, interest and redemption on the Series 1997A Bonds and (ii) to pay certain administrative, legal, financing and incidental expenses relating to the issuance of the Series B General Obligation Commercial Paper. The University completed the advance refunding to reduce, assuming principal payments are made, its total debt service payments over the next 20 years by \$5.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments less escrow funds used) of \$1.7 million. The difference between the reacquisition price and the net carrying amount of the old debt, \$0.4 million, is being deferred and will be amortized as interest expense through the year 2027 using the effective interest method.

Interest Rate Swap Agreements

JP Morgan

Objective: To protect the risk of interest rate changes, the University entered into an interest rate swap agreement, effective February 4, 2002, with JP Morgan related to the \$110.0 million of its 2002 Series A General Obligation Refunding Bonds.

Terms: Under the swap, the University pays JP Morgan a fixed payment of 3.96% and receives a variable payment based on the BMA Municipal Swap Index (the BMA Index). The swap, as of June 30, 2007, has a notional amount of \$76.3 million. The bonds and the related swap agreement mature on May 1, 2018. As of June 30, 2007, rates were as follows:

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	<u>Rates</u>
Interest rate swap	
Fixed payment to counterparty	3.96%
Variable payment from counterparty	<u>-3.70%</u>
Net interest rate swap payments	0.26%
Variable rate bond coupon payments	<u>3.61%</u>
Synthetic interest rate	<u><u>3.87%</u></u>

Fair value: As of June 30, 2007, the swap had a negative fair value of \$0.6 million (negative \$0.2 million in 2006). The fair value was provided by the counterparty and derived from proprietary models based on estimates about relevant future market conditions.

Credit risk: As of June 30, 2007, the University 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 University would be exposed to credit risk in the amount of the derivative's positive fair value. JP Morgan was rated AA- by S&P.

Basis risk: The swap exposes the University to basis risk should the relationship between the floating rate and the BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.96% and the synthetic rate at June 30, 2007 of 3.87% (3.90% in 2006). If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. At June 30, 2007, the BMA rate was 3.70% (3.68% in 2006).

Termination risk: The swap terminates on May 1, 2018, but is cancelable at the option of the counterparty under certain circumstances. Effective on May 1, 2015, the counterparty may terminate the swap on each day that the average of the BMA index for the immediately preceding 180-day period exceeds 7.0%. In the unlikely event that the counterparty fails to perform under the contract, the University bears the credit risk that payments due to the University may not be collected. If at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for a payment equal to the swap's fair value. At June 30, 2007, the average of the BMA index did not exceed 7.0%, therefore, the counterparty has not terminated the swap.

Swap payments: Using rates as of June 30, 2007, debt service requirements of the variable-debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (dollars in thousands). As rates vary, floating-rate bond interest payments and net swap payments will vary.

<u>Year</u>	<u>Floating Rate Bonds</u>		<u>Interest Rate</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Swap, Net</u>	
2008	\$3,500	\$2,754	\$198	\$6,452
2009	3,700	2,628	189	6,517
2010	3,800	2,495	180	6,475
2011	3,900	2,357	170	6,427
2012	4,100	2,217	160	6,477
2013-2017	45,900	7,545	543	53,988
2018	<u>11,400</u>	<u>412</u>	<u>30</u>	<u>11,842</u>
Total	<u>\$76,300</u>	<u>\$20,408</u>	<u>\$1,470</u>	<u>\$98,178</u>

In February 2007, the University entered into Master Swap Agreements with Morgan Stanley Capital Services, Inc., an affiliate of Morgan Stanley & Co., Incorporated, UBS AG, an affiliate of UBS Securities LLC, Merrill Lynch & Co., The Bank of New York and Wachovia Bank, National Association. The University intends to enter into various interest rate swaps under such Master Swap Agreements, in connection with its issuance of long-term bonds and the Commercial Paper Program. The University has entered into three anticipatory interest rate exchange agreements, as described below:

Bank of New York

Objective: To protect the risk of interest rate changes, the University entered into an interest rate swap agreement, effective May 1, 2007, with Bank of New York (BNY) related to the \$19.6 million of its General Obligation Commercial Paper Series B.

