
Financial Report 2007-2008



Rutgers, The State University of New Jersey

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DURING THE YEAR ENDED JUNE 30, 2008

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RUTGERS

SENIOR VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

January 26, 2009

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, 2008. 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 blue ink that reads "Bruce C. Fehn".

Bruce C. Fehn
Senior Vice President for Finance
and Administration

Rutgers, The State University of New Jersey
83 Somerset Street, Room 207A
New Brunswick, NJ 08901 1281

fchn@oldquaccns.rutgers.edu
732-952-7864
Fax: 732-932-5498



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, 2008 and 2007, 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, 2008 and 2007, 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

January 26, 2009

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, 2008 and 2007

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, 2008 and 2007, 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.

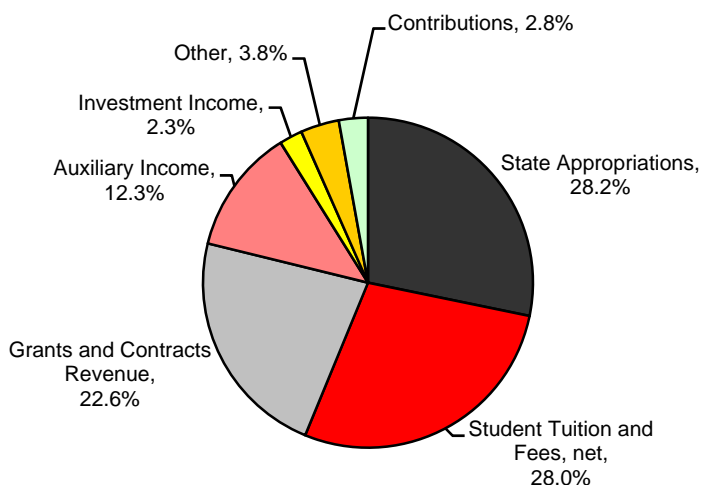
In 2008, the financial reporting entity of Rutgers included 30 degree granting schools, of which 17 offered graduate programs of study. These schools are located on three regional campuses in New Brunswick (Piscataway), Newark and Camden. The financial statements also include the financial activity of the Rutgers University Foundation, which administers the fundraising activities for the University.

Financial Highlights and Economic Outlook

The University's financial condition at June 30, 2008 continues to remain sound with net assets increasing by \$91.0 million or 4.1 %. Total operating revenues increased by \$90.9 million or 8.8% with increases of 11.5% in net student tuition and fees, 5.4% in grant and contract revenue, and 9.1% in auxiliary revenues. Operating expenses increased only 7.0% in 2008 while nonoperating revenues decreased 12.0% primarily as a result of market value losses.

As the State University of New Jersey, the appropriation from the State represents a vital part of the University's funding. In fiscal 2008, the State increased the University's base appropriation by 4.0% and provided partial funding of salary program increases. Tuition revenue is another significant source of funding for the University. In fiscal 2008, in addition to an increase in tuition rates averaging 7.8%, enrollment grew by 3.9% for our highest total enrollment of 52,471 students.

As presented in the chart below, net student tuition and fees, state appropriation and grant and contract 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, 2008 and 2007

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, 2008, 2007 and 2006 is as follows (dollars in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Current assets	\$626,222	\$589,239	\$550,104
Noncurrent assets:			
Endowment, restricted and other noncurrent cash and investments	835,348	755,001	633,320
Capital assets, net	1,654,905	1,609,842	1,592,726
Other assets	<u>78,811</u>	<u>66,528</u>	<u>48,299</u>
Total assets	<u>3,195,286</u>	<u>3,020,610</u>	<u>2,824,449</u>
Liabilities			
Current liabilities	336,412	226,279	175,530
Noncurrent liabilities	<u>548,438</u>	<u>574,937</u>	<u>608,093</u>
Total liabilities	<u>884,850</u>	<u>801,216</u>	<u>783,623</u>
Net assets (assets less liabilities)			
Invested in capital assets, net of debt	1,045,262	1,032,839	1,017,840
Restricted - expendable	402,998	390,575	359,006
Restricted - nonexpendable	359,348	339,324	273,558
Unrestricted	<u>502,828</u>	<u>456,656</u>	<u>390,422</u>
Total net assets	<u>\$2,310,436</u>	<u>\$2,219,394</u>	<u>\$2,040,826</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 collectable in more than a year are also included as noncurrent. Current assets increased \$37.0 million in 2008 as opposed to a \$39.1 million increase in 2007.

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 \$110.1 million primarily from the issuance of Commercial Paper in the amount of \$100.1 million in 2008. This commercial paper was issued to refinance the University's capital lease for the Civic Square facility and for temporary financing of several projects approved by the Board.

The University's current assets cover current liabilities by a factor of 1.9 times, an indicator of good liquidity and the ability to bear short term demands on working capital. This coverage in 2007 was 2.6 times. The University's current assets also cover over five months of its total operating expenses, excluding depreciation.

Endowment and Other Investments

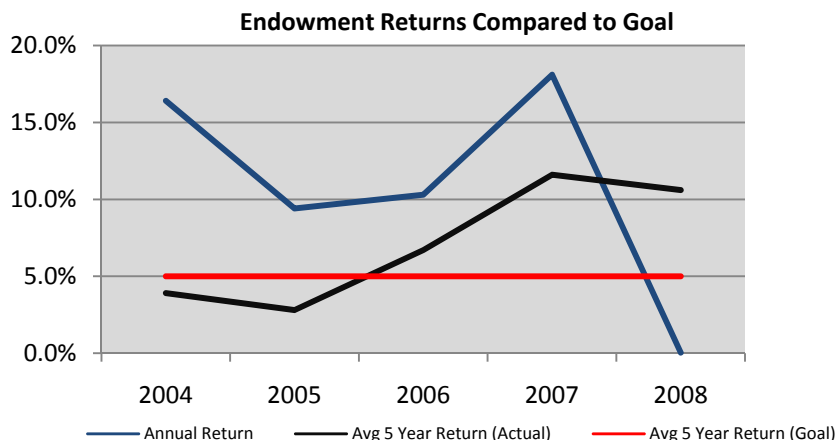
The primary financial objective of the investment management of the Endowment is to preserve and, hopefully, enhance its real (inflation-adjusted) purchasing power while providing a relatively predictable, stable, and constant (in real terms) stream of earnings

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2008 and 2007

for current use. The long term investment goal of the Endowment is to attain an average annual real total return (net of fees) of at least 5% over rolling 5 year periods. 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 0.03% in 2008 and 18.1% in 2007. The average annual return over the 5 year period ending June 30, 2008 and 2007 was 10.6% and 11.6%, respectively.

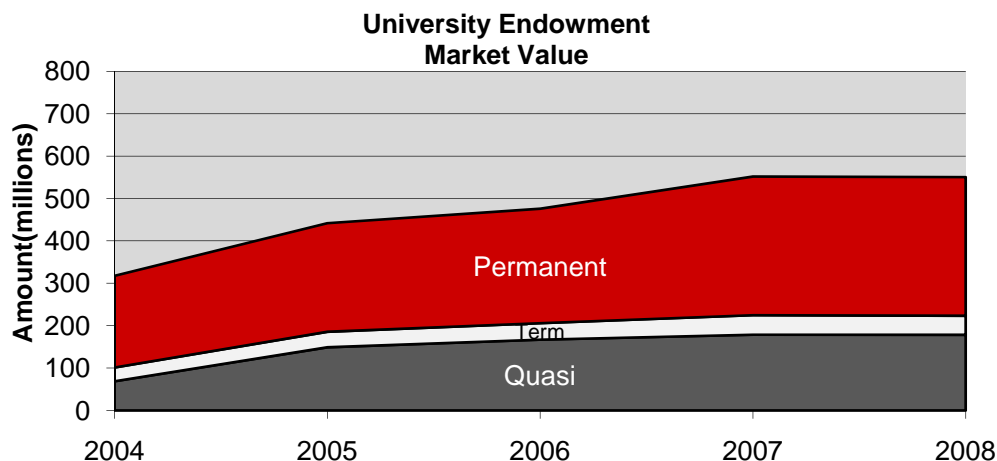


The University distributes endowment earnings in a way that balances the annual support needed for operational purposes against the requirement to preserve the future purchasing power of the endowment. The endowment spending-rate policy is based on total return, not just cash earnings. The total distribution for the endowment was \$20.5 million in 2008 and \$18.2 million in 2007.

