
Financial Report 2009-2010

Rutgers, The State University of New Jersey

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During the Year Ended June 30, 2010

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RUTGERS

SENIOR VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

October 28, 2010

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, 2010. 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,

Bruce C. Fehn
Senior Vice President for Finance
and Administration

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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, 2010 and 2009, 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, 2010 and 2009, 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.

As discussed in note 1 to the financial statements, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2009.

KPMG LLP

October 28, 2010

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2010 and 2009

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, 2010 and 2009, 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.

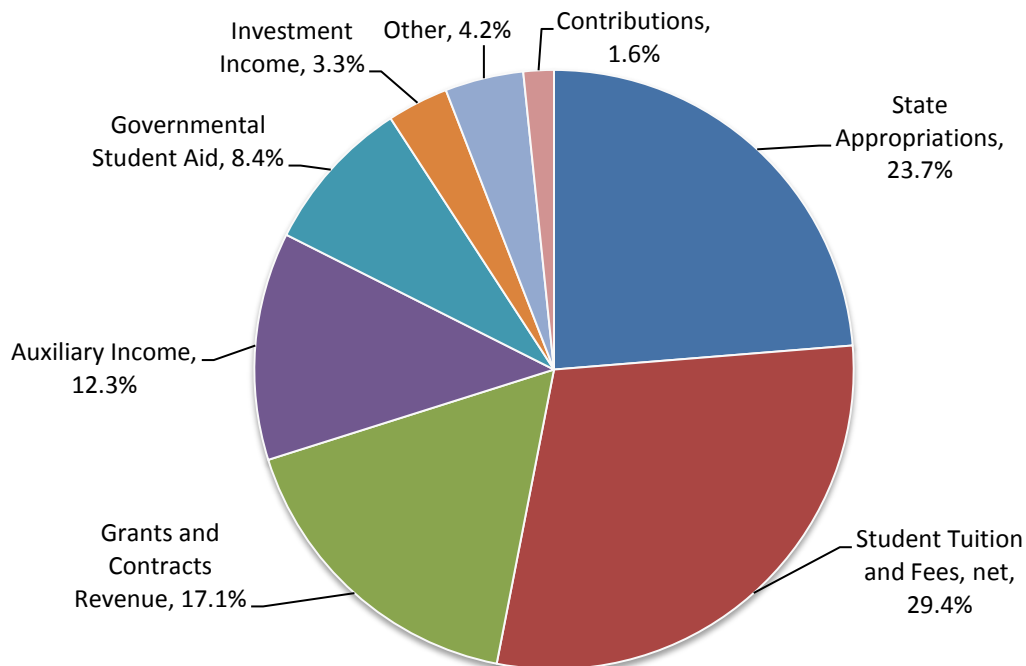
In 2010, the financial reporting entity of Rutgers included 27 degree granting schools, of which 17 offered graduate programs of study. These schools are located on three regional campuses in New Brunswick (Piscataway), Newark and Camden. The financial statements also include the financial activity of the Rutgers University Foundation, which administers the fundraising activities for the University.

Financial Highlights

The university's financial condition at June 30, 2010 remained stable with net assets increasing by 5.1% or \$117.5 million. Total operating revenues increased by \$40.6 million or 3.6% with increases of 4.6% in net student tuition and fees, 1.8% in grant and contract revenue, and 3.3% in auxiliary revenues. Operating expenses increased only 3.5% in 2010 while nonoperating revenues increased 30.4% primarily as a result of increases in Federal financial aid funds.

As the State University of New Jersey, the appropriation from the State represents a vital part of the university's funding. In fiscal 2010, the State decreased the university's base appropriation by 6.0% and did not provide any funding of salary program increases. The State did provide \$15.5 million from the American Recovery and Reinvestment Act to offset some of this decrease providing a net overall decrease of 4.7%. The decrease in State funding has been offset by tuition increases coupled with strong enrollment demand, targeted reductions to unit budgets as necessary, and an emphasis on increasing revenues from other sources. Tuition revenue is another significant source of funding for the university. In fiscal 2010, in addition to an increase in tuition rates averaging 3.7%, enrollment was at our highest with 54,645 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, 2010 and 2009

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, 2010, 2009, and 2008 is as follows (dollars in thousands):

	2010	2009	2008
Assets			
Current assets	\$694,576	\$648,874	\$626,222
Noncurrent assets			
Endowment, restricted and other noncurrent cash and investments	815,059	849,238	835,348
Capital assets, net	1,873,145	1,781,594	1,654,905
Other assets	92,026	100,345	78,811
Total assets	<u>3,474,806</u>	<u>3,380,051</u>	<u>3,195,286</u>
Deferred Outflows	18,664	9,013	
Liabilities			
Current liabilities	294,895	277,473	336,412
Noncurrent liabilities	<u>771,975</u>	<u>800,953</u>	<u>548,438</u>
Total liabilities	1,066,870	1,078,426	884,850
Deferred Inflow		1,523	
Net assets			
Invested in capital assets, net of debt	1,115,390	1,069,426	1,045,262
Restricted - nonexpendable	314,934	295,844	359,348
Restricted - expendable	426,755	414,168	402,998
Unrestricted	569,521	529,677	502,828
Total Net Assets	<u>\$2,426,600</u>	<u>\$2,309,115</u>	<u>\$2,310,436</u>

Current Assets and Current Liabilities

Current assets include unrestricted cash and cash equivalents, investments that mature within a year, receivables and pledges due within a year, inventories and other short-term assets. Noncurrent assets include unrestricted investments that mature in more than a year as well as all cash and cash equivalents and investments that are restricted by donors or external parties as to their use. Receivables and pledges deemed to be collectible in more than a year are also included as noncurrent. Current assets increased \$45.7 million in 2010 as opposed to a \$22.7 million increase in 2009.

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 \$17.4 million in 2010 primarily as a result of a liability for Faculty Reinvestment Program of \$6.3 million, an increase in short term liabilities as a result of the issuance of \$4.4 million of commercial paper in 2010 and an increase of \$3.4 million in deferred revenue for the 2010 summer session program as a result of an increase in the number of students enrolled and an increase in the tuition rate. Current liabilities decreased \$58.9 million in 2009 primarily as a result of the conversion of short term commercial paper that was refinanced by long term bond issues in 2009.

The university's current assets cover current liabilities by a factor of 2.4 times, an indicator of good liquidity and the ability to bear short term demands on working capital. This coverage in 2009 was 2.3 times. The university's current assets also cover five months of its total operating expenses, excluding depreciation.

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2010 and 2009

Endowment and Other Investments

The primary financial objective of the investment management of the Endowment is to preserve and, hopefully, enhance its real (inflation-adjusted) purchasing power while providing a relatively predictable, stable, and constant (in real terms) stream of earnings for current use. The long term investment goal of the Endowment is to attain a total return of at least 4.5% plus inflation, fees, and costs. The investment objectives of the Endowment are based upon a long-term investment horizon allowing interim fluctuations to be viewed in an appropriate perspective. A major portion of the university's endowment is maintained in the long term investment pool managed by the university's Joint Investment Committee. The total annual return for the long-term investment pool was 9.0% in 2010 and -15.3% in 2009. The average annual return over the 5 year period ending June 30, 2010 and 2009 was 3.8% and 3.9%, 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 \$21.4 million in 2010 and \$23.1 million in 2009.

The university's endowments consist of permanent (true), term and quasi endowments. Permanent or true endowments are funds received from donors stipulating that the principal gift remain inviolate and be invested in perpetuity with the income generated from the investment to be expended for a specific purpose as designated by the donor. These permanent endowments increased \$28.0 million to \$307.8 million for 2010 from \$279.8 in 2009. Term endowments are those funds received from donors that function as endowment until a specified event occurs. The university's term endowments increased by \$2.9 million to \$39.3 million in 2010 from \$36.4 million in 2009. 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 \$21.4 million in 2010 to \$172.3 million from \$150.9 million in 2009.

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 \$100.5 million or 19.3% (\$95.7 million or 20.5% in 2009), 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.

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 assets, net increased to \$91.6 million in 2010, as compared to \$126.7 million in 2009. 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 2010 include:

- Expansion of the university stadium to include end zone seating on the Busch Campus.
- Renovation and expansion of the Livingston Student Center to provide an outdoor plaza and additional space for retail stores.
- Renovations to the Camden Recreation Center to upgrade the auditorium, gymnasium and training and locker space.
- A new Visitor's Welcome Center on the Busch Campus to provide an easily accessible facility for visitors to the university.

These additions were funded primarily with the proceeds of bonds and capital appropriations from the State. At June 30, 2010, the University had various projects under construction or in the design stage. Significant projects include:

- Construction of the Health Sciences Center to provide offices for the Institute for Health, Health Care Policy and Aging.
- Construction of the Center for Integrative Proteomics Technologies to provide a shared instrumentation resource and proteomics research facility, including the Protein Data Bank.
- Construction of new student housing on the Busch Campus to provide 500 double occupancy beds in three buildings for first year students.
- Construction of new student housing on the Livingston Campus of mixed use housing consisting of 2 and 4 bedroom apartments while also providing retail space required by college students.