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Terms: Under the swap, the University pays BNY a fixed payment of 3.82% and receives a variable payment based on the BMA Municipal Swap Index. The notional amount of the swap is \$22.4 million. The swap agreement matures on May 1, 2027. As of June 30, 2007, rates were as follows:

	<u>Rates</u>
Interest rate swap	
Fixed payment to counterparty	3.82%
Variable payment from counterparty	<u>-3.70%</u>
Net interest rate swap payments	0.12%
Variable rate bond coupon payments	<u>3.62%</u>
Synthetic interest rate	<u><u>3.74%</u></u>

Fair value: As of June 30, 2007, the swap had a positive fair value of \$0.4 million. The fair value was provided by the counterparty and derived from proprietary models based on estimates about relevant future market conditions.

Credit risk: As of June 30, 2007, the University was exposed to credit risk because the swap had a positive fair value. BNY was rated A+ by S&P.

Basis risk: The swap exposes the University to basis risk should the relationship between the floating rate and the BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.82% and the synthetic rate at June 30, 2007 of 3.74%. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. At June 30, 2007, the BMA rate was 3.70%.

Termination risk: The swap terminates on May 1, 2027. The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or BNY fails to perform under terms of the contract.

Swap payments: Using rates as of June 30, 2007, the commercial paper interest obligation of the variable-debt and net swap payments, assuming current interest rates remain the same, are as follows (dollars in thousands). As rates vary, floating-rate interest payments and net swap payments will vary.

<u>Year</u>	<u>Notional</u>	<u>Floating Rate</u> <u>Interest</u>	<u>Interest Rate</u> <u>Swap, Net</u>	<u>Total</u>
2008	\$19,569	\$708	\$23	\$731

UBS

Objective: To protect the risk of interest rate changes, the University entered into an interest rate swap agreement, effective May 1, 2007, with UBS related to the \$13.5 million of its General Obligation Commercial Paper Series C.

Terms: Under the swap, the University pays UBS a fixed payment of 5.13% and receives a variable payment based on 100% of the LIBOR index. The notional amount of the swap is \$13.5 million. The swap agreement matures on November 1, 2017. As of June 30, 2007, rates were as follows:

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	<u>Terms</u>	<u>(Series C - \$6.5M) Rates</u>	<u>(Series C - \$7.0M) Rates</u>
Interest rate swap			
Fixed payment to counterparty	Fixed	5.13%	5.13%
Variable payment from counterparty	100% of LIBOR	-5.32%	-5.32%
Net interest rate swap payments		-0.19%	-0.19%
Variable rate bond coupon payments		5.30%	5.33%
Synthetic interest rate		5.11%	5.14%

Fair value: As of June 30, 2007, the swap had a positive fair value of \$0.4 million. The fair value was provided by the counterparty and derived from proprietary models based on estimates about relevant future market conditions.

Credit risk: As of June 30, 2007, the University was exposed to credit risk because the swap had a positive fair value. UBS was rated AA+ by S&P.

Basis risk: The swap exposes the University to basis risk should the relationship between the floating rate and the LIBOR converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 5.13% and the synthetic rate at June 30, 2007 of 5.11% and 5.14% for the \$6.5 million Series C and the \$7.0 million Series C, respectively. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. At June 30, 2007, the LIBOR rate was 5.32%.

Termination risk: The swap terminates on November 1, 2017. The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or UBS fails to perform under terms of the contract.

Swap payments: Using rates as of June 30, 2007, the commercial paper interest obligation of the variable-debt and net swap payments, assuming current interest rates remain the same, are as follows (dollars in thousands). As rates vary, floating-rate interest payments and net swap payments will vary.