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 remained unchanged at \$327.1 million for 2007 and 2008. Term endowments are those funds received from donors that function as endowment until a specified event occurs. The University's term endowments decreased by \$1.1 million to \$45.0 million in 2008 from \$46.1 million in 2007. 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 \$2.2 million to \$178.4 million from \$176.2 million in 2007.

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 \$102.7 million or 18.7% (\$89.7 million or 16.3% in 2007), 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 the last five years.



Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2008 and 2007

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-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 \$45.1 million in 2008, as compared to \$17.1 million in 2007. 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 2008 include:

- Renovation and expansion of the existing Law building on the Camden Campus.
- Rutgers Food Innovation Center in Bridgeton, a 23,000 square-foot food business incubator facility.

These additions were funded primarily with the proceeds of bonds and capital appropriations from the State. As of June 30, 2008, the University had various projects under construction or in the design stage. Significant projects include:

- Expansion of the University Stadium on the Busch Campus.
- Renovation to a new facility for the School of Business on the Newark Campus.
- Upgrades to increase the capacity of the Busch/Livingston High Voltage lines.

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 strategic 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 is being used for the interim financing of capital projects and temporary funding of outstanding debt issues.

In 2008, the University issued commercial paper in the amount of \$14.3 million to refinance the University's capital lease for the Civic Square facility. The University also issued \$68.7 million of tax-exempt and \$17.1 million of taxable commercial paper this year to provide interim financing for several projects approved by the Board.

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 (non-expendable and expendable), and unrestricted net assets. Net assets increased by \$91.0 million in 2008. In 2007, net assets increased \$178.6 million.

The first category, net assets invested in capital assets, net of related debt, represent 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 \$12.4 million in 2008 is primarily attributable to construction projects including the construction of the Rutgers Food Innovation Center in Bridgeton. In 2007, there was an increase of \$15.0 million in this category.

The next 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 donor at the time the resources are received. Nonexpendable net assets increased by \$20.0 million in 2008 as a result of additional contributions held at the Foundation for the endowment fund. In 2007, nonexpendable net assets increased by \$65.8 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 donors. The increase of \$12.4 million in 2008 is attributable to an increase in contributions received for academic programs of \$12.1 million. In 2007, there was an increase of \$31.6 million in expendable restricted net assets.

The final 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

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2008 and 2007

maintain these funds for the purposes that they were received. The increase in unrestricted net assets of \$46.2 million in 2008 is primarily the result of funds designated for deferred maintenance, system improvements and other capital projects totaling \$27.4 million. In addition, \$19.0 million was designated for academic programs for the coming year. In 2007, unrestricted net assets increased \$66.2 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 revenues.

A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2008, 2007 and 2006 is as follows (dollars in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues			
Student tuition and fees (net of scholarship allowances)	\$472,294	\$423,738	\$386,823
Grants and contracts	381,577	362,100	349,529
Auxiliary enterprises (net of scholarship allowances)	207,395	190,107	181,079
Other operating revenues	63,045	57,492	51,916
Total operating revenues	<u>1,124,311</u>	<u>1,033,437</u>	<u>969,347</u>
Operating expenses	<u>1,590,598</u>	<u>1,486,906</u>	<u>1,459,888</u>
Operating loss	<u>(466,287)</u>	<u>(453,469)</u>	<u>(490,541)</u>
Nonoperating revenues (expenses)			
State appropriations (including fringe benefits paid directly by the state)	476,511	455,764	490,689
Contributions	47,929	50,449	10,050
Endowment and investment income	38,317	40,956	35,815
Unrealized and realized gains (losses) on securities	(8,945)	79,165	30,600
Interest on capital asset related debt	(25,892)	(25,940)	(24,525)
Net other nonoperating revenues (expenses)	<u>(531)</u>	<u>(921)</u>	<u>11,051</u>
Net nonoperating revenues	<u>\$527,389</u>	<u>\$599,473</u>	<u>\$553,680</u>
Income before other revenues and expenses	\$61,102	\$146,004	\$63,139
Other revenues and expenses	<u>29,940</u>	<u>32,564</u>	<u>31,352</u>
Increase in net assets	91,042	178,568	94,491
Net assets at beginning of year	<u>2,219,394</u>	<u>2,040,826</u>	<u>1,946,335</u>
Net assets at end of year	<u>\$2,310,436</u>	<u>\$2,219,394</u>	<u>\$2,040,826</u>

In 2008, net assets increased by \$91.0 million. Endowment and investment income of \$38.3 million, \$47.9 million in contributions, and \$12.0 million in grants and gifts used to construct, renovate or acquire capital assets contributed to this increase. In addition, \$17.8 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.

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2008 and 2007

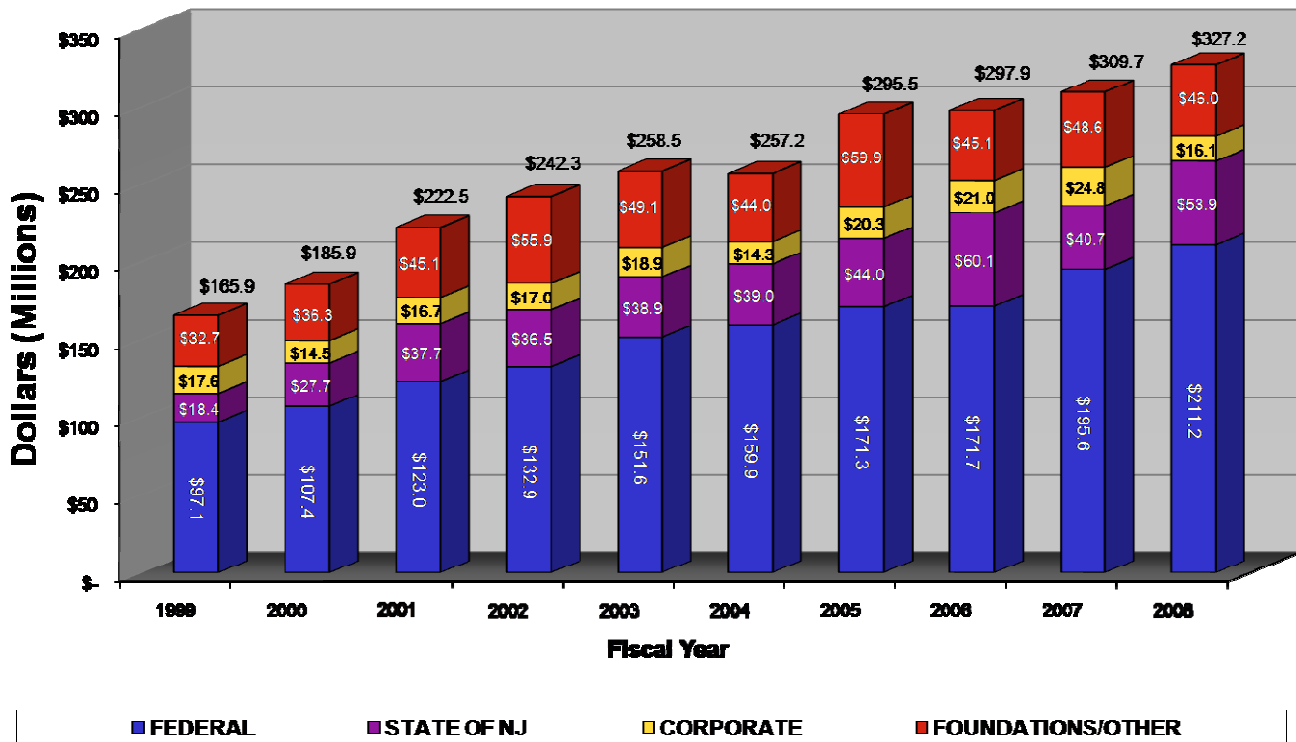
The University's net assets increased by \$178.6 million in 2007. The \$79.2 million increase in market value of the University's investments contributed to this increase. Another \$50.4 million of this increase was attributable to contributions. In addition, \$41.0 million in Endowment and Investment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