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 2008, the Board of

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2010 and 2009

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 2009, the university issued General Obligation Bonds 2009 Series F in the amount of \$233.1 million to refinance Commercial Paper outstanding and provide long term financing for various capital projects, as well as refunding Series U and a partial refunding of 1998 Series A. The University also issued General Obligation Bond Series 2009G in the amount of \$80.0 million to provide financing for the stadium expansion.

Net Assets

Net Assets represent the residual interest in the university's assets after the deduction of its liabilities. The change in net assets measures whether the overall financial condition has improved or deteriorated during the year. Net assets consist of three major categories; invested in capital assets (net of related debt), restricted net assets (nonexpendable and expendable), and unrestricted net assets. Net assets increased by \$117.5 million in 2010. In 2009, net assets decreased \$1.3 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 \$46.0 million in 2010 is primarily attributable to construction projects including the construction of student housing on the Busch and Livingston Campuses, a new dining facility on the Livingston campus and a new welcome and recruiting lounge at the stadium. In 2009, there was an increase of \$24.2 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 \$19.1 million in 2010. In 2009, nonexpendable net assets decreased by \$63.5 million as a result of declines in market value.

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 \$12.6 million in 2010 is attributable to increases in market value. In 2009, there was an increase of \$11.2 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 maintain these funds for the purposes that they were received. The increase in unrestricted net assets of \$39.8 million in 2010 is primarily the result of funds designated for deferred maintenance, system improvements and other capital projects totaling \$20.2 million. In 2009, unrestricted net assets increased \$26.8 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, 2010, 2009 and 2008 is as follows (dollars in thousands):

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2010 and 2009

	2010	2009	2008
Operating revenues			
Student tuition and fees (net of scholarship allowance)	\$549,293	\$525,121	\$472,294
Grants and contracts	319,469	313,850	271,558
Auxiliary enterprises (net of scholarship allowance)	229,169	221,770	207,395
Other operating revenues	68,431	65,036	56,451
Total operating revenues	<u>1,166,362</u>	<u>1,125,777</u>	<u>1,007,698</u>
Operating expenses	<u>1,737,385</u>	<u>1,677,983</u>	<u>1,590,598</u>
Operating loss	<u>(571,023)</u>	<u>(552,206)</u>	<u>(582,900)</u>
Nonoperating revenues (expenses)			
State appropriations (including fringe benefits paid directly by the state)	444,009	450,134	476,511
Contributions	30,695	37,872	44,455
Endowment and investment income	22,550	23,367	38,317
Unrealized and realized gain/(loss) on marketable investments	39,274	(98,632)	(8,945)
Governmental Student Aid	157,181	123,500	110,019
Interest on capital asset related debt	(37,602)	(30,455)	(25,892)
Net other nonoperating revenues	10,384	5,497	6,063
Net nonoperating revenues	<u>666,491</u>	<u>511,283</u>	<u>640,528</u>
Income/(Loss) before other revenues and expenses	95,468	(40,923)	57,628
Other revenues and expenses	<u>22,017</u>	<u>39,602</u>	<u>33,414</u>
Increase/(Decrease) in net assets	117,485	(1,321)	91,042
Net assets at beginning of year	<u>2,309,115</u>	<u>2,310,436</u>	<u>2,219,394</u>
Net assets at end of year	<u>\$2,426,600</u>	<u>\$2,309,115</u>	<u>\$2,310,436</u>

The university's net assets increased by \$117.5 million in 2010. The \$39.3 million increase in market value of the University's investments compared to the \$98.6 million decrease in market value in 2009 accounts for this overall increase in net assets.

Operating revenues increased \$40.6 million in 2010. 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 \$182.1 million of a total \$230.9 million of student aid directly to student accounts. The remaining \$48.8 million was paid to students and is reflected as scholarships and fellowships expense. Scholarship allowances allocated to tuition and fees amounted to \$148.0 million. Another \$34.1 million was allocated to residence fees, which are included in auxiliary revenues. Tuition and fees, net of scholarship allowances, increased \$24.2 million in 2010. The increase resulted primarily from an increase in tuition rates of 3.7% for undergraduates and graduate students, as well as an average increase of 6.3% in student fees. Also, full time enrollment increased by 5.6% while part time enrollment decreased by 0.5%. In 2009, tuition and fees net of scholarship allowances, increased \$52.8 million. The increase in 2009 resulted from an 8.6% increase in tuition rates for undergraduates and graduate students, as well as an average increase of 6.3% in student fees. In 2009, full time enrollment also increased by 5.7% while part time enrollment decreased by 3.2%.

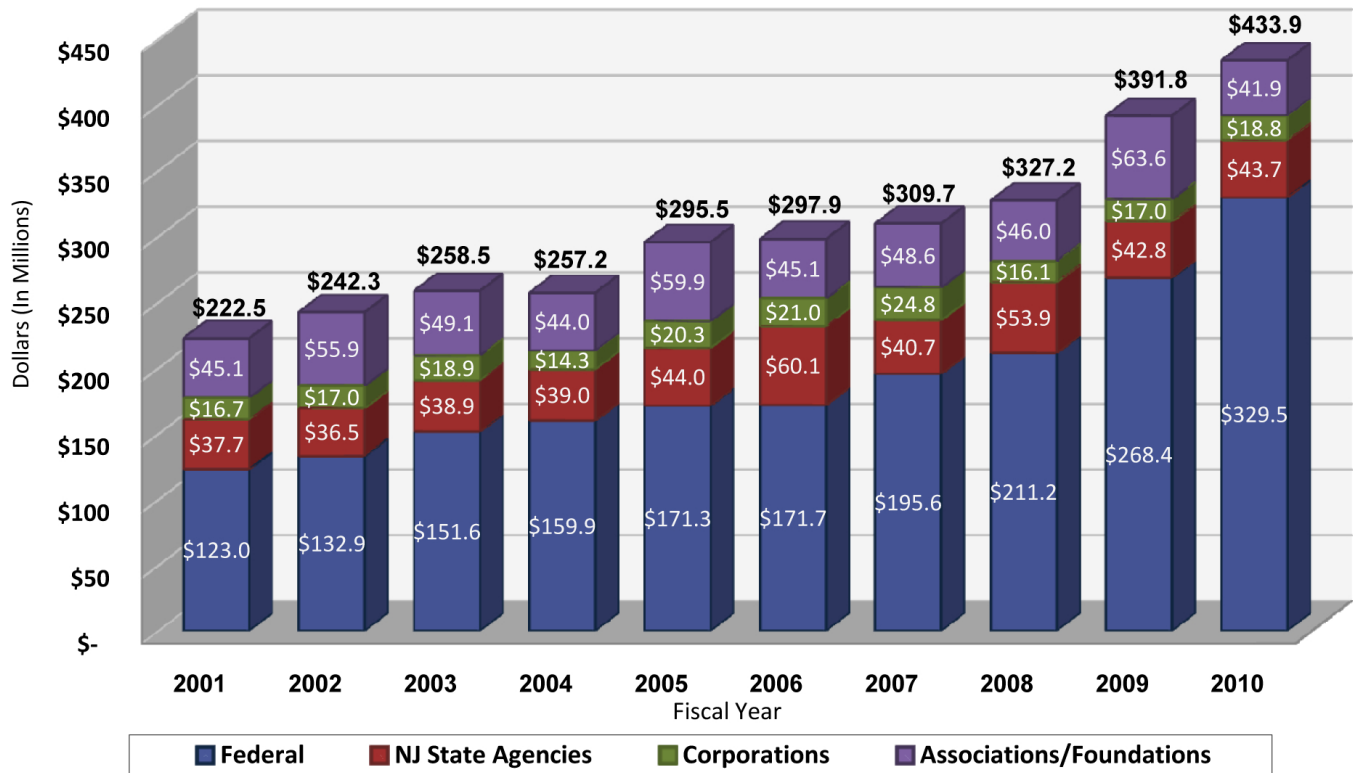
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Management's Discussion and Analysis

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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 2010, grants and contracts increased \$5.6 million. The following table summarizes the research awards received by the University over the last 10 years.

**Research, Education and Public Service Grants
FY 2001-2010**



In 2010, Federal grants for research increased \$22.1 million. The university received several awards from NIH and NSF funded by the American Reinvestment and Recovery Act. Funds received for these awards in 2010 amounted to \$9.6 million. In addition, the Department of Life Science – Genetics received increased funding for two of its programs totaling \$7.1 million. In 2009, Federal grants for research increased \$22.9 million.

In 2010, State support for research increased by \$1.9 million. The Department of Transportation provided additional funding to the Transportation Safety Resource Center and the Rutgers Pavement Resource Center totaling \$1.6 million. In 2009, State grants decreased by \$1.0 million.