<u>Year</u>	<u>Notional</u>	<u>Floating Rate Interest</u>	<u>Interest Rate Swap, Net</u>	<u>Total</u>
2008	\$6,500	\$345	(\$13)	\$332
2008	7,000	373	(14)	359
Total		\$718	(\$27)	\$691

Merrill Lynch

Objective: To protect the risk of interest rate changes, the University entered into an interest rate swap agreement with Merrill Lynch on January 16, 2007, based on a notional amount of \$100.0 million, effective May 1, 2008, maturing on November 1, 2038.

Terms: Under the swap, the University pays Merrill Lynch a fixed payment of 4.08% and receives a variable payment based on the BMA Municipal Swap Index. Since the effective date is in the future, there is no expected cash flow until after that date, but the agreement carries with it a fair market value based on swap market conditions.

Fair value: As of June 30, 2007, the swap had a positive fair value of \$3.5 million. The fair value was provided by the counterparty and derived from proprietary models based on estimates about relevant future market conditions.

Credit risk: As of June 30, 2007, the University was exposed to credit risk because the swap had a positive fair value. Merrill Lynch was rated A+ by S&P.

Basis risk: Changes in swap interest rates and tax-exempt bond interest rates may differ, introducing basis risk in the event the swap is unwound and traditional fixed-rate debt is issued. In the event that the University issues variable rate debt to create synthetic fixed rate debt, the University will pay a rate on the bonds that may not correlate with the BMA index, altering the fixed cost of synthetic debt.

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Termination risk: The swap terminates on November 1, 2038. The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Merrill Lynch fails to perform under terms of the contract.

CAPITALIZED LEASE OBLIGATIONS

Facilities Authority

Dormitories — Pursuant to the terms of a lease and agreement dated September 1, 1971 between the University and the New Jersey Educational Facilities Authority (the Facilities Authority), the University transferred to the Facilities Authority title to certain land, upon which dormitories have been constructed. In 1974, the Facilities Authority issued bonds in the aggregate amount of \$6.7 million at an effective interest cost of 5.95% per annum, for the purpose of providing long-term financing for the aforementioned facilities. Such bonds mature serially through 2008. In accordance with the agreement, the University is required to pay an annual rental to the Facilities Authority over the life of the agreement in amounts necessary to retire the bonds, including interest, provide sinking fund and reserve account requirements and reimburse the Facilities Authority for its administrative costs. As security for its obligation under the agreement, the University has pledged the revenues arising from the financed facilities. Upon retirement of the bonds, title to the land and facilities will revert to the University. Accordingly, the land and facilities have been capitalized with a corresponding liability classified as a capitalized lease obligation. At June 30, 2007, this liability was \$0.4 million (\$0.8 million in 2006).

Higher Education Capital Improvement Fund (HECIP) — Under the provisions of the State of New Jersey Higher Education Capital Improvement Fund Act (the HECIP Act) of 1999 (P.L. 1999, c. 217), the University has been allocated \$169.0 million to help finance certain of its deferred maintenance and other capital needs. The funds are provided through bonds issued by the Facilities Authority. The University is obligated to pay one-third of the debt service on the bonds. On December 20, 2000, the Facilities Authority issued bonds, the University's portion of which amounted to \$75.0 million. The bonds bear an effective interest rate of 5.06% per annum and mature on September 1, 2020. Additional bonds, Series 2002 A, were issued by the Facilities Authority on November 21, 2002. The University's portion and remaining balance of the \$169.0 million amounted to \$94.0 million. The bonds bear an effective interest rate of 3.47% per annum and mature on September 1, 2022. In accordance with the act, the University is required to make annual lease payments to retire 33.3% of the bonds, representing the University's portion, including interest. The State of New Jersey is obligated to pay the remaining 66.7% of the annual debt service. At June 30, 2007, the University had a capital lease obligation of \$50.5 million (\$52.3 million in 2006).