Operating revenues increased \$90.9 million in 2008. Significant components of operating revenues include the following:

Student tuition and fees, net of scholarship allowances 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 \$129.4 million of a total \$170.2 million of student aid directly to student accounts. The remaining \$40.8 million was paid to students and is reflected as scholarships and fellowships expense. Scholarship allowances allocated to tuition and fees amounted to \$104.0 million. Another \$25.4 million was allocated to residence fees, which are included in auxiliary revenues. Tuition and fees, net of scholarship allowances, increased \$48.6 million in 2008. The increase resulted primarily from an increase in tuition rates of 7.8% for undergraduates and graduate students, as well as an average increase of 9.6% in student fees. Also, full time enrollment increased by 2.8% while part time enrollment decreased by 1.3%. In 2007, tuition and fees net of scholarship allowances, increased \$36.9 million. The increase in 2007 resulted from an 8.0% undergraduates and 10.0% graduate students increase in tuition rates, as well as an average increase of 9.3% in student fees.

Grants and Contracts includes revenues for sponsored programs from federal, state and nongovernmental grants and contracts that normally provide for the recovery of direct and indirect costs, or expenses. In 2008, research grants and contracts increased \$9.7 million. The following table summarizes the research awards received by the University over the last 10 years.

Research, Education, and Public Service Grants FY 1999-2008



Federal grants for research remained relatively flat in 2008. Funding from the Department of Health and Human Services declined by \$4.8 million in 2008. This decrease was offset by increases from several other agencies, particularly the National Science Foundation, the Department of Commerce and the Federal Transportation Administration, this year. In 2007, Federal grants for

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2008 and 2007

research increased by \$5.6 million. This increase resulted 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.

State support for research increased by \$8.3 million this year. The primary cause of this increase was the result of awards from the Department of Children and Families and the Division of Family Development totaling \$3.0 million and an award from the Department of the Treasury of \$2.3 million for Neuroscience. In 2007, State support for research decreased by \$3.9 million. The primary cause of this decrease was the result of decrease in awards from the Department of the Treasury and the Department of Health and Senior Services.

Finally, nongovernmental grants and contracts increased \$4.7 million in 2008. Revenue was earned from the following large grants this year; \$1.7 million from the Casino Reinvestment Development Authority for construction of the Food Innovation Building, \$1.0 million from Sanofi-Aventis for a postdoctoral Pharmacy fellowship, and \$0.9 million from Raytheon Company for research related to nanomaterials. In 2007, nongovernmental grants and contracts increased \$6.1 million. 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.

Auxiliary enterprise revenues include revenues from the University's housing and dining facilities, as well as other business type activities such as the bookstore and the golf course that provide support to the University's primary missions of education, research and public service. Auxiliary revenues, net of scholarship allowances, increased in 2008 by \$17.3 million while expenditures increased by \$18.4 million. Auxiliary revenues increased as a result of an increase in housing and dining rates of 4.9%. There was also a 6.0% increase in occupancy on the Newark campus and a 1.5% increase in occupancy on the New Brunswick campus. There was also an overall increase of 11.6% in meal plans sold. Additionally, intercollegiate athletic revenue increased \$4.9 million as a result of two additional home football games, increased ticket prices for football and basketball games, increased game attendance and increased revenue sharing from the Big East for both men's and women's basketball. In 2007, auxiliary revenues, net of scholarship allowances, increased 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. There was also an overall increase of 1.0% in meal plans sold.

Operating expenses increased \$103.7 million in 2008 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 \$36.6 million this year. Salary increases and increased fringe benefit costs on those salaries accounted for a total of \$28.1 million. The remainder of this increase resulted from additional positions to cover an increase in courses offered in areas such as the Graduate School of Social Work and Summer Session Program in New Brunswick. In 2007, these expenditures increased by \$8.1 million. 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 as a result of a reduction in the state appropriation.

Expenditures for sponsored programs funded by grant and contract revenues increased by \$11.2 million in 2008. The primary increases were from corporate contracts which increased \$5.9 million, contracts from the state increased \$2.4 million and contracts from associations increased \$2.0 million. In 2007, these expenditures increased \$18.1 million.

General Administration and Institutional expenditures increased \$6.4 million in 2008. This increase was a result of salary increases as well as staff additions at the Foundation as they prepare for another campaign. In 2007 there was a decrease of \$2.4 million in these expenditures.

Scholarships and fellowships consist of payments made directly to students as a result of financial aid awarded to the student. In 2008, these expenditures increased \$6.2 million. This increase was due to increases in the maximum award amounts for both the State Tuition Aid Grant Program (TAG) and the Federal Pell grants of 2.8% and 6.4%, respectively. In addition, both programs also saw increases in the number of recipients with an increase of 7.9% for TAG and 9.6% for Pell. The University also continued to increase University funded scholarships. These expenditures increased by \$2.9 million in 2007 primarily as a result of increased funding by the University to offset reductions in state aid as a result of budgetary constraints by the State. In particular, the State eliminated funding of the Outstanding Scholars program. As a result, the University provided the funding for this program.

Expenditures for operation and maintenance of plant increased \$16.3 million in 2008. The primary cause of this increase was due to rising utility costs. In 2007, these expenditures remained relatively flat with a slight decrease of \$0.2 million.

Net Nonoperating revenues decreased \$72.1 million in 2008 and consist primarily of the following:

State appropriations, including fringe benefits paid directly by the State, increased \$20.7 million in 2008. The appropriation by the State for University operations increased \$19.5 million primarily as a result of an increase in the base appropriation of \$12.4 million and an increase of \$6.5 million in funding of salary program increases. State payments on behalf of the University for fringe

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2008 and 2007

benefits, also, increased by \$1.2 million. Increases in program costs for health insurances were offset by the implementation of employee contributions this year.

In 2007, total State appropriations, including fringe benefits paid directly by the State decreased \$34.9 million. 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.

Contributions decreased \$2.5 million in 2008. In 2007, the Rutgers University Foundation increased their fundraising activities resulting in several large bequests that year. While contributions were slightly lower this year, they are still significantly higher than prior years due to the Foundation's increased activities. Contributions increased \$40.4 million in 2007.

Endowment and Investment Income decreased \$2.6 million in 2008. This decrease resulted primarily from the decline in interest rates during 2008. Endowment and investment income increased by \$5.1 million in 2007.

Unrealized and realized gains (losses) on securities decreased \$88.1 million in 2008. This decrease was due to the decline in the market at June 30, 2008 resulting in a \$95.7 million unrealized losses. This was offset by an increase of \$13.6 million in realized gains during the year. Unrealized and realized gains on securities increased \$48.6 million in 2007.