Finally, in 2010, nongovernmental grants and contracts decreased \$18.4 million. The university received two large awards in 2009, \$10.0 million for the New Jersey Institute for Food and \$8.0 million for the Robert Wood Johnson Health Sciences that were not renewed in 2010. In 2009, nongovernmental grants increased \$26.0 million primarily as a result of those two grants.

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 2010 by \$7.4 million while expenditures increased by \$3.7 million. Revenue from athletic events increased \$6.4 million as a result of increased ticket sales due to the stadium expansion which added 11,500 end zone seats and also as a result of the hosting of an additional home game in 2010. Auxiliary revenues also increased as a result of an increase in housing and dining rates of 4.4%. In 2009, auxiliary revenues, net of scholarship allowances, increased by \$14.4 million while expenditures increased by \$12.8 million. Auxiliary revenues increased as a result of an increase in housing and dining rates of 4.9%.

Operating expenses increased \$59.4 million in 2010 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 \$24.0 million this year. Salary increases and increased fringe benefit costs on those salaries accounted for

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2010 and 2009

a total of \$21.9 million. In 2009, these expenditures increased by \$30.9 million. Salary increases and increased fringe benefit costs on those salaries accounted for a total of \$24.4 million in 2009.

Expenditures for sponsored programs funded by grant and contract revenues increased by \$15.2 million in 2010 primarily as a result of increased expenditures on federal awards. In 2009, these expenditures increased \$32.4 million.

General Administration and Institutional expenditures increased \$7.0 million in 2010. In 2009, there was an increase of \$5.8 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 2010, these expenditures increased \$2.6 million. These expenditures increased by \$5.4 million in 2009.

Expenditures for operation and maintenance of plant decreased \$1.6 million in 2010 as a result of savings in fuel and utilities. In 2009, these expenditures decreased \$1.0 million.

Net Nonoperating revenues increased \$155.2 million in 2010 and consist primarily of the following:

State appropriations, including fringe benefits paid directly by the State, decreased \$6.1 million in 2010. The university's base appropriation was reduced by \$17.4 million and there was no funding of salary increases in 2010 resulting in a total reduction of \$29.9 million. This reduction was offset by \$15.5 million of American Reinvestment and Recovery Act funds provided by the State. Fringe benefits paid directly by the state increased \$8.3 million in 2010. In 2009, total State appropriations, including fringe benefits paid directly by the State, decreased \$26.4 million. The appropriation by the State was reduced by \$23.6 million as a result of budgetary constraints at the State. The reduction to the university's base appropriation and salary funding amounted to \$22.9 million. The remaining reduction resulted from the elimination of other programs funded in 2008.

Governmental Student Aid increased \$33.7 million in 2010. Federal Aid to students increased \$22.0 million in 2010 primarily as a result of an increase of \$620 in the amount of a Pell Grant award and an increase of 3,384 students receiving these awards. State Aid to students increased \$11.7 million as a result of increases in the amount of the Tuition Aid Grant awarded with the maximum award increasing over \$800 as well as awards to an additional 1,000 students in 2010.

Contributions decreased \$7.2 million in 2010. Contributions have been impacted by the continuing difficult economic conditions this year. Contributions decreased \$6.6 million in 2009.

Endowment and Investment Income decreased \$0.8 million in 2010. This decrease resulted primarily from the decline in interest rates during 2010. Endowment and investment income decreased by \$15.0 million in 2009.

Unrealized and realized gains (losses) on investments increased \$137.9 million in 2010 as a result of slowly improving market conditions this year. The university received gains from some investment activity during the middle months of the fiscal year. Unrealized and realized gains on investments decreased \$89.7 million in 2009.

Other revenues and expenses consist of grants and gifts received by the university for capital projects, as well as additions to permanent endowments. In 2010, this category decreased \$17.6 million. This decrease primarily resulted from a decrease in capital grants and gifts received this year. This category increased in 2009 by \$6.2 million.

Economic Factors that will affect the future

As a result of continuing economic issues faced by the State, the appropriation to the university for 2011 has been reduced by 9.8% or \$28.4 million. The university has addressed this shortfall with tuition increases and cost reductions. Tuition and fees for 2011 were increased 4.0% for its state resident students and 6.0% for nonresident students. During these difficult financial times, the university continues to attract high quality students. In fact, enrollment continues to increase with a total of over 56,000 students enrolled for the fall 2010 semester.

The university also continues to diversify its resources with gifts, grants and investment income. The university foundation has launched a \$1.0 billion campaign to help meet the university's most pressing academic and financial needs. Funds raised through this campaign will be used to support academic initiatives and student services. The campaign also has a goal of doubling the university's permanent endowment to ensure that permanent resources will be available to meet the needs of our students and faculty for the future. The foundation has already raised \$472.0 million towards their goal.

The university also continues to maintain its high credit rating through these difficult economic times. This allows the university the ability to secure capital funds at competitive rates. This is critical since the university plans to issue new bonds in 2011 to finance several capital projects. These projects include housing, dining, academic, infrastructure and deferred maintenance. This with the other measures taken by the university enables Rutgers to maintain a high level of service to its students.

Rutgers, The State University of New Jersey

STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

(dollars in thousands)

	2010	2009
ASSETS:		
Current Assets		
Cash and Cash Equivalents	\$173,546	\$100,132
Short-Term Investments	380,179	417,863
Accounts Receivable, net	90,632	83,902
Student Notes Receivable, net	8,435	8,254
Contributions Receivable, net	24,915	21,508
Inventories	4,314	4,467
Prepaid Expenses	12,039	11,754
Construction Costs Reimbursable	516	994
Total Current Assets	<u>694,576</u>	<u>648,874</u>
Noncurrent Assets		
Cash and Cash Equivalents	99,685	218,019
Long-Term Investments	715,374	631,219
Accounts Receivable, net	24,986	24,986
Student Notes Receivable, net	27,751	28,773
Contributions Receivable, net	24,818	30,629
Bond/Commercial Paper Issuance Costs, net	14,471	15,957
Capital Assets, net	1,873,145	1,781,594
Total Noncurrent Assets	<u>2,780,230</u>	<u>2,731,177</u>
TOTAL ASSETS	<u>3,474,806</u>	<u>3,380,015</u>
DEFERRED OUTFLOWS:		
Interest Rate Swaps	18,664	9,013
TOTAL DEFERRED OUTFLOWS	<u>18,664</u>	<u>9,013</u>
LIABILITIES:		
Current Liabilities		
Accounts Payable and Accrued Expenses	140,324	132,232
Deferred Revenue	59,417	56,122
Payroll Withholdings	8,699	8,234
Other Payables	1,919	1,729
Annuities Payable	894	912
Short-Term Liabilities	44,785	41,110
Long-Term Liabilities	38,857	37,134
Total Current Liabilities	<u>294,895</u>	<u>277,473</u>
Noncurrent Liabilities		
Accounts Payable and Accrued Expenses	17,194	17,899
Annuities Payable	5,133	5,269
Derivative Instruments	18,664	7,490
Long-Term Liabilities	730,984	770,295
Total Noncurrent Liabilities	<u>771,975</u>	<u>800,953</u>
TOTAL LIABILITIES	<u>1,066,870</u>	<u>1,078,426</u>
DEFERRED INFLOWS:		
Interest Rate Swaps	—	1,523
TOTAL DEFERRED INFLOWS	<u>—</u>	<u>1,523</u>

(Continued)

Rutgers, The State University of New Jersey

STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

(dollars in thousands)

	<u>2010</u>	<u>2009</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	1,115,390	1,069,426
Restricted for		
Nonexpendable		
Instruction	153,026	143,227
Scholarships and Fellowships	145,843	138,740
Libraries	7,083	6,704
Other	8,982	7,173
Expendable		
Instruction	161,388	151,049
Research	83,370	80,723
Scholarships and Fellowships	68,333	62,979
Libraries	10,125	9,641
Loans	38,398	38,516
Capital Projects	51,061	48,428
Debt Service Reserve	3,229	4,923
Renewal and Replacement Reserve	—	5,748
Other	10,851	12,161
Unrestricted	<u>569,521</u>	<u>529,677</u>
TOTAL NET ASSETS	<u><u>\$2,426,600</u></u>	<u><u>\$2,309,115</u></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, 2010 and 2009

(dollars in thousands)