Equipment Leasing Fund (ELF) - Under the terms of the Higher Education Equipment Leasing Fund Act of 1993 (ELF), the State issued bonds to finance additional equipment for laboratory and instructional facilities at state institutions of higher education. The University received \$22.3 million from this bond issue. The bonds were issued on October 11, 2001 and bear interest at a rate of 3.089%. In accordance with this act, the University is required to make annual lease payments to retire 25% of the University's portion of the bonds, including interest. The State of New Jersey is obligated to pay the remaining 75% of the annual debt service. Title to all equipment purchased under this lease agreement will be transferred to the University at the conclusion of the lease. At June 30, 2007, the University had a capital lease obligation of \$1.8 million for equipment purchased under the terms of this agreement (\$2.6 million in 2006).

Dormitory Safety Trust Fund (DSTF) - Under the provisions of the Dormitory Safety Trust Fund Act (the DSTF Act) (P.L. 2000, c.56), the University received a \$29.0 million interest free loan to finance the installation of fire suppression systems in buildings used as student dormitories. The New Jersey Educational Facilities Authority issued two series of bonds on August 14, 2001 to finance these loans. Series 2001A (Tax Exempt) bears an effective interest rate of 4.8% per annum, and Series 2001B (Federally Taxable) bears an effective interest rate of 6.1% per annum. Both series mature on March 1, 2016. At June 30, 2007, the University had a capital lease obligation of \$18.6 million (\$20.7 million in 2006).

Housing Authority

In connection with a redevelopment project undertaken by the Housing and Urban Development Authority of the City of New Brunswick (the Housing Authority), a series of agreements were entered into by the University, the Housing Authority and Robert Wood Johnson University Hospital, Inc., the outcome of which was the construction of a student apartment complex, parking deck, health club facility and multi-unit retail center. Pursuant to the terms of the capital lease and agreement dated July 1, 1992 between the University and the Housing Authority, the Housing Authority issued bonds in the aggregate amount of \$55.3 million on July 23, 1992, at an effective interest rate of 6.23% per annum, for the purpose of providing long-term financing for the project. On December 1, 1998, these bonds were refinanced in the aggregate amount of \$54.5 million, at an effective interest rate of 4.83% per annum. Such bonds mature serially through 2024. In accordance with the agreement, the University is required to pay an annual rental to the Housing Authority over the life of the agreement in amounts necessary to retire the University's portion of the bonds, including interest, to provide for sinking fund and reserve account requirements and to reimburse the Housing Authority for its administrative costs. Upon retirement of the bonds, title to the student apartment complex, parking deck, health club facility and

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the related common space will be transferred to the University. Accordingly, the land and facilities have been capitalized with a corresponding liability classified as a capital lease obligation. At June 30, 2007, this liability was \$38.6 million (\$40.3 million in 2006). As discussed more fully below, a portion of this capital lease obligation is being funded under a sublease agreement.

Hospital Sublease

In conjunction with the Housing Authority capital lease and agreement, the University simultaneously entered into a sublease and agreement with the Robert Wood Johnson University Hospital, Inc. (the Hospital), dated July 1, 1992, whereby the Hospital agreed to lease a portion of the parking facility from the University. The sublease provides for an initial term of two years which commenced July 1992, renewable in six consecutive five year terms. In accordance with the sublease, the Hospital is required to pay an annual rental to the University over the life of the agreement, subject to termination payments to the University should the options to renew not be exercised. The payments received under this sublease are being used by the University to cover a proportional amount of the lease payments due to the Housing Authority. Upon retirement of the bonds, title to the Hospital's portion of the parking deck will be transferred to the Hospital. At June 30, 2007, the estimated present value of the Hospital sublease over the full lease term, including renewal periods, amounted to \$6.9 million (\$7.2 million in 2006). Payments required under the lease and agreement between the University and the Housing Authority are in no way conditional upon the receipt of payments from the Hospital under the sublease and agreement.