Other nonoperating revenues, net of nonoperating expenses increased marginally by \$0.8 million in 2008. 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.

Other revenues and expenses consist of grants and gifts received by the University for capital projects, as well as additions to permanent endowments. In 2008, this category decreased \$2.6 million. This decrease primarily resulted from a decrease in capital grants and gifts received this year. This category increased in 2007 modestly by \$1.2 million.

Rutgers, The State University of New Jersey

STATEMENTS OF NET ASSETS

June 30, 2008 and 2007

(dollars in thousands)

	<u>2008</u>	<u>2007</u>
ASSETS:		
Current Assets		
Cash and Cash Equivalents	\$73,946	\$34,841
Short-Term Investments	413,757	424,794
Accounts Receivable, net	89,781	78,825
Student Notes Receivable, net	8,397	8,016
Contributions Receivable, net	20,310	17,761
Inventories	4,843	4,408
Prepaid Expenses and Deferred Charges	14,282	13,342
Construction Costs Reimbursable	906	7,252
Total Current Assets	<u>626,222</u>	<u>589,239</u>
Noncurrent Assets		
Cash and Cash Equivalents	149,585	77,694
Long-Term Investments	685,763	677,307
Accounts Receivable, net	24,986	20,692
Student Notes Receivable, net	28,962	29,309
Contributions Receivable, net	11,633	5,839
Bond/Commercial Paper Issuance Costs, net	13,230	10,688
Capital Assets, net	1,654,905	1,609,842
Total Noncurrent Assets	<u>2,569,064</u>	<u>2,431,371</u>
TOTAL ASSETS	<u>3,195,286</u>	<u>3,020,610</u>
LIABILITIES:		
Current Liabilities		
Accounts Payable and Accrued Expenses	109,134	98,152
Deferred Revenue	52,585	48,170
Payroll Withholdings	6,873	12,665
Other Payables	1,746	1,640
Annuities Payable	1,052	1,015
Short-Term Liabilities	132,969	33,069
Long-Term Liabilities	32,053	31,568
Total Current Liabilities	<u>336,412</u>	<u>226,279</u>
Noncurrent Liabilities		
Accounts Payable and Accrued Expenses	13,542	11,831
Annuities Payable	6,101	6,816
Long-Term Liabilities	528,795	556,290
Total Noncurrent Liabilities	<u>548,438</u>	<u>574,937</u>
TOTAL LIABILITIES	<u>884,850</u>	<u>801,216</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	1,045,262	1,032,839
Restricted for		
Nonexpendable		
Instruction	163,438	161,735
Scholarships and Fellowships	178,833	159,813
Libraries	8,498	8,798
Other	8,579	8,978
Expendable		
Instruction	149,854	137,766
Research	64,441	60,081
Scholarships and Fellowships	70,673	78,574
Libraries	12,032	12,338
Loans	38,552	38,550
Capital Projects	38,756	35,393
Debt Service Reserve	9,542	9,542
Renewal and Replacement Reserve	7,393	7,393
Other	11,755	10,938
Unrestricted	502,828	456,656
TOTAL NET ASSETS	<u>\$2,310,436</u>	<u>\$2,219,394</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, 2008 and 2007

(dollars in thousands)

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Student Tuition and Fees (net of scholarship allowances of \$104,011 in 2008 and \$99,174 in 2007)	\$472,294	\$423,738
Federal Appropriations	6,594	6,069
Federal Grants & Contracts	202,795	199,826
State & Municipal Grants & Contracts	118,843	107,005
Nongovernmental Grants & Contracts	59,939	55,269
Auxiliary Enterprises (net of scholarship allowances of \$25,394 in 2008 and \$24,954 in 2007)	207,395	190,107
Other Operating Revenues	56,451	51,423
Total Operating Revenues	<u>1,124,311</u>	<u>1,033,437</u>
OPERATING EXPENSES		
Educational and General		
Instruction	554,470	517,896
Sponsored Research	157,398	153,743
Other Separately Budgeted Research	70,424	66,210
Other Sponsored Programs	90,560	82,976
Extension and Public Service	34,371	31,853
Libraries	37,533	35,970
Student Services	61,498	62,172
Operations and Maintenance of Plant	150,042	133,699
General Administration and Institutional	100,011	93,567
Scholarships and Fellowships	40,804	34,559
Depreciation	94,796	92,611
Auxiliary Enterprises	197,911	179,528
Other Operating Expenses	780	2,122
Total Operating Expenses	<u>1,590,598</u>	<u>1,486,906</u>
Operating Loss	<u>(466,287)</u>	<u>(453,469)</u>
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	328,895	309,370
State Paid Fringe Benefits	147,616	146,394
Contributions	47,929	50,449
Endowment and Investment Income (net of investment management fees of \$2,867 in 2008 and \$2,616 in 2007)	38,317	40,956
Unrealized and Realized Gains (Losses) on Securities	(8,945)	79,165
Interest on Capital Asset Related Debt	(25,892)	(25,940)
Loss on Disposal of Capital Assets	(1,171)	(806)
Other Nonoperating Revenues (Expenses)	640	(115)
Net Nonoperating Revenues	<u>527,389</u>	<u>599,473</u>
Income before Other Revenues and Expenses	61,102	146,004
Capital Appropriations	154	377
Capital Grants and Gifts	11,969	14,514
Additions to Permanent Endowments	17,817	17,673
Increase in Net Assets	91,042	178,568
Net Assets - Beginning of the Year	<u>2,219,394</u>	<u>2,040,826</u>
Net Assets - End of the Year	<u>\$2,310,436</u>	<u>\$2,219,394</u>

See accompanying notes to the financial statements.

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2008 and 2007
(dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Student Tuition and Fees	\$528,531	\$469,749
Research Grants and Contracts	394,475	367,476
Federal Appropriations	5,879	5,823
Payments to Employees and for Benefits	(821,590)	(764,383)
Payments to Suppliers	(438,797)	(400,395)
Payments for Utilities	(80,871)	(70,157)
Payments for Scholarships and Fellowships	(79,730)	(71,954)
Collection of Loans to Students and Employees	6,085	8,509
Auxiliary Enterprises Receipts:		
Housing	96,155	89,747
Dining	53,393	47,600
Athletics	12,839	12,250
Parking	6,468	6,085
Other	17,511	18,008
Other Receipts	69,697	59,435
Net Cash Used by Operating Activities	<u>(229,955)</u>	<u>(222,207)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	327,805	312,730
Contributions for other than Capital Purposes	39,241	47,928
Contributions for Endowment Purposes	22,744	25,932
Net Cash Provided by Noncapital Financing Activities	<u>389,790</u>	<u>386,590</u>
Cash Flows from Financing Activities		
Proceeds from Capital Debt and Leases	107,305	34,532
Capital Appropriations	154	519
Capital Grants and Gifts Received	9,853	5,432
Purchases of Capital Assets and Construction	(129,798)	(115,692)
Principal Paid on Capital Debt and Leases	(28,876)	(27,574)
Interest Paid on Capital Debt and Leases	(26,666)	(27,194)
Debt Defeasance	(14,300)	(21,658)
Bond Issuance Costs	(256)	(202)
Other Receipts	2,241	1,591
Net Cash Used by Financing Activities	<u>(80,343)</u>	<u>(150,246)</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	4,519,669	5,148,749
Investment Income	38,250	44,449
Purchase of Investments	(4,526,415)	(5,184,225)
Net Cash Provided by Investing Activities	<u>31,504</u>	<u>8,973</u>
Net Increase in Cash and Cash Equivalents	110,996	23,110
Cash and Cash Equivalents - Beginning of the year	<u>112,535</u>	<u>89,425</u>
Cash and Cash Equivalents - End of the year	<u>\$223,531</u>	<u>\$112,535</u>