	2010	2009
OPERATING REVENUES		
Student Tuition and Fees (net of scholarship allowances of \$148,046 in 2010 and \$118,419 in 2009)	\$549,293	\$525,121
Federal Grants & Contracts	208,217	186,104
State & Municipal Grants & Contracts	49,461	47,576
Nongovernmental Grants & Contracts	61,791	80,170
Auxiliary Enterprises (net of scholarship allowances of \$34,092 in 2010 and \$28,313 in 2009)	229,169	221,770
Other Operating Revenues	68,431	65,036
Total Operating Revenues	1,166,362	1,125,777
OPERATING EXPENSES		
Educational and General		
Instruction	609,369	585,335
Sponsored Research	203,600	185,229
Other Separately Budgeted Research	69,561	72,090
Other Sponsored Programs	91,978	95,159
Extension and Public Service	38,135	37,497
Libraries	37,139	38,363
Student Services	70,041	62,960
Operations and Maintenance of Plant	147,375	148,996
General Administration and Institutional	112,756	105,797
Scholarships and Fellowships	48,798	46,208
Depreciation	92,709	89,135
Auxiliary Enterprises	214,376	210,664
Other Operating Expenses	1,548	550
Total Operating Expenses	1,737,385	1,677,983
Operating Loss	(571,023)	(552,206)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	290,877	305,252
State Paid Fringe Benefits	153,132	144,882
Federal Appropriations	8,469	7,079
Federal Student Aid	68,598	46,605
State Student Aid	88,583	76,895
Contributions	30,695	37,872
Endowment and Investment Income (net of investment management fees of \$2,674 in 2010 and \$1,588 in 2009)	22,550	23,367
Unrealized and Realized Gains (Losses) on Investments	39,274	(98,632)
Interest on Capital Asset Related Debt	(37,602)	(30,455)
Loss on Disposal of Capital Assets	(483)	(159)
Other Nonoperating Revenues (Expenses)	2,398	(1,423)
Net Nonoperating Revenues	666,491	511,283
Income (Loss) before Other Revenues and Expenses	95,468	(40,923)
Capital Appropriations	—	8
Capital Grants and Gifts	11,504	30,404
Additions to Permanent Endowments	10,513	9,190
Increase (Decrease) in Net Assets	117,485	(1,321)
Net Assets - Beginning of the Year	2,309,115	2,310,436
Net Assets - End of the Year	\$2,426,600	\$2,309,115

See accompanying notes to the financial statements.

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2010 and 2009

(dollars in thousands)

	2010	2009
Cash Flows from Operating Activities		
Student Tuition and Fees	\$628,437	\$592,818
Research Grants and Contracts	343,313	349,123
Payments to Employees and for Benefits	(900,459)	(869,332)
Payments to Suppliers	(467,242)	(451,226)
Payments for Utilities	(75,740)	(80,677)
Payments for Scholarships and Fellowships	(104,202)	(98,273)
Collection of Loans to Students and Employees	5,135	5,323
Auxiliary Enterprises Receipts:		
Housing	103,896	109,151
Dining	59,115	57,773
Athletics	17,161	14,917
Parking	7,062	6,994
Other	18,438	18,098
Other Receipts	61,715	60,892
Net Cash Used by Operating Activities	<u>(303,371)</u>	<u>(284,419)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	290,087	304,897
Federal Appropriations	9,448	5,078
Federal and State Student Aid	148,155	121,567
Contributions for other than Capital Purposes	28,886	18,883
Contributions for Endowment Purposes	11,512	7,773
Net Cash Provided by Noncapital Financing Activities	<u>488,088</u>	<u>458,198</u>
Cash Flows from Financing Activities		
Proceeds from Capital Debt and Leases	4,425	330,071
Capital Appropriations	—	8
Capital Grants and Gifts Received	11,374	29,887
Purchases of Capital Assets and Construction in Progress	(189,000)	(207,198)
Principal Paid on Capital Debt and Leases	(35,745)	(130,046)
Interest Paid on Capital Debt and Leases	(38,667)	(29,569)
Debt Defeasance	—	(45,776)
Bond Issuance Costs	—	(2,424)
Other Receipts	6,620	308
Net Cash Used by Financing Activities	<u>(240,993)</u>	<u>(54,739)</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	3,948,250	3,154,685
Investment Income	17,626	18,945
Purchase of Investments	(3,954,520)	(3,198,050)
Net Cash Provided/(Used) by Investing Activities	<u>11,356</u>	<u>(24,420)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(44,920)	94,620
Cash and Cash Equivalents - Beginning of the year	318,151	223,531
Cash and Cash Equivalents - End of the year	<u>\$273,231</u>	<u>\$318,151</u>

(Continued)

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2010 and 2009

(dollars in thousands)

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Loss to		
Net Cash Used by Operating Activities:		
Operating Loss	(\$571,023)	(\$552,206)
Adjustments to Reconcile Operating Loss to Net Cash		
Used by Operating Activities:		
State Paid Fringe Benefits	153,132	144,882
Depreciation	92,709	89,135
Payment in Lieu of Taxes	700	700
Adjustment of Actuarial Liability for Annuities Payable	(401)	(973)
Changes in Assets and Liabilities:		
Receivables, net	(111)	13,337
Inventories	153	375
Prepaid Expenses	621	(1,652)
Accounts Payable and Accrued Expenses	16,867	16,780
Deferred Revenue	3,321	3,503
Payroll Withholdings	465	1,361
Other Payables	196	339
Net Cash Used by Operating Activities	<u>(\$303,371)</u>	<u>(\$284,419)</u>

See accompanying notes to the financial statements.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

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, 2010 and 2009

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 cash equivalents and investments. The market value of such funds aggregated approximately \$52.5 million at June 30, 2010 (\$49.3 million in 2009). Income derived from such irrevocable trust funds held by others, aggregating approximately \$2.3 million in 2010 (\$2.5 million in 2009), 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 5.5 million (5.3 million in 2009) 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, 2010 and 2009

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 nonoperating 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, 2010, the university disbursed \$262.5 million (\$217.6 million in 2009) 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. The current economic environment increases the uncertainty of those estimates.

Recently Adopted Accounting Standards

The university adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2009, which provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions (see **Note 10**).

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The university's cash and cash equivalents balance at June 30, 2010 includes a cash book balance of \$6.6 million (\$8.8 million in 2009). The actual amount of cash on deposit in the university's bank accounts at June 30, 2010 was \$22.6 million (\$24.7 million in 2009). Of this amount, \$0.9 million (\$0.9 million in 2009) was insured by the Federal Deposit Insurance Corporation at June 30, 2010. At June 30, 2010, \$21.7 million (\$23.8 million in 2009) was collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes, and no cash was uninsured and uncollateralized at June 30, 2010 and 2009.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

Rutgers University Foundation's cash and cash equivalents include 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. The foundation's cash and cash equivalents balance at June 30, 2010 includes a cash book balance of \$21.9 million (\$6.2 million in 2009). The actual amount of cash on deposit in the foundation's bank accounts at June 30, 2010 was \$26.4 million (\$12.3 million in 2009). Of this amount, \$0.5 million (\$0.2 million in 2009) was insured by the Federal Deposit Insurance Corporation at June 30, 2010. Cash and cash equivalents in excess of those balances, \$25.9 million in 2010 (\$12.1 million in 2009), are uncollateralized.

The university and foundation's cash and cash equivalents are carried in the financial statements at fair value and consist of the following at June 30, 2010 and 2009 (dollars in thousands):

	<u>2010</u>	<u>2009</u>
Money Market Funds	\$211,820	\$249,158
Repurchase Agreements	57,494	39,877
Cash and Deposits	<u>3,917</u>	<u>29,116</u>
Total Cash and Cash Equivalents	<u>\$ 273,231</u>	<u>\$318,151</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 the Joint Committee on Investments, exercise authority over the investment of the university's Long-Term Investment Pool. Professional investment managers manage the investment of funds in accordance with the Investment Policy as established by the Joint Committee on Investments, approved by the Board of Governors with the consent of the Board of Trustees. Additionally, a professional investment consultant monitors and reports on the Long-Term Investment Pool and the individual investment managers. 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 Long-Term Investment Pool is to preserve and enhance the Long-Term Investment Pool's real purchasing power while providing a relatively constant stream of earnings for current use. The long-term investment objective for the Long-Term Investment Pool is to attain an average annual total return of at least 4.5%, net of inflation, fees, and costs. The university's annual spending policy is to spend an amount not to exceed 4.5% of a trailing 13-quarter average of the Long-Term Investment Pool's market values. Current earned income will be used for ongoing spending requirements.