Development Authority

In April 2005, the New Jersey Economic Development Authority offered \$15.3 million of its Revenue Refunding Bonds (Rutgers, The State University – Civic Square Project), 2005 series (the Bonds). The Bonds are being issued to refund the Authority's outstanding Revenue Bonds (Rutgers, The State University-Civic Square Project), 1994 Series (the Refunded Bonds) which were issued to finance a redevelopment project located in the City of New Brunswick. A facility was constructed to house the Visual Arts Department of the Mason Gross School of the Arts, the Edward J. Bloustein School of Planning and Public Policy and the Center for Urban Policy Research and is leased to the University pursuant to a Lease and Agreement dated as of September 1, 1993 between the Authority and the University, as amended and supplemented (the Lease Agreement). The Bonds were initially issued as Auction Rate Certificates (ARCs) bearing interest at an Auction Rate. The interest rate on the Bonds may be converted from time to time at the option of the University to a Daily Rate, a Weekly Rate, a Short-Term Rate, a Long-Term Rate or a Fixed Rate. The Bonds are being issued to provide funds that will be used, together with other available funds of the University, to (i) pay at maturity the Refunded Bonds maturing on July 1, 2005 and currently refund, on July 1, 2005, the Refunded Bonds maturing on and after July 1, 2007 and (ii) pay certain costs of issuance. At June 30, 2007, the outstanding balance of this obligation was \$14.3 million (\$14.8 million in 2006).

Certificates of Participation, Series 2004

Pursuant to an Agent Agreement, dated April 1, 2004, between the University, as Lessee, Lower George Street University Redevelopment Associates, LLC, a New Jersey limited liability company, as Lessor, and Wachovia Bank, National Association, as Agent, Certificates of Participation were issued in the amount of \$30.6 million on April 15, 2004. The Certificates of Participation represent undivided proportionate interests in the fixed rent payable by the University pursuant to the Master Lease Agreement, dated April 1, 2004, between the Lessee and Lower George Street University Redevelopment Associates, LLC. The University is obligated under the Lease to make payments of fixed rent that comprise amounts designated as interest and as principal and that are payable to the owners of the 2004 Certificates. The 2004 Certificates are being issued to finance the acquisition of the land, the preparation of the land for construction, including demolition and clearing of existing improvements, and the construction of improvements and costs of acquisition and installation of equipment. This area will primarily serve as the University's Division of Public Safety headquarters, provide additional office space for the University and provide a parking garage, all to support the University's educational functions. In addition, the 2004 Certificates are to provide for capitalized interest on the 2004 Certificates from the dates of delivery to July 1, 2005 and to pay the costs of issuance associated with the authorization, sale, execution and delivery of the 2004 Certificates. At June 30, 2007, the University had a capital lease obligation of \$29.8 million (\$30.2 million in 2006).

Future lease payments (receipts) applicable to the aforementioned capital leases at June 30, 2007 are as follows (dollars in thousands):

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Year	Facilities Authority									
	Dorms	HECIP	ELF	DSTF (2001A)	DSTF (2001B)	Housing Authority	Hospital Sublease	Development Authority	Certificates of Participation	Total
2008	\$461	\$4,455	\$939	\$2,040	\$33	\$3,659	(\$652)	\$1,002	\$1,865	\$13,802
2009		4,455	939	2,040	33	3,664	(652)	1,032	1,862	13,373
2010		4,455		2,040	33	3,665	(653)	1,013	1,861	12,414
2011		4,455		2,040	32	3,666	(653)	1,041	1,863	12,444
2012		4,455		2,039	32	3,665	(652)	1,043	1,858	12,440
2013-2017		22,289		8,159	130	18,321	(3,261)	5,587	9,305	60,530
2018-2022		23,877				18,326	(3,262)	6,015	9,280	54,236
2023-2027		6,063				3,659	(654)	2,552	9,262	20,882
2028-2032									9,217	9,217
2033-2037									9,180	9,180
2038-2041									1,829	1,829
Total Lease Payments	461	74,504	1,878	18,358	293	58,625	(10,439)	19,285	57,382	220,347
Less Amount Representing Interest	26	24,025	90			19,974	(3,575)	4,985	27,612	73,137
Present Value of Lease Payments	\$435	\$50,479	\$1,788	\$18,358	\$293	\$38,651	(\$6,864)	\$14,300	\$29,770	\$147,210