(Continued)

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS (continued)

For the Years Ended June 30, 2008 and 2007

(dollars in thousands)

	<u>2008</u>	<u>2007</u>
Reconciliation of Operating Loss to		
Net Cash Used by Operating Activities:		
Operating Loss	(\$466,287)	(\$453,469)
Adjustments to Reconcile Operating Loss to Net Cash		
Used by Operating Activities:		
State Paid Fringe Benefits	147,616	146,394
Depreciation	94,796	92,611
Payment in Lieu of Taxes	700	700
Adjustment of Actuarial Liability for Annuities Payable	(678)	(522)
Changes in Assets and Liabilities:		
Receivables, net	(4,583)	(21,123)
Inventories	(435)	(32)
Prepaid Expenses	(1,759)	(3,683)
Accounts Payable and Accrued Expenses	1,789	4,784
Deferred Revenue	4,480	9,671
Payroll Withholdings	(5,792)	2,605
Other Payables	198	(143)
Net Cash Used by Operating Activities	<u>(\$229,955)</u>	<u>(\$222,207)</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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 except for those managed as a component of the University’s investment portfolio. 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 funds, or to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the statements of net assets.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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 \$63.5 million at June 30, 2008 (\$71.7 million in 2007). Income derived from such irrevocable trust funds held by others, aggregating approximately \$2.7 million in 2008 and \$2.5 million in 2007, 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 (5.2 million in 2007) 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.

Revenue Recognition

Revenues from student tuition and fees and auxiliary enterprises are presented net of scholarship allowances 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.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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, 2008, the University disbursed \$169.2 million (\$158.3 million in 2007) 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, 2008 includes a cash book balance \$6.5 million (\$10.5 million in 2007). The actual amount of cash on deposit in the University's bank accounts at June 30, 2008 was \$18.9 million (\$25.7 million in 2007). Of this amount, \$0.4 million (\$0.4 million in 2007) was insured by the Federal Deposit Insurance Corporation at June 30, 2008. At June 30, 2008, \$18.5 million (\$25.3 million in 2007) was collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes, and no cash was uninsured and uncollateralized at June 30, 2008 and 2007.

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, 2008 and 2007, the Foundation had insured deposits up to the Federal Deposit Insurance Corporation (FDIC) coverage limits totaling \$0.1 million and \$0.4 million, respectively. Cash and cash equivalents in excess of those balances are uncollateralized.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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, 2008 and 2007 (dollars in thousands):

	<u>2008</u>	<u>2007</u>
Money Market Funds	\$161,736	\$74,197
Repurchase Agreements	36,841	4,644
Cash and Deposits	24,954	33,694
Total Cash and Cash Equivalents	<u>\$223,531</u>	<u>\$112,535</u>

Investments

Effective July 1, 2004, the University and Foundation adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This statement establishes and modifies disclosure requirements related to investment and deposit risks.

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, 2008 and 2007 (dollars in thousands):

	<u>2008</u>	<u>2007</u>
Commercial Paper	\$198,486	\$308,469
U.S. Government Treasury Securities	221,951	145,162
U.S. Government Agency Securities	95,107	82,954
Commodities	43,061	38,657
U.S. Corporate Equities	271,844	247,869
Foreign Corporate Equities	117,822	138,988
Real Estate	105,720	91,206
Corporate Bonds	640	531
Other Investments	4,277	4,315
Total Investments	<u>\$1,058,908</u>	<u>\$1,058,151</u>

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 principle. 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

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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, 2008 and 2007 (dollars in thousands):

	<u>2008</u>	<u>2007</u>
U.S. Government Treasury Securities	\$5,348	\$27,467
U.S. Government Agency Securities	19,623	2,429
Corporate Bonds	3,829	2,716
Mortgage-backed Securities	3,324	2,149
Common Stock	6,865	7,324
Real Estate	575	
Other Investments	<u>1,048</u>	<u>1,865</u>
Total Investments	<u>\$40,612</u>	<u>\$43,950</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, 2008 and 2007 (dollars in thousands):

Investment Type	<u>2008</u>				
	Market Value	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Commercial Paper	\$198,486	\$198,486			
U.S. Government Treasury Securities	221,951	187,287	\$33,682		\$982
U.S. Government Agency Securities	95,107	28,594	64,324	\$1,991	198
Corporate Bonds	<u>640</u>	<u>9</u>	<u>372</u>	<u>259</u>	
Total	516,184	<u>\$414,376</u>	<u>\$98,378</u>	<u>\$2,250</u>	<u>\$1,180</u>
Common Stock	389,666				
Other Investments	<u>153,058</u>				
Total	<u>\$1,058,908</u>				

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

Investment Type	Market Value	2007			
		Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Commercial Paper	\$308,469	\$308,469			
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	
Total	537,116	\$424,424	\$111,228	\$259	\$1,205
Common Stock	386,857				
Other Investments	134,178				
Total	\$1,058,151				

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, 2008 and 2007 (dollars in thousands):

Investment Type	Market Value	2008			
		Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Treasury Securities	\$5,348		\$4,081	\$847	\$420
U.S. Government Agency Securities	19,623		6,190	13,281	152
Corporate Bonds	3,829	\$1,857	932	772	268
Mortgage-backed Securities	3,324	15	76	5	3,228
Total	\$32,124	\$1,872	\$11,279	\$14,905	\$4,068

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

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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 (S&P)). 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, 2008 and 2007, 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>2008</u>	<u>2007</u>
U.S. Government Treasury and Agency Securities	AAA	\$317,058	\$228,116
Corporate Bonds	AA+	75	72
Corporate Bonds	AA	225	303
Corporate Bonds	A+	85	
Corporate Bonds	A	109	9
Corporate Bonds	A-	50	49
Corporate Bonds	BBB+	96	98
Commercial Paper	A-1+		227,177
Commercial Paper	A-1		81,292
Total		<u>\$317,698</u>	<u>\$537,116</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 S&P). 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 S&P). 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 S&P). 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, 2008 and 2007, the Foundation's investment quality ratings, at fair value, as rated by S&P were as follows (dollars in thousands):

<u>Investment Type</u>	<u>Quality Rating</u>	<u>2008</u>	<u>2007</u>
U.S. Government Treasury and Agency Securities	AAA	\$24,971	\$29,896
Mortgage-backed Securities	AAA	3,324	2,149
Corporate Bonds	AAA	31	30
Corporate Bonds	AA	62	1,739
Corporate Bonds	A	1,573	657
Corporate Bonds	A+	1,368	
Corporate Bonds	A-	199	
Corporate Bonds	AA-	267	
Corporate Bonds	BBB+	259	290
Corporate Bonds	BBB	70	
Total		<u>\$32,124</u>	<u>\$34,761</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

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

evidenced by securities that exist in physical or book entry form. At June 30, 2008 and 2007, the University had \$460.0 million and \$389.7 million, respectively, of investments that were uninsured or unregistered but not in the University's name.

As of June 30, 2008 and 2007, 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 evidenced 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 equity security exceed 10% of the market value of assets under management. 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, 2008, the pooled cash, receivables and investments had a total market value of \$509.4 million (\$501.5 million in 2007). In addition, the aggregate market value of endowment funds, cash, receivables and investments separately invested was \$79.0 million at June 30, 2008 (\$85.6 million in 2007). The investment appreciation was \$66.1 million at June 30, 2008 (appreciation of \$97.4 million in 2007). 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 principle, 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 \$116.6 million to 19 non-marketable alternative asset partnerships at June 30, 2008 (\$95.0 million to 16 non-marketable alternative asset partnerships in 2007). As of June 30, 2008, the University has \$65.5 million of paid-in capital to these partnerships (\$32.1 million in 2007) and \$51.1 million in unfunded commitments (\$62.9 million in 2007).