The university's investments are carried in the financial statements at fair value and consist of the following at June 30, 2010 and 2009 (dollars in thousands):

	<u>2010</u>	<u>2009</u>
Commercial Paper	\$239,315	\$128,315
U.S. Government Treasury Securities	122,185	301,129
U.S. Government Agency Securities	110,820	90,556
Commodities	32,592	28,274
U.S. Corporate Equities	268,104	227,089
Foreign Corporate Equities	91,749	91,937
Real Estate	23,815	18,231
Corporate Bonds	60,235	46,828
Municipal Bonds	17,165	
Bonds – Other Holdings	86,873	70,126
Other Investments	<u>3,608</u>	<u>4,722</u>
Total Investments	<u>\$1,056,461</u>	<u>\$1,007,207</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

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

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

The foundation's investments are carried in the financial statements at fair value, based on quoted market values, and consist of the following at June 30, 2010 and 2009 (dollars in thousands):

	<u>2010</u>	<u>2009</u>
U.S. Government Treasury Securities	\$2,589	\$1,923
U.S. Government Agency Securities	7,429	8,830
Corporate Bonds	2,833	2,352
Municipal Bonds	139	18
Mortgage-backed Securities	17,611	22,391
Asset-backed Securities	860	335
Preferred Stock	227	187
Common Stock	2,615	2,080
Foreign Corporate Debt Securities	125	16
Real Estate	3,767	3,019
Other Investments	897	724
Total Investments	<u>\$39,092</u>	<u>\$41,875</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 at June 30, 2010 and 2009 (dollars in thousands):

Investment Type	Market Value	<u>2010</u>			
		Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Commercial Paper	\$239,315	\$239,315			
U.S. Government Treasury Securities	122,185	58,385	\$61,534		\$2,266
U.S. Government Agency Securities	110,820	28,903	81,768	\$10	139
Corporate Bonds	60,235	25,039	35,196		
Municipal Bonds	17,165	17,165			
Total	<u>549,720</u>	<u>\$368,807</u>	<u>\$178,498</u>	<u>\$10</u>	<u>\$2,405</u>
U.S. Corporate Equities	268,104				
Foreign Corporate Equities	91,749				
Bonds – Other Holdings	86,873				
Commodities	32,592				
Real Estate	23,815				
Other Investments	3,608				
Total	<u>\$1,056,461</u>				

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

Investment Type	Market Value	2009 Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Commercial Paper	\$128,315	\$126,817	\$1,498		
U.S. Government Treasury Securities	301,129	253,382	47,747		
U.S. Government Agency Securities	90,556	34,625	55,746	\$11	\$174
Corporate Bonds	46,828	278	46,398	152	
Total	566,828	\$415,102	\$151,389	\$163	\$174
U.S. Corporate Equities	227,089				
Foreign Corporate Equities	91,937				
Commodities	28,274				
Real Estate	18,231				
Bonds – Other Holdings	70,126				
Other Investments	4,722				
Total	\$1,007,207				

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 at June 30, 2010 and 2009 (dollars in thousands):

Investment Type	Market Value	2010 Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Treasury Securities	\$2,589		\$1,715	\$657	\$217
U.S. Government Agency Securities	7,429		7,429		
Corporate Bonds	2,833	\$30	1,714	1,017	72
Municipal Bonds	139		35	25	79
Mortgage-backed Securities	17,611			1,195	16,416
Asset-backed Securities	860		125	735	
Foreign Corporate Debt Securities	125	5	67	52	1
Preferred Stock	227	41	94		92
Total	31,813	\$76	\$11,179	\$3,681	\$16,877
Common Stock	2,615				
Real Estate	3,767				
Other Investments	897				
Total	\$39,092				

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

Investment Type	2009				
	Market Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Treasury Securities	\$1,923	\$152	\$999	\$565	\$207
U.S. Government Agency Securities	8,830	15	8,658		157
Corporate Bonds	2,352	409	762	948	233
Municipal Bonds	18				18
Mortgage-backed Securities	22,391	45		1,780	20,566
Asset-backed Securities	335		335		
Foreign Corporate Debt Securities	16		14	2	
Preferred Stock	187	48	57		82
Total	36,052	\$669	\$10,825	\$3,295	\$21,263
Common Stock	2,080				
Real Estate	3,019				
Other Investments	724				
Total	\$41,875				

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, 2010 and 2009, the university's investment quality ratings as rated by Standard & Poor's were as follows (dollars in thousands):

Investment Type	Quality Rating	2010	2009
U.S. Government Treasury and Agency Securities	AAA	\$233,005	\$391,685
Corporate Bonds	AAA	59,855	46,193
Corporate Bonds	AA+	77	75
Corporate Bonds	AA		227
Corporate Bonds	A	201	182
Corporate Bonds	BBB+	102	151
Municipal Bonds	A-1+	9,915	
Municipal Bonds	A-1	2,400	
Municipal Bonds	N/R	4,850	
Commercial Paper	AAA		35,325
Commercial Paper	A-1+	140,562	65,996
Commercial Paper	A-1	98,753	26,994
Total		\$549,720	\$566,828

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 lower 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.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

At June 30, 2010 and 2009, 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>2010</u>	<u>2009</u>
U.S. Government Treasury and Agency Securities	AAA	\$10,018	\$10,753
Mortgage-backed Securities	AAA	17,611	22,391
Corporate Bonds	AAA		61
Corporate Bonds	AA		92
Corporate Bonds	A	1,704	998
Corporate Bonds	AA+	69	72
Corporate Bonds	A+	178	359
Corporate Bonds	A-	270	287
Corporate Bonds	AA-	126	
Corporate Bonds	BBB+	186	241
Corporate Bonds	BBB	190	242
Corporate Bonds	BBB-	48	
Corporate Bonds	CCC	62	
Municipal Bonds	A		18
Municipal Bonds	AA+	25	
Municipal Bonds	A+	35	
Municipal Bonds	A-	79	
Asset-backed Securities	AAA	193	272
Asset-backed Securities	A+		63
Asset-backed Securities	AA-	667	
Foreign Debt Securities	A	15	
Foreign Debt Securities	A+	20	
Foreign Debt Securities	A-	37	16
Foreign Debt Securities	AA-	52	
Foreign Debt Securities	BBB+	1	
Preferred Stock	A	34	
Preferred Stock	A-	101	39
Preferred Stock	BBB	21	100
Preferred Stock	BB	67	48
Preferred Stock	B	4	
Total		<u>\$31,813</u>	<u>\$36,052</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the university will not be able to recover the value of the investments that are in the possession of an outside party. Custodial credit risk should not be confused with market risk, which is the risk that the market value of a security may decline. The university's investment securities are exposed to custodial credit risk if the securities are uninsured and unregistered and held by the counterparty, or by its trust department or agent but not in the university's name. Money market and mutual funds are subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At June 30, 2010 and 2009, the university had \$344.4 and \$301.9 million, respectively, of investments that were uninsured or unregistered but not in the university's name.

As of June 30, 2010 and 2009, 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.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

Investments - Endowment Funds

The majority of endowment funds assets are in the Long-Term Investment Pool. 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, 2010, the pooled cash, receivables and investments had a total market value of \$481.6 million (\$430.7 million in 2009). In addition, the aggregate market value of endowment funds, cash, receivables and investments separately invested was \$60.2 million at June 30, 2010 (\$65.1 million in 2009). The investment appreciation was \$13.6 million at June 30, 2010 (depreciation of \$25.9 million in 2009). These amounts are included in restricted nonexpendable, restricted expendable and unrestricted net assets.

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

Alternative Investments

As part of its investment strategy, the university has committed to invest a total of \$169.5 million to 35 non-marketable alternative asset partnerships at June 30, 2010 (\$147.7 million to 28 non-marketable alternative asset partnerships in 2009). As of June 30, 2010, the university has \$102.7 million of paid-in capital to these partnerships (\$87.9 million in 2009) and \$67.8 million in unfunded commitments (\$59.9 million in 2009).

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.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

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, 2010 and 2009 (dollars in thousands):

	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net 2010</u>	<u>Net 2009</u>
Government Grants Receivable and Other Sponsored Programs	\$53,590	\$500	\$53,090	\$53,196
One Washington Park	24,986		24,986	24,986
Student Accounts Receivable	8,849	3,006	5,843	4,657
Interest Receivable	7,499		7,499	3,480
Federal and State Governments	4,986		4,986	7,535
Other	20,110	896	19,214	15,034
Total	<u>\$120,020</u>	<u>\$4,402</u>	<u>\$115,618</u>	<u>\$108,888</u>

Students' notes receivable in the statements of net assets are also shown net of the allowance for doubtful notes which amounted to \$3.8 million at June 30, 2010 (\$3.8 million in 2009).

The allowances for doubtful accounts and notes are based upon management's best estimate of uncollectible accounts and notes at June 30, 2010 and 2009, 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, 2010 and 2009 (dollars in thousands):

<u>Year Ending June 30:</u>	<u>2010</u>	<u>2009</u>
Within one year	\$25,349	\$22,139
Two to five years	24,828	31,007
	50,177	53,146
Less allowance for uncollectible contributions	(444)	(1,009)
Total Contributions Receivable	<u>\$49,733</u>	<u>\$52,137</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 \$19.7 million at June 30, 2010 (\$20.2 million in 2009) have not been included in the accompanying statements of net assets.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

NOTE 5 – CAPITAL ASSETS

The detail of Capital Assets activity for the years ended June 30, 2010 and 2009 is as follows (dollars in thousands):

	<u>Balance 2009</u>	<u>Additions</u>	<u>Retirements/ Capitalization</u>	<u>Balance 2010</u>
Capital Assets Not Being Depreciated:				
Land	\$58,185	\$1,251		\$59,436
Capitalized Art Collections	57,806	201		58,007
Construction in Progress	208,665	120,148	\$181,282	147,531
Total	<u>324,656</u>	<u>121,600</u>	<u>181,282</u>	<u>264,974</u>
Capital Assets Being Depreciated:				
Land Improvements	241,248	15,284		256,532
Buildings	1,969,469	192,736		2,162,205
Equipment	419,225	36,405	20,620	435,010
Total	<u>2,629,942</u>	<u>244,425</u>	<u>20,620</u>	<u>2,853,747</u>
Less Accumulated Depreciation:				
Land Improvements	156,452	18,490		174,942
Buildings	703,997	48,892		752,889
Equipment	312,555	25,327	20,137	317,745
Total	<u>1,173,004</u>	<u>92,709</u>	<u>20,137</u>	<u>1,245,576</u>
Net Capital Assets Being Depreciated	<u>1,456,938</u>	<u>151,716</u>	<u>483</u>	<u>1,608,171</u>
Total Capital Assets, net	<u>\$1,781,594</u>	<u>\$273,316</u>	<u>\$181,765</u>	<u>\$1,873,145</u>

During 2010, the university has net capitalized interest expense of \$2.0 million (capitalized interest expense of \$2.1 million and \$0.1 million of interest income) in construction in progress in the accompanying statements of net assets.