Miscellaneous Equipment Leases

The University has entered into certain lease-purchase agreements for equipment which are principally for a duration of one to five years depending on the application and financial advantage to the University. Such agreements are essential to the normal operation of the University, and it is expected that these arrangements, where applicable, would be renegotiated when financially advantageous. The payments of these agreements include a charge for interest at various rates depending on each agreement. At June 30, 2007, the aggregate capitalized lease obligation associated with these agreements, which excludes future interest payments, is approximately \$3.7 million (\$4.5 million in 2006). The annual rentals for these capitalized lease obligations are provided for in the University's operating budget and in the aggregate are not considered material.

NOTE 9 - COMMITMENTS

At June 30, 2007, the estimated cost of capital projects under construction, in the design stage with approved sources of funding, and in the design stage pending determination of sources of funding, aggregated approximately \$252.8 million. Anticipated sources of funding for these projects are summarized as follows (dollars in thousands):

	Total Project Funding		Estimated Total Cost
	Received at June 30, 2007	Additional Funding Required at June 30, 2007	
Borrowing	\$38,563	\$130,223	\$168,786
State Bond Issues and Capital Appropriations	8,348		8,348
Gifts and Other Sources	50,986	24,684	75,670
Total	\$97,897	\$154,907	\$252,804

The University leases certain space used in general operations. Rental expense was approximately \$3.3 million in 2007 (\$3.9 million in 2006). The leases are non cancelable and have been classified as operating leases which are expected to expire through 2032. Minimum annual rental commitments approximate the following (dollar in thousands):

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<u>Year</u>	<u>Amount</u>
2008	\$2,872
2009	2,032
2010	1,994
2011	1,948
2012	1,447
2013-2017	2,974
2018-2022	451
2023-2027	564
2028-2032	410
Total	<u>\$14,692</u>

NOTE 10 - EMPLOYEE BENEFITS

Retirement Plans

The University has primarily two retirement plans available to its employees, the State of New Jersey Public Employees Retirement System, a defined benefit plan, and the Alternate Benefit Program, a defined contribution plan. The State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the University for these plans. Pension expense paid directly by the State of New Jersey for 2007 aggregated \$44.7 million (\$36.1 and \$31.8 million in 2006 and 2005, respectively) of which \$9.4 million (\$3.8 and \$4.1 million in 2006 and 2005, respectively) has been reimbursed to the State from amounts recovered from self-supporting operations and sponsored programs. Reimbursement is based upon a composite fringe benefit rate provided by the State for all State plans. The University has no direct pension obligation associated with the State plans, and no liability for such costs has been reflected in the accompanying financial statements. Summary information regarding these plans is provided below.

Public Employees Retirement System (PERS)

Plan Description — PERS is a multiple-employer, public cost-sharing retirement system which is administered by the State of New Jersey. The payroll for employees covered by PERS for the year ended June 30, 2007 was \$159.3 million (\$155.4 million in 2006).

University employees of a certain classification are required as a condition of employment to be members of PERS. The formula for benefits is an annual allowance in the amount equal to years of service, divided by 55, times the final average salary. Final average salary means the average of the salaries received by the member for the last three years of membership service or the three highest fiscal years, whichever provides the largest benefit. Pension benefits fully vest on reaching ten years of credited service. Members are eligible for retirement at age 60 with no minimum years of service required. Members who have 25 years or more of credited service may also select early retirement without penalty at or after age 55 and receive full retirement benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

Contributions — Covered University employees were required by PERS to contribute 5.0% of their annual compensation during fiscal year 2007 and 2006. The State contributes the remaining amounts necessary to pay benefits when due. The State contribution is based upon annual actuarially determined percentages of total compensation of all active members. The State's annual contribution approximates the actuarially determined pension cost for the year.

Employees can also make voluntary contributions to two optional State of New Jersey tax-deferred investment plans, the Supplemental Annuity Collective Trust (SACT) and the Additional Contributions Tax Sheltered (ACTS) programs. Both plans are subject to limits within the Internal Revenue Code.