The University's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Assets.

NOTE 3 – ACCOUNTS 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, 2008 and 2007 (dollars in thousands):

	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net 2008</u>	<u>Net 2007</u>
Government Grants Receivable and Other Sponsored Programs	\$57,355	\$420	\$56,935	\$51,011
Student Accounts Receivable	6,224	2,323	3,901	3,595
Other	54,705	774	53,931	44,911
Total	<u>\$118,284</u>	<u>\$3,517</u>	<u>\$114,767</u>	<u>\$99,517</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

Students' notes receivable in the statements of net assets are also shown net of the allowance for doubtful notes which amounted to \$3.7 million at June 30, 2008 (\$3.6 million in 2007).

The allowances for doubtful accounts and notes are based upon management's best estimate of uncollectible accounts and notes at June 30, 2008 and 2007, considering type, age, collection history and other appropriate factors.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

The anticipated receipt of contributions receivable is as follows at June 30, 2008 and 2007 (dollars in thousands):

Year Ending June 30:	<u>2008</u>	<u>2007</u>
Within one year	\$20,841	\$18,086
Two to five years	12,153	8,146
	<u>32,994</u>	<u>26,232</u>
Less allowance for uncollectible contributions	(1,051)	(2,632)
Total Contributions Receivable	<u>\$31,943</u>	<u>\$23,600</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 \$26.8 million at June 30, 2008 (\$26.9 million in 2007) 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, 2008 and 2007 is as follows (dollars in thousands):

	<u>Balance 2007</u>	<u>Additions</u>	<u>Retirements/ Capitalization</u>	<u>Balance 2008</u>
Capital Assets Not Being Depreciated:				
Land	\$52,562	\$865		\$53,427
Capitalized Collections	49,245	7,871		57,116
Construction in Progress	51,495	102,282	\$67,209	86,568
Total	<u>153,302</u>	<u>111,018</u>	<u>67,209</u>	<u>197,111</u>
Capital Assets Being Depreciated:				
Land Improvements	215,895	7,122	1,499	221,518
Buildings	1,856,135	70,921		1,927,056
Equipment	412,668	19,178	27,730	404,116
Total	<u>2,484,698</u>	<u>97,221</u>	<u>29,229</u>	<u>2,552,690</u>
Less Accumulated Depreciation:				
Land Improvements	122,085	17,613	899	138,799
Buildings	609,323	47,099		656,422
Equipment	296,750	30,084	27,159	299,675
Total	<u>1,028,158</u>	<u>94,796</u>	<u>28,058</u>	<u>1,094,896</u>
Net Capital Assets Being Depreciated	<u>1,456,540</u>	<u>2,425</u>	<u>1,171</u>	<u>1,457,794</u>
Total Capital Assets, net	<u>\$1,609,842</u>	<u>\$113,443</u>	<u>\$68,380</u>	<u>\$1,654,905</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

During 2008, the University has net capitalized interest expense of \$690 thousand (capitalized interest expense of \$1.4 million and \$748 thousand of interest income) in construction in progress in the accompanying statements of net assets.

	<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	59,366	49,250	51,495
Total	<u>140,565</u>	<u>61,989</u>	<u>49,252</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	23,754	35,976	412,668
Total	<u>2,422,878</u>	<u>97,796</u>	<u>35,976</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>5,185</u>	<u>806</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.

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2008 and 2007 (dollars in thousands):

	<u>2008</u>	<u>2007</u>
Compensated Absences	\$43,470	\$42,228
Vendors	34,325	28,363
Accrued Salaries and Benefits	17,148	14,628
Workers Compensation	11,560	10,722
Retainage	5,529	3,705
Interest Payable	3,757	3,431
Other Accrued Expenses	6,887	6,906
Total Accounts Payable and Accrued Expenses	<u>\$122,676</u>	<u>\$109,983</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liability activity for the years ended June 30, 2008 and 2007 is as follows (dollars in thousands):

	<u>Balance 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2008</u>	<u>Current Portion</u>
Accounts Payable and Accrued Expenses	\$109,983	\$12,693		\$122,676	\$109,134
Annuities Payable	7,831		\$678	7,153	1,052
Long-Term Liabilities	<u>587,858</u>	<u>18,129</u>	<u>45,139</u>	<u>560,848</u>	<u>32,053</u>
Total Noncurrent Liabilities	<u>\$705,672</u>	<u>\$30,822</u>	<u>\$45,817</u>	<u>\$690,677</u>	<u>\$142,239</u>

	<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	\$5,637	\$5,531	\$109,983	\$98,152
Annuities Payable	7,320	511		7,831	1,015
Long-Term Liabilities	<u>616,154</u>	<u>24,466</u>	<u>52,762</u>	<u>587,858</u>	<u>31,568</u>
Total Noncurrent Liabilities	<u>\$733,351</u>	<u>\$30,614</u>	<u>\$58,293</u>	<u>\$705,672</u>	<u>\$130,735</u>

NOTE 8 - SHORT-TERM LIABILITIES

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 principle and interest, the full faith and credit of the University are pledged. Principle 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 principle 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.

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 principle, 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 principle 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.

On March 6, 2008, the tax-exempt Series A General Obligation Commercial Paper was issued to defease the outstanding Revenue Refunding Bonds (Rutgers, The State University – Civic Square Project), 2005 Series (the 2005 Series Bonds), dated April 4, 2005, which 2005 Series Bonds were issued by the New Jersey Economic Development Authority (the Authority) to refinance a redevelopment project located in the City of New Brunswick, Middlesex County, New Jersey (the Project). The 2005 Series Bonds were paid in full and discharged from the proceeds of the Series A General Obligation Commercial Paper in the principle amount of

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

\$14.3 million in accordance with and pursuant to the terms of the Revenue Bond Resolution (Rutgers, The State University – Civic Square Project) adopted by the Authority on May 3, 1994, as supplemented by the First Supplemental Revenue Refunding Resolution (Rutgers, the State University – Civic Square Project) adopted by the Authority on March 7, 2005.

On May 20, 2008, the University issued tax-exempt Series A General Obligation Commercial paper in the par amount of \$68.7 million and taxable Series C General Obligation Commercial Paper in the par amount of \$17.1 million to provide interim financing of the 2008 Projects pursuant to the Commercial Paper Resolution of the University, adopted pursuant to a resolution of the Board of Governors of the University on June 15, 2006, with the advice and consent of the Board of Trustees of the University on June 15, 2006.

NOTE 9 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2008 and 2007 is as follows (dollars in thousands):

	<u>Balance 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 2008</u>	<u>Current Portion</u>
General Obligation Bonds Payable	\$385,480	\$46	\$20,721	\$364,805	\$21,544
Revenue Bonds Payable	26,455	9	1,970	24,494	2,046
Lease Obligations	151,705	1,286	22,335	130,656	8,345
Notes Payable	2,063		113	1,950	118
Loan Payable	22,155	16,788		38,943	
Total Long-Term Liabilities	<u>\$587,858</u>	<u>\$18,129</u>	<u>\$45,139</u>	<u>\$560,848</u>	<u>\$32,053</u>

	<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
Notes Payable	2,172		109	2,063	113
Loan Payable		22,155		22,155	
Total Long-Term Liabilities	<u>\$616,154</u>	<u>\$22,619</u>	<u>\$50,915</u>	<u>\$587,858</u>	<u>\$31,568</u>

OTHER OBLIGATIONS OF THE UNIVERSITY

Notes Payable

Notes payable at June 30, 2008 and 2007 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 \$0.1 million letter of credit, which is collateral for a lease obligation, was cancelled as of February 26, 2008. No funds have been drawn on the letter of credit at June 30, 2008 or 2007.