	<u>Balance 2008</u>	<u>Additions</u>	<u>Retirements/ Capitalization</u>	<u>Balance 2009</u>
Capital Assets Not Being Depreciated:				
Land	\$53,427	\$4,758		\$58,185
Capitalized Art Collections	57,116	690		57,806
Construction in Progress	86,568	165,612	\$43,515	208,665
Total	<u>197,111</u>	<u>171,060</u>	<u>43,515</u>	<u>324,656</u>
Capital Assets Being Depreciated:				
Land Improvements	221,518	19,730		241,248
Buildings	1,927,056	43,793	1,380	1,969,469
Equipment	404,116	27,205	12,096	419,225
Total	<u>2,552,690</u>	<u>90,728</u>	<u>13,476</u>	<u>2,629,942</u>
Less Accumulated Depreciation:				
Land Improvements	138,799	17,653		156,452
Buildings	656,422	47,744	169	703,997
Equipment	299,675	23,738	10,858	312,555
Total	<u>1,094,896</u>	<u>89,135</u>	<u>11,027</u>	<u>1,173,004</u>
Net Capital Assets Being Depreciated	<u>1,457,794</u>	<u>1,593</u>	<u>2,449</u>	<u>1,456,938</u>
Total Capital Assets, net	<u>\$1,654,905</u>	<u>\$172,653</u>	<u>\$45,964</u>	<u>\$1,781,594</u>

During 2009, the university has net capitalized interest expense of \$2.8 million (capitalized interest expense of \$3.6 million and \$0.8 million of interest income) in construction in progress in the accompanying statements of net assets.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2010 and 2009 (dollars in thousands):

	<u>2010</u>	<u>2009</u>
Compensated Absences	\$52,277	\$45,044
Vendors	47,972	49,917
Accrued Salaries and Benefits	26,843	21,506
Workers Compensation	12,897	10,957
Retainage	3,679	10,643
Interest Payable	6,624	4,110
Other Accrued Expenses	<u>7,226</u>	<u>7,954</u>
Total Accounts Payable and Accrued Expenses	<u>\$157,518</u>	<u>\$150,131</u>

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liability activity for the years ended June 30, 2010 and 2009 is as follows (dollars in thousands):

	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>	<u>Current Portion</u>
Accounts Payable and Accrued Expenses	\$150,131	\$17,024	\$9,637	\$157,518	\$140,324
Annuities Payable	6,181		154	6,027	894
Derivative Instruments	7,490	11,174		18,664	
Long-Term Liabilities	<u>807,429</u>	<u>378</u>	<u>37,966</u>	<u>769,841</u>	<u>38,857</u>
Total Noncurrent Liabilities	<u>\$971,231</u>	<u>\$28,576</u>	<u>\$47,757</u>	<u>\$952,050</u>	<u>\$180,075</u>

	<u>Balance 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2009</u>	<u>Current Portion</u>
Accounts Payable and Accrued Expenses	\$122,676	\$28,372	\$917	\$150,131	\$132,232
Annuities Payable	7,153		972	6,181	912
Derivative Instruments		7,490		7,490	
Long-Term Liabilities	<u>560,848</u>	<u>324,410</u>	<u>77,829</u>	<u>807,429</u>	<u>37,134</u>
Total Noncurrent Liabilities	<u>\$690,677</u>	<u>\$360,272</u>	<u>\$79,718</u>	<u>\$971,231</u>	<u>\$170,278</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 was to be issued either as Tax-Exempt Commercial Paper or as Taxable Commercial Paper.

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

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Notes to the Financial Statements

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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 principal, interest and redemption on the Series 1997A Bonds and (ii) to pay certain administrative, legal, financing and incidental expenses relating to the issuance of the Series B General Obligation Commercial Paper. The university completed the advance refunding to reduce, assuming principal payments are made, its total debt service payments over the next 20 years by \$5.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments less escrow funds used) of \$1.7 million. The difference between the reacquisition price and the net carrying amount of the old debt, \$0.4 million, is being deferred and will be amortized as interest expense through the year 2027 using the effective interest method.

On March 6, 2007, 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 principal amount of \$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. On March 18, 2009, the university issued additional taxable Series C General Obligation Commercial Paper in the amount of \$8.2 million. These issuances were 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.

During fiscal year 2009, the university redeemed General Obligation Commercial Paper Series A and C for \$0.2 million and \$0.1 million, respectively, using university funds. In addition, as part of the issuance of General Obligation Bonds, 2009 Series F and 2009 Series G, the university also redeemed \$80.2 million and \$19.6 million of General Obligation Commercial Paper Series A and B, respectively.

During fiscal year 2010, the university issued and redeemed General Obligation Commercial Paper Series C for \$4.4 million and \$0.7 million, respectively, using university funds.

NOTE 9 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2010 and 2009 is as follows (dollars in thousands):

	<u>Balance 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 2010</u>	<u>Current Portion</u>
General Obligation Bonds Payable	\$641,268	\$33	\$28,650	\$612,651	\$30,553
Revenue Bonds Payable	920		920		
Lease Obligations	124,467	345	8,274	116,538	8,176
Notes Payable	1,831		122	1,709	128
Loans Payable	<u>38,943</u>			<u>38,943</u>	
Total Long-Term Liabilities	<u>\$807,429</u>	<u>\$378</u>	<u>\$37,966</u>	<u>\$769,841</u>	<u>\$38,857</u>

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2010 and 2009

	<u>Balance 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 2009</u>	<u>Current Portion</u>
General Obligation Bonds Payable	\$364,805	\$322,139	\$45,676	\$641,268	\$28,618
Revenue Bonds Payable	24,494	116	23,690	920	120
Lease Obligations	130,656	2,155	8,344	124,467	8,273
Notes Payable	1,950		119	1,831	123
Loans Payable	38,943			38,943	
Total Long-Term Liabilities	<u>\$560,848</u>	<u>\$324,410</u>	<u>\$77,829</u>	<u>\$807,429</u>	<u>\$37,134</u>

OTHER OBLIGATIONS OF THE UNIVERSITY

Notes Payable

Notes payable at June 30, 2010 and 2009 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 had an unsecured \$20.0 million line of credit with a bank to be used for interim financing requirements for construction projects. This line of credit expired as of July 31, 2009.

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, 2010, the outstanding amount due on the loans was \$0.6 million (\$0.6 million in 2009).

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.

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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.

At June 30, 2010 and 2009, the outstanding balance of the NJCC CDE I and II loans remained at \$38.9 million and \$36.3 million, respectively.

Bonds Payable – General Obligation and Revenue

A summary of bonds issued and outstanding at June 30, 2010 and 2009 is as follows (dollars in thousands):

	Date of Series	Original Amount	Outstanding June 30,	
			2010	2009
Revenue Bonds:				
Series E, 3.75%, due serially to May 1, 2016	May 1, 1967	\$1,200		\$330
Series F, 3.00%, due serially to May 1, 2016	Nov. 1, 1967	2,350		590
Total Revenue Bonds		<u>3,550</u>		<u>920</u>
General Obligation Refunding Bonds:				
1992 Series A, 6.51% effective, due serially to May 1, 2007 and term bonds due May 1, 2013	Feb. 1, 1992	94,370	\$14,580	18,850
2002 Series A, variable-rate, due serially to May 1, 2018	Feb. 1, 2002	110,000	65,300	69,100
2003 Series C, 3.41% effective, due serially to May 1, 2019	July 15, 2003	111,320	56,880	65,100
Total General Obligation Refunding Bonds		<u>315,690</u>	<u>136,760</u>	<u>153,050</u>
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	16,165	16,165
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	43,465	44,480
2003 Series D, 3.74% effective, due serially to May 1, 2019	Dec. 1, 2003	24,805	15,255	16,735
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	80,700	82,620
2009 Series F, varying interest, due serially to May 1, 2031 and term bonds due May 1, 2039	Feb. 10, 2009	233,105	227,510	233,105
2009 Series G, variable-rate, due serially to May 1, 2039	Apr. 29, 2009	80,000	78,580	80,000
Total General Obligation Bonds		<u>524,635</u>	<u>461,675</u>	<u>473,105</u>
Total Bonds		<u>\$843,875</u>	<u>\$598,435</u>	<u>\$627,075</u>

The General Obligation Bonds Payable includes premium on bonds, net of bond discounts, of \$14.2 million at June 30, 2010 (\$15.1 million in 2009, premium on bonds, net of bond discounts) related to Series 1992 A, Series 1998 A, Series 2002 B, Series 2003 C, Series 2003 D, Series 2004 E, and Series 2009 F.