Financial statements for the PERS are included in the State of New Jersey's Comprehensive Annual Financial Report, which may be obtained by writing to the State of New Jersey, Department of the Treasury, Office of Management and Budget, PO Box 221, Trenton, NJ 08625-0221.

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Alternate Benefit Program (ABP)

Plan Description — ABP is a multiple-employer, State retirement plan established as an alternative to PERS. The payroll for employees covered by ABP for the year ended June 30, 2007 was \$445.3 million (\$436.5 million in 2006).

Faculty, professional and administrative staff, and certain other salaried employees are eligible to participate in ABP. Employer (State) contributions vest on reaching one year of credited service. The program also provides long-term disability and life insurance benefits. Benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in ABP.

Contributions — The employee mandatory contribution rate for ABP is 5.0% of base salary and is matched by the State at 8.0% of base salary. Contributions can be invested with up to six investment carriers available under the plan for fiscal year 2007. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code.

Other Retirement Plans

The University has a small number of employees enrolled in the State of New Jersey Police and Firemen's Retirement System (PFRS) and two Federal retirement plans, the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). All three of the plans are defined benefit plans and cover the University's police (PFRS) and selected positions related to the University's Cook College/New Jersey Agricultural Experiment Station (CSRS or FERS). The University also has a small number of Foundation employees enrolled in a contributory retirement plan under arrangements with Teacher's Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), which provides for the purchase of annuities for the covered employees. Participation in all of these plans is limited, and the associated amounts are not significant.

Post-Retirement Health Care Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for the University's retired employees, in accordance with State statutes. Full health coverage is provided to eligible employees retiring with 25 years of service credited on or before June 30, 1997 in one of the State of New Jersey's mandatory pension plans. Employees retiring with 25 years of service credited after June 30, 1997 may share in the cost of the health care provided under the State Plan according to the terms specified in the appropriate bargaining unit agreement in effect at the time the employee reaches 25 years of credited service. The rules governing the contribution rate are the same as that for active employees. Since the costs of these programs are the responsibility of the State and the retired employees, the amounts are not available to the University and no expenses or liabilities for these benefits are reflected in the University's financial statements.

Additional detailed information about these programs is provided in the State of New Jersey's Comprehensive Annual Financial Report.

Deferred Compensation Plan

University employees with membership in PERS, ABP or PFRS are eligible to participate in the State of New Jersey's Employees Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to tax defer and invest a portion of their base salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by Prudential Financial. The plan does not include any matching employer (State) contributions. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights, are held in trust by the State for the exclusive benefit of the participating employees and their beneficiaries.

NOTE 11 - COMPENSATED ABSENCES

The University accounts for compensated absences as directed by *GASB Statement No. 16, Accounting for Compensated Absences*. A liability for compensated absences (i.e. unused vacation, sick leave) attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

The University recorded a liability for accumulated vacation time in the amount of \$34.2 million at June 30, 2007 (\$32.3 million in 2006). The liability is calculated based upon employees' accrued vacation time as of the statements of net assets date and is recorded in accounts payable and accrued expenses in the accompanying statements of net assets.

(Continued)

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Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The pay out to retirees for unused accumulated sick time is calculated at the lesser of ½ the value of earned time or \$15,000. Employees separating from the University service prior to retirement are not entitled to payments for accumulated sick leave balances. The University recorded a liability for accumulated sick leave balances in the amount of \$8.2 million at June 30, 2007 (\$8.8 million in 2006) which is included in accounts payable and accrued expenses in the accompanying statements of net assets.

NOTE 12 - RISK MANAGEMENT

The University, jointly with 15 other higher education institutions, has established Genesis Ltd. a Class 2 reinsurer under the Insurance Act of 1978 of Bermuda. Genesis, a Captive Reinsurance Company, reinsures general liability, professional liability, and automobile liability risks of its shareholders. The University has approximately a 14.5% equity ownership of Genesis and receives a pro-rata share of the income generated. The University's annual premium payments to the company for insurance coverage are based on actuarial studies and are charged to expenses. The insurance policies have deductibles that vary by policy, the most significant of which provides for the payment of general liability claims.