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, 2008, the outstanding amount due on the loans was \$0.7 million (\$0.7 million in 2007).

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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.

Loans Payable

On May 30, 2007, One Washington Park Holdings (QALICB) entered into two loan and security agreements with New Jersey Community Capital Community Development Entity (NJCC CDE) I LLC and NJCC CDE II LLC in the amounts of \$36.3 million and \$2.6 million, respectively, to finance a portion of the acquisition and renovation of the property located at One Washington Park in Newark, NJ (See **NOTE 16**). The loans bear interest at a rate of 2.33% per annum and 1.45% per annum, respectively, and are payable every December 1. The principal amounts are due to NJCC CDE I LLC and NJCC CDE II LLC on December 1, 2014.

The first advance on the NJCC CDE I and II loans were made on May 30, 2007 totaling to \$31.7 million. The University recognized 69.84% or \$22.1 million of this loan in fiscal year 2007 representing Parkside RUN Investments, LLC's interest with One Washington Park Holdings, LLC as of June 30, 2007. On July 31, 2007, NJCC CDE I made the second advance on the loan for \$7.2 million. The University then recognized full responsibility on the loan to represent Parkside RUN Investments, LLC's majority interest with One Washington Park Holdings, LLC as of June 30, 2008. Total loan additions of \$16.8 million for fiscal year 2008 represent the second advance of \$7.2 million and the remaining 30.16% interest on the \$31.7 million, or \$9.6 million.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

Bonds Payable – General Obligation and Revenue

A summary of bonds issued and outstanding at June 30, 2008 and 2007 is as follows (dollars in thousands):

	Date of Series	Original Amount	Outstanding June 30,	
			2008	2007
Revenue Refunding Bonds:				
Series U, 4.89% effective, due serially to May 1, 2021	Dec. 1, 1997	\$40,015	\$23,580	\$25,440
Total Revenue Refunding Bonds		40,015	23,580	25,440
Revenue Bonds:				
Series E, 3.75%, due serially to May 1, 2016	May 1, 1967	1,200	370	410
Series F, 3.00%, due serially to May 1, 2016	Nov. 1, 1967	2,350	660	730
Total Revenue Bonds		3,550	1,030	1,140
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	22,850	26,605
2002 Series A, 3.96% effective, due serially to May 1, 2018	Feb. 1, 2002	110,000	72,800	76,300
2003 Series C, 3.41% effective, due serially to May 1, 2019	July 15, 2003	111,320	72,910	80,500
Total General Obligation Refunding Bonds		315,690	168,560	183,405
General Obligation Bonds:				
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	41,150	42,295
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	45,460	46,415
2003 Series D, 3.74% effective, due serially to May 1, 2019	Dec. 1, 2003	24,805	18,175	19,570
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	84,450	86,190
Total General Obligation Bonds		211,530	189,235	194,470
Total Bonds		\$570,785	\$382,405	\$404,455

The General Obligation Bonds Payable includes premium on bonds, net of bond discounts, of \$7.0 million at June 30, 2008 (\$7.6 million in 2007, premium on bonds, net of bond discounts) related to Series 1992 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 \$116 thousand at June 30, 2008 (\$125 thousand in 2007) 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 and F, 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.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

General Obligation and General Obligation Refunding Bonds

The General Obligation Refunding Bonds, 1992 Series A, and General Obligation Bonds, 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 principle 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 2008, \$0.3 million (\$0.3 million in 2007) has been expensed leaving \$3.0 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.

All bonds bear interest at fixed-rates with the exception of 2002 Series A, which bears interest at a variable-rate. With the intention of lowering its effective interest rate related to 2002 Series A, the University entered into a swap agreement with JP Morgan Chase

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

(see NOTE 10 for additional information about derivatives). The interest rate swap exposes the University to basis risk should the relationship between the floating rate and the BMA converge, changing the synthetic rate of the bonds. The following is the synthetic rate, related to the 2002 Series A bond, at the end of this fiscal year:

	<u>Terms</u>	<u>2008</u>	<u>2007</u>
Interest rate swap			
Fixed payment to counterparty	Fixed	3.96%	3.96%
Variable payment from counterparty	BMA	<u>-1.59%</u>	<u>-3.70%</u>
Net interest rate swap payments		2.37%	0.26%
Variable rate bond coupon payments		<u>1.35%</u>	<u>3.61%</u>
Synthetic interest rate		<u><u>3.72%</u></u>	<u><u>3.87%</u></u>

Using rates as of the end of the fiscal year, debt service payments to maturity, assuming current interest rates remain the same for their term, are as follows (dollars in thousands):

<u>Year</u>	<u>Fixed-Rate Bonds</u>		<u>Variable-Rate Bond</u>		<u>Interest Rate Swap, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2009	\$19,305	\$14,852	\$3,700	\$983	\$1,725	\$40,565
2010	20,300	13,881	3,800	933	1,638	40,552
2011	21,300	12,895	3,900	882	1,548	40,525
2012	20,630	11,854	4,100	829	1,455	38,868
2013	21,690	10,825	4,200	774	1,358	38,847
2014-2018	72,760	41,410	53,100	2,202	3,865	173,337
2019-2023	43,665	27,581				71,246
2024-2028	41,880	18,047				59,927
2029-2033	39,615	7,790				47,405
2034	8,460	416				8,876
Total	<u>\$309,605</u>	<u>\$159,551</u>	<u>\$72,800</u>	<u>\$6,603</u>	<u>\$11,589</u>	<u>\$560,148</u>

As rates vary, variable-rate bond interest payments and net swap payments will vary.

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. At June 30, 2008, the University has paid its obligation in full. The bonds mature on July 1, 2008 and the title to the land and facilities will revert to the University.

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, 2008, the University had a capital lease obligation of \$48.5 million (\$50.5 million in 2007).

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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, 2008, the University had a capital lease obligation of \$0.9 million for equipment purchased under the terms of this agreement (\$1.8 million in 2007).

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, 2008, the University had a capital lease obligation of \$16.6 million (\$18.6 million in 2007).

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 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, 2008, this liability was \$37.0 million (\$38.6 million in 2007). 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, 2008, the estimated present value of the Hospital sublease over the full lease term, including renewal periods, amounted to \$6.6 million (\$6.9 million in 2007). 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.

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 principle 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, 2008, the University had a capital lease obligation of \$29.3 million (\$29.8 million in 2007).

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

Future lease payments (receipts) applicable to the aforementioned capital leases at June 30, 2008 are as follows (dollars in thousands):

Year	Facilities Authority				Housing Authority	Hospital Sublease	Certificates of Participation	Total
	HECIP	ELF	DSTF (2001A)	DSTF (2001B)				
2009	\$4,455	\$939	\$2,040	\$33	\$3,664	(\$652)	\$1,862	\$12,341
2010	4,455		2,040	33	3,665	(653)	1,861	11,401
2011	4,455		2,040	32	3,666	(653)	1,863	11,403
2012	4,455		2,039	32	3,665	(652)	1,858	11,397
2013	4,457		2,040	32	3,660	(652)	1,860	11,397
2014-2018	22,289		6,119	98	18,328	(3,262)	9,303	52,875
2019-2023	25,482				18,318	(3,263)	9,274	49,811
2024-2028							9,258	9,258
2029-2033							9,209	9,209
2034-2038							9,169	9,169
Total Lease Payments	70,048	939	16,318	260	54,966	(9,787)	55,517	188,261
Less Amount Representing Interest	21,530	23			18,000	(3,222)	26,207	62,538
Present Value of Lease Payments	<u>\$48,518</u>	<u>\$916</u>	<u>\$16,318</u>	<u>\$260</u>	<u>\$36,966</u>	<u>(\$6,565)</u>	<u>\$29,310</u>	<u>\$125,723</u>

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, 2008, the aggregate capitalized lease obligation associated with these agreements, which excludes future interest payments, is approximately \$4.1 million (\$3.7 million in 2007). 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 10 – DERIVATIVE FINANCIAL INSTRUMENTS

The University is party to derivative financial instruments (interest rate swaps) that are not reported at fair value on the Statements of Net Assets.