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Revenue Bonds

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.

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 principal amounts plus the applicable redemption premium, if any and interest, and (ii) to pay certain administrative, legal, financing and incidental expenses relating to the issuance of the 2003 Series C Bonds. The university completed the advance refunding to reduce its total debt service payments over the next 16 years by \$33.8 million and to obtain an economic gain (difference between the present values of the old and new debt service payments less escrow funds used) of \$12.0 million. The difference between the reacquisition price and the net carrying amount of the old debt, \$4.4 million, is being deferred and amortized as interest expense through the year 2019 using the effective interest method. In 2010, \$0.3 million (\$0.3 million in 2009) has been expensed leaving \$2.5 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

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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.

The General Obligation Bonds, 2009 Series F, were issued in the Amount of \$233.1 million of February 10, 2009. The bonds were issued under the terms of an Indenture of Trust, dated as of February 1, 2002 (the Master Indenture) as supplemented by and between the university and U.S. Bank National Association (successor to Wachovia Bank, National Association and First Union National Bank), as trustee (the Trustee), and a Sixth supplemental Indenture of Trust, dated as of February 1, 2009, by and between the university and the Trustee (the sixth supplemental Indenture, and together with the Master Indenture, the Indenture). The 2009 Series F Bonds were issued for (i) the refinancing of Commercial Paper which financed the construction of various capital projects, (ii) the financing of additional capital projects of the university, (iii) the refunding of certain outstanding bonds of the university, and (iv) the payment of certain administrative, legal, financing, and incidental expenses relating to the issuance of the bonds.

The General Obligation Bonds, 2009 Series G, were issued in the amount of \$80.0 million on April 29, 2009. The bonds are secured under the provisions of an Indenture of Trust, dated as of February 1, 2002, (the Master Indenture) as supplemented by and between the university and U.S. Bank National Association, successor to First Union National Bank, as trustee (the Trustee), and a Seventh Supplemental Indenture of Trust, dated as of May 1, 2009, by and between the university and the Trustee (the Seventh Supplemental Indenture, together with the Master Indenture, the Indenture). The 2009 Series G Bonds are authorized under the provisions of Rutgers, The State University Law, constituting Chapter 65 of Title 18A of the New Jersey Statutes Annotated (the Act), and the Indenture. The 2009 Series G Bonds were issued for (i) the refinancing of the Commercial Paper which financed the construction of various capital projects, (ii) the financing of additional capital projects of the university, and (iii) the payment of certain administrative, legal, financing, and incidental expenses relating to the issuance of these bonds.

All bonds bear interest at fixed-rates with the exception of 2002 Series A and 2009 Series G, which bear interest at a variable-rate. With the intention of lowering its effective interest rate related to 2002 Series A and Series 2009 G, the university entered into swap agreement with JP Morgan Chase, Merrill Lynch, and Bank of New York. (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 SIFMA/LIBOR 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 fiscal years 2010 and 2009:

	Terms	2010	Terms	2009
Interest rate swap				
Fixed payment to counterparty	Fixed	3.96%	Fixed	3.96%
Variable payment from counterparty	SIFMA	-0.29%	SIFMA,BMA	-0.36%
Net interest rate swap payments		3.67%		3.60%
Variable rate bond coupon payments		0.10%		0.15%
Synthetic interest rate		3.77%		3.75%

The following is the synthetic rate, related to the 2009 Series G Bonds, at the end of fiscal year 2010:

	Terms	Merrill Lynch	Terms	Bank of New York
Interest rate swap				
Fixed payment to counterparty	Fixed	4.08%	Fixed	3.82%
Variable payment from counterparty	3 MO LIBOR	-0.54%	SIFMA	-0.29%
Net interest rate swap payments		3.54%		3.53%
Variable rate bond coupon payments		0.10%		0.10%
Synthetic interest rate		3.64%		3.63%

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The following is the synthetic rate, related to the 2009 Series G Bonds, at the end of fiscal year 2009:

	Terms	Merrill Lynch	Terms	Bank of New York
Interest rate swap				
Fixed payment to counterparty	Fixed	4.08%	Fixed	3.82%
Variable payment from counterparty	3 MO LIBOR	-0.67%	SIFMA	-0.36%
Net interest rate swap payments		3.41%		3.46%
Variable rate bond coupon payments		0.25%		0.25%
Synthetic interest rate		3.66%		3.71%

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):

Year	Fixed-Rate Bonds		Variable-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest	Principal	Interest		
2011	\$24,260	\$21,482	\$5,395	\$144	\$5,176	\$56,457
2012	23,620	20,412	5,655	139	4,980	54,806
2013	24,840	19,222	5,815	133	4,775	54,785
2014	19,305	18,140	11,580	127	4,564	53,716
2015	19,455	17,226	11,945	115	4,141	52,882
2016-2020	80,640	74,177	42,780	400	14,257	212,254
2021-2025	64,870	58,127	11,870	281	9,934	145,082
2026-2030	77,705	41,263	14,410	217	7,664	141,259
2031-2035	75,785	21,842	17,595	138	4,898	120,258
2036-2040	44,075	5,644	16,835	43	1,520	68,117
Total	\$454,555	\$297,535	\$143,880	\$1,737	\$61,909	\$959,616

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

EXTINGUISHMENT OF DEBT

As of June 30, 2010, the university had extinguished \$0.9 million of the Revenue Bonds, 1967 Series E and F, using university funds.

As of June 30, 2009, the university had extinguished \$23.6 million of the Revenue Bonds, 1997 Series U, and \$23.8 million of the General Obligation Bonds, Series 1998A, with a portion of the proceeds of the 2009 Series F Bonds. As of June 30, 2009, the university had outstanding \$16.2 million of General Obligation Bonds, Series 1998A, dated November 1, 1998.

CAPITALIZED LEASE OBLIGATIONS

Facilities Authority

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, 2010, the university had a capital lease obligation of \$44.3 million (\$46.5 million in 2009).

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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, 2010, the university had a capital lease obligation of \$12.4 million (\$14.5 million in 2009).

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, 2010, this liability was \$33.4 million (\$35.2 million in 2009). 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, 2010, the estimated present value of the Hospital sublease over the full lease term, including renewal periods, amounted to \$5.9 million (\$6.2 million in 2009). 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 principal and that are payable to the owners of the 2004 Certificates. The 2004 Certificates are being issued to finance the acquisition of the land, the preparation of the land for construction, including demolition and clearing of existing improvements, and the construction of improvements and costs of acquisition and installation of equipment. This area will primarily serve as the university's Division of Public Safety headquarters, provide additional office space for the university and provide a parking garage, all to support the university's educational functions. In addition, the 2004 Certificates are to provide for capitalized interest on the 2004 Certificates from the dates of delivery to July 1, 2005 and to pay the costs of issuance associated with the authorization, sale, execution and delivery of the 2004 Certificates. At June 30, 2010, the university had a capital lease obligation of \$28.3 million (\$28.8 million in 2009).

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Future lease payments (receipts) applicable to the aforementioned capital leases at June 30, 2010 are as follows (dollars in thousands):

Year	Facilities Authority				Certificates of Participation		Total
	HECIP	DSTF (2001A)	DSTF (2001B)	Housing Authority	Hospital Sublease		
2011	\$4,455	\$2,040	\$33	\$3,666	(\$653)	\$1,863	\$11,404
2012	4,455	2,040	33	3,665	(652)	1,858	11,399
2013	4,457	2,039	32	3,660	(652)	1,860	11,396
2014	4,462	2,040	32	3,664	(652)	1,860	11,406
2015	4,458	2,040	33	3,669	(653)	1,864	11,411
2016-2020	22,278	2,040	32	18,322	(3,261)	9,290	48,701
2021-2025	16,574			10,991	(1,959)	9,268	34,874
2026-2030						9,239	9,239
2031-2035						9,196	9,196
2036-2040						5,496	5,496
Total Lease Payments	61,139	12,239	195	47,637	(8,482)	51,794	164,522
Less Amount Representing Interest	16,833			14,266	(2,554)	23,454	51,999
Present Value of Lease Payments	<u>\$44,306</u>	<u>\$12,239</u>	<u>\$195</u>	<u>\$33,371</u>	<u>(\$5,928)</u>	<u>\$28,340</u>	<u>\$112,523</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, 2010, the aggregate capitalized lease obligation associated with these agreements, which excludes future interest payments, is approximately \$3.3 million (\$4.9 million in 2009). 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 reported at fair value on the Statements of Net Assets.