In 2004, the University and its 15 partners formed a Vermont Reciprocal Risk Retention Group, Pinnacle Consortium of Higher Education, to further enhance and support the insurance programs and provide fronting services for Genesis. The primary purpose of this second alternate risk funding company is to reduce costs, reduce collateral requirements for Genesis and provide the flexibility to conduct business in the U.S.

The University is self-insured for workers compensation and retains various deductibles for general liability, automobile liability, and all risk property insurance. The total liability at June 30, 2007 for these items is \$10.7 million (\$8.9 million in 2006). The reserve balance recorded at June 30, 2007 is \$13.2 million (\$12.2 million in 2006). No discount rate is used. The self insurance reserve represents the estimated ultimate cost of settling claims and related expenses resulting from events that have occurred. The reserves includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported (IBNR).

The University has accrued expenses for deductibles and incurred but not reported liabilities in the statements of net assets. The accrued expenses are based on estimates by management and third party claims administrators and generally represent the present value of the unpaid claims including the estimates for claims incurred but not reported.

NOTE 13 - CONTINGENCIES

The University is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the University's financial statements.

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

NOTE 14 – ONE WASHINGTON PARK

In September 2006, the University's Board of Governors authorized the negotiation and execution of a contract of purchase and sale and arrangement for construction financing for the Rutgers Newark Business School's relocation to One Washington Park, Newark, New Jersey, where space will be consolidated for faculty offices and classrooms. The building will be converted into a condominium in which 11 floors of the building along with a proposed 15,000 square foot addition to be located at grade level will be reconstituted as the Rutgers Business School space.

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The overall project budget includes the following: (i) the acquisition of the Rutgers Business School Space, (ii) the construction costs needed to build out the interior and exterior of such space, (iii) the construction costs needed to improve and repair certain common elements and common building systems in the building, (iv) the fee required under the Architect's Contract, and (v) other non-construction related costs. The overall project cost is expected to be \$83.0 million. Funding for this project will be coming from several sources, particularly, in fiscal year 2006, the State of New Jersey made a special appropriation to Rutgers University in the amount of \$18.0 million earmarked specifically for the Business School. The University is also participating in the New Markets Tax Credit (NMTC) program administered by the U.S. Treasury's Community Development Financial Institutions Fund (CDFI) and will enter into a transaction with City National Bank of New Jersey, PNC Bank, National Community Investment Fund, and New Jersey Community Capital, also known as a Community Development Entity (CDE).

The transactions that involved the University during fiscal year 2007 related to the NMTC transaction are as follows: On September 28, 2006, the University entered into the purchase of a building at 1 Washington Park in Newark, New Jersey in the amount of \$31.5 million. At the closing on May 30, 2007, the University loaned to Washington Park Capital, LLC (Rutgers Leverage Lender) \$20.7 million and invested \$1.2 million in Parkside Run Investments, LLC. This amount was then forwarded as an investment to One Washington Park Holdings, LLC (QALICB). The University will be investing a total of \$4.5 million in Parkside Run Investments. The principal amount of \$20.7 million shall be repaid to the University on December 31, 2014. In addition, all interest and any other costs charges and fees will be due and payable in full. Of this \$20.7 million loan, \$13.5 million was drawn down from General Obligation Commercial Paper Series C (Federally Taxable). Finally, on May 30, 2007, One Washington Park Holdings purchased the 1 Washington Park building back from the University for \$31.5 million.

Post-closing transactions occurred on July 31, 2007. The University loaned \$4.3 million to One Washington Capital, LLC who, in turn, disbursed loan proceeds to the Washington Park Fund, LLC. In addition, Rutgers made an investment in Parkside Run Investments, LLC of \$3.3 million who then disbursed the same amount as a capital contribution in the QALICB, One Washington Park Holdings, LLC.

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