Objective of the swaps:

In order to protect against the potential of rising interest rates, the University has entered into four separate pay-fixed, receive-variable interest rate swaps.

Terms, fair values, and credit risk:

The terms, fair values, and credit rating of the outstanding swaps as of June 30, 2008 are listed below:

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

<u>Associated Debt</u>	<u>Associated Outstanding Debt</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Fixed-rate Paid</u>	<u>Variable-rate Received</u>	<u>Fair Value</u>	<u>Swap Termination Date</u>	<u>Counterparty/ Credit Rating</u>
General Obligation Bond (GOB) 2002 Series A	\$72,800	\$72,800	2/4/2002	3.960%	BMA Municipal Swap Index	(\$3,524)	5/1/2018	JP Morgan & Co./AA-
General Obligation Commercial Paper (GOCP) Series A, C	100,085	100,000	5/1/2008	4.080%	BMA Municipal Swap Index	(2,852)	11/1/2038	Merrill Lynch/A
General Obligation Commercial Paper (GOCP) Series B	19,569	21,775	5/1/2007	3.824%	BMA Municipal Swap Index	(517)	5/1/2027	Bank of New York/AA-
General Obligation Commercial Paper (GOCP) Series C	13,500	13,500	5/1/2007	5.127%	100% USD-LIBOR-BBA	(670)	11/1/2017	UBS AG/AA-
Total	\$205,954	\$208,075				(\$7,563)		

The terms, fair values, and credit rating of the outstanding swaps as of June 30, 2007 as listed below:

<u>Associated Debt</u>	<u>Associated Outstanding Debt</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Fixed-rate Paid</u>	<u>Variable-rate Received</u>	<u>Fair Value</u>	<u>Swap Termination Date</u>	<u>Counterparty/ Credit Rating</u>
GOB 2002 Series A	\$76,300	\$76,300	2/4/2002	3.960%	BMA Municipal Swap Index	(\$606)	5/1/2018	JP Morgan & Co./AA-
		100,000	5/1/2008	4.080%	BMA Municipal Swap Index	3,463	11/1/2038	Merrill Lynch/A+
GOCP Series B	19,569	22,415	5/1/2007	3.824%	BMA Municipal Swap Index	399	5/1/2027	Bank of New York/A+
GOCP Series C	13,500	13,500	5/1/2007	5.127%	100% USD-LIBOR-BBA	432	11/1/2017	UBS AG/AA+
Total	\$109,369	\$212,215				\$3,688		

Fair Value:

As of June 30, 2008, the swaps had a total negative fair value of \$7.6 million (positive fair value of \$3.7 million in 2007). The fair value was provided by the counterparties and derived from proprietary models based on estimates about relevant future market conditions.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

Credit Risk:

As of June 30, 2008, the University was not exposed to credit risk because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the University would be exposed to credit risk in the amount of the derivative's fair value. At June 30, 2007, the University was exposed to credit risk because all of the swaps, except GOB 2002 Series A, had positive fair values.

Basis Risk:

The pay-fixed receive-variable swaps expose the University to basis risk should the rates resulting from the BMA Municipal Swap Index for the GOB 2002 Series A, GOCP Series A and B swaps, 100% of USD-LIBOR-BBA for GOCP Series C swap not equal the rate the University pays.

Rollover Risk:

The University is exposed to rollover risk on swaps if the counterparty exercises its termination option, the University will not realize the synthetic rate offered by the swaps on the underlying debt issues.

Termination Risk:

The University or any of the involved counterparties may terminate any of the swaps if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate debt issue would no longer carry a synthetic fixed interest rate. Also, if at termination a swap has a negative fair value, the University would be liable to the appropriate counterparty for a payment equal to the swap's fair value.

NOTE 11 - COMMITMENTS

At June 30, 2008, 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 \$476.6 million. Anticipated sources of funding for these projects are summarized as follows (dollars in thousands):

	<u>Total Project Funding</u>		
	<u>Received at June 30, 2008</u>	<u>Additional Funding Required at June 30, 2008</u>	<u>Estimated Total Cost</u>
Borrowing	\$97,630	\$241,639	\$339,269
State Bond Issues and Capital Appropriations	22,815		22,815
Gifts and Other Sources	40,759	73,724	114,483
Total	<u>\$161,204</u>	<u>\$315,363</u>	<u>\$476,567</u>

The University leases certain space used in general operations. Rental expense was approximately \$3.3 million in 2008 (\$3.3 million in 2007). The leases are non cancelable and have been classified as operating leases which are expected to expire through 2033. Minimum annual rental commitments approximate the following (dollars in thousands):

<u>Year</u>	<u>Amount</u>
2009	\$2,757
2010	2,171
2011	2,053
2012	1,632
2013	1,232
2014-2018	1,991
2019-2023	451
2024-2028	564
2029-2033	5
Total	<u>\$12,856</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

NOTE 12 - 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 2008 aggregated \$47.8 million (\$44.7 in 2007) of which \$10.1 million (\$9.4 in 2007) 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, 2008 was \$165.1 million (\$159.3 million in 2007).

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 5.5% of their annual compensation during fiscal year 2008 and 5.0% in 2007. 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.

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, 2008 was \$476.3 million (\$445.3 million in 2007).

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 2008. 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.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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.

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.

Postemployment Benefits Other Than Pension

The State of New Jersey is implementing Government Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for the fiscal year ending June 30, 2008. The State of New Jersey is legally responsible for contributions to the other postemployment benefits plan that covers the employees of the University. The employees of the University are employees of the State of New Jersey according to State statute, therefore, the other postemployment benefit plans liability will be reported by the State of New Jersey.

NOTE 13 - 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 \$35.4 million at June 30, 2008 (\$34.0 million in 2007). 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.

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 \$8.1 million at June 30, 2008 (\$8.2 million in 2007) which is included in accounts payable and accrued expenses in the accompanying statements of net assets.

NOTE 14 - 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

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

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, 2008 for these items is \$11.6 million (\$10.7 million in 2007). The reserve balance recorded at June 30, 2008 is \$13.9 million (\$13.2 million in 2007). 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 15 - 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 16 – 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.

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 2008 related to the NMTC program are as follows: At the post-closing on July 31, 2007, the University loaned to One Washington Capital, LLC (Rutgers leverage lender) \$4.3 million and invested \$3.3 million in Parkside RUN Investments, LLC. (Rutgers affiliate and Managing Member of One Washington Park Holdings, LLC). Parkside RUN Investments, LLC then forwarded the \$3.3 million as an investment to One Washington Park Holdings, LLC, a qualified active low-income community business (QALICB).

A post fiscal year-end transaction occurred on October 14, 2008. The University purchased the property designated as Unit No. B-1B of One Washington Park Condominium for \$22.0 million from the QALICB.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2008 and 2007

NOTE 17 – SUBSEQUENT EVENT

On November 26, 2008, the “Original Transaction”, involving the interest rate swap associated with General Obligation Commercial Paper Series A and C, entered into between Merrill Lynch Capital Services, Inc. and the University on January 16, 2007 was amended. The original effective date was May 1, 2008, and the amended effective date is December 1, 2008 with the termination date remaining as November 1, 2038. The floating rate option was amended from the BMA Municipal Swap Index to the USD-LIBOR-BBA.

Rutgers, The State University of New Jersey

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