Objective of the swaps:

The university has entered into four separate pay-fixed, receive-variable interest rate swaps in order to protect against adverse changes in cash flows caused by variable prices, costs, rates, or terms that cause future prices to be uncertain.

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For the years ended June 30, 2010 and 2009, the university had the following derivative instruments outstanding (dollars in thousands):

<u>Derivative Instrument</u>	<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Fair Value</u>
JP Morgan & Co.	Pay-fixed interest rate swap	Hedge of changes in cash flows on the General Obligation Bond (GOB) 2002 Series A	\$65,300	2/4/2002	5/1/2018	Pay 3.96%; receive SIFMA swap index	(\$7,115)
Merrill Lynch	Pay-fixed interest rate swap	Hedge of changes in cash flows on the General Obligation Commercial Paper (GOCP) Series A,C and GOB 2009 Series G	100,000	5/1/2008	11/1/2038	Pay 4.08%; receive 100% USD-LIBOR-BBA (3 mo)	(7,152)
Bank of New York	Pay-fixed interest rate swap	Hedge of changes in cash flows on the General Obligation Bond (GOB) 2009 Series G	20,430	5/1/2007	5/1/2027	Pay 3.82%; receive SIFMA swap index	(2,052)
UBS	Pay-fixed interest rate swap	Hedge of changes in cash flows on the General Obligation Commercial Paper (GOCP) Series C	13,500	5/1/2007	11/1/2017	Pay 5.13%; receive 100% USD-LIBOR-BBA (1 mo)	(2,345)
Total			<u>\$199,230</u>				<u>(\$18,664)</u>

<u>Derivative Instrument</u>	<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Fair Value</u>
JP Morgan & Co.	Pay-fixed interest rate swap	Hedge of changes in cash flows on the General Obligation Bond (GOB) 2002 Series A	\$69,100	2/4/2002	5/1/2018	Pay 3.96%; receive SIFMA swap index	(\$6,141)
Merrill Lynch	Pay-fixed interest rate swap	Hedge of changes in cash flows on the General Obligation Commercial Paper (GOCP) Series A,C and GOB 2009 Series G	100,000	5/1/2008	11/1/2038	Pay 4.08%; receive SIFMA/100% USD-LIBOR-BBA (3 mo)	1,523
Bank of New York	Pay-fixed interest rate swap	Hedge of changes in cash flows on the General Obligation Bond (GOB) 2009 Series G	21,115	5/1/2007	5/1/2027	Pay 3.82%; receive SIFMA swap index	(1,188)
UBS	Pay-fixed interest rate swap	Hedge of changes in cash flows on the General Obligation Commercial Paper (GOCP) Series C	13,500	5/1/2007	11/1/2017	Pay 5.13%; receive 100% USD-LIBOR-BBA (1 mo)	(1,684)
Total			<u>\$203,715</u>				<u>(\$7,490)</u>

The JP Morgan & Co. swap has an optional termination provision in which they will have the right, but not the obligation to terminate the swap transaction in whole on each day that the daily weighted average of the Municipal Swap Index for any immediately preceding rolling consecutive 180 day period within the exercise period is more than 7.0% per annum. The exercise period began on November 1, 2004 and is up to, but excluding, the termination date of May 1, 2018. The date on which JP Morgan exercises its right to terminate the transaction is defined as the optional termination date. If JP Morgan exercises its right to terminate the transaction, the counterparty shall pay two business days after the optional termination date the fixed amount for the period from

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and including the last fixed rate payer payment date to but excluding the optional termination date, and JP Morgan will pay two business days after the optional termination date the floating amount for the period from and including the last floating rate payer payment date to but excluding the optional termination date. Upon payment and receipt of these amounts, neither party shall have any further payment obligations related to this transaction.

The fair value of the JP Morgan swap will not require collateralization unless JP Morgan is downgraded by Moody's and S&P below a B category rating. The collateral shall consist of direct obligation of or ones which are guaranteed by the United States of America with a market value at least equal to 102 percent of the market value of the swap. The university has not put up collateral, because the JP Morgan credit rating has not dropped below a B category rating.

Fair Value:

As of June 30, 2010, the swaps had a total negative fair value of \$18.7 million (negative fair value of \$7.5 million in 2009). The fair value was provided by the counterparties and derived from proprietary models based on estimates about relevant future market conditions.

Credit Risk:

As of June 30, 2010 and 2009, 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. The credit ratings for each of the counterparties are as follows:

<u>Derivative Instrument</u>	<u>2010 Counterparty Credit Rating</u>	<u>2009 Counterparty Credit Rating</u>
JP Morgan & Co.	AA-	A+
Merrill Lynch	AAA	A
Bank of New York	AA	AA-
UBS	A+	A+

Basis Risk:

The pay-fixed receive-variable swaps expose the university to basis risk should the rates resulting from the Securities Industry and Financial Markets Association Index (SIFMA), formerly BMA Municipal Swap Index, for the GOB 2002 Series A and the GOB Series 2009 G swaps, 100% of USD-LIBOR-BBA (1 month and 3 month) for GOB Series 2009 G, GOCP Series A and C swaps 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, 2010, 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 \$702.1 million. Anticipated sources of funding for these projects are summarized as follows (dollars in thousands):

	<u>Total Project Funding</u>		<u>Estimated Total Cost</u>
	<u>Received at June 30, 2010</u>	<u>Additional Funding Required at June 30, 2010</u>	
Borrowing	\$113,046	\$454,835	\$567,881
State Bond Issues and Capital Appropriations	18,335		18,335
Gifts and Other Sources	95,206	20,651	115,857
Total	<u>\$226,587</u>	<u>\$475,486</u>	<u>\$702,073</u>

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The university leases certain space used in general operations. Rental expense was approximately \$4.4 million in 2010 (\$4.1 million in 2009). The leases are non cancelable and have been classified as operating leases which are expected to expire through 2034. Minimum annual rental commitments approximate the following (dollars in thousands):

<u>Year</u>	<u>Amount</u>
2011	\$3,868
2012	2,841
2013	2,050
2014	1,571
2015	1,010
2016-2020	315
2021-2025	296
2026-2030	241
Total	<u>\$12,192</u>

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 2010 aggregated \$43.2 million (\$42.5 million in 2009) of which \$7.3 million (\$12.1 million in 2009) 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, 2010 was \$168.2 million (\$170.8 million in 2009).

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 enrolled in PERS prior to November 2, 2008, are eligible for retirement at age 60 with no minimum years of service required. Members enrolled in PERS on or after November 2, 2008, are eligible for retirement at age 62 with no minimum years of service required. Members enrolled in PERS prior to July 1, 2007, who have 25 years or more of credited service may also select early retirement without penalty at age 55 and receive full retirement benefits. Members enrolled in PERS on or after July 1, 2007, may select early retirement with an allowance reduction for each month prior to the normal retirement age as specified by the NJ Division of Pensions and Benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

Members enrolled in PERS after May 21, 2010, must work 35 hours or more per week. An employee is eligible for PERS membership based upon only one position and requires the retirement system to designate the position providing the higher or highest compensation for the member from among any concurrently held positions. This positions will be used as the basis for eligibility for membership, service credit, the compensation base for pension contributions, and for other pension calculations. The formula and definition of compensation to be used to calculate service, early and deferred retirement for these members changes as well. The formula for service, early and deferred retirement will be calculated as years of service, divided by 60, times the final average salary. Final average salary means the average annual compensation for the last five years of service, or any five fiscal years of membership that provide the largest possible benefit to the member or the member's beneficiary. This definition will also be used to calculate survivor pension benefits and death benefit payments, when available, to beneficiaries. The PERS members are eligible for retirement at age 62 with no minimum years of service required.

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Contributions — Covered university employees were required by PERS to contribute 5.5% of their annual compensation during fiscal years 2010 and 2009. 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, 2010 was \$528.4 million (\$507.1 million in 2009).

Faculty, part-time lecturers, 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 2010. 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 Rutgers University 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.

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.

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Postemployment Benefits Other Than Pension

The State of New Jersey implemented Government Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for the fiscal year ended 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 benefits plan liability is 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, and paid leave bank days) 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 \$38.8 million at June 30, 2010 (\$37.8 million in 2009). 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 $\frac{1}{2}$ 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 \$7.4 million at June 30, 2010 (\$7.2 million in 2009) which is included in accounts payable and accrued expenses in the accompanying statements of net assets.

The university also recorded a liability for paid leave bank days in the amount of \$6.1 million at June 30, 2010, which is included in accounts payable and accrued expenses in the accompanying statement of net assets. Employees may begin using these days on July 1, 2010, and continue for the duration of employment with the university. Once these days are exhausted, the employee will not be eligible for any additional days.

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 14.8% equity ownership of Genesis and receives a pro-rata share of the income generated. The university's annual premium payments to the company for insurance coverage are based on actuarial studies and are charged to expenses. The insurance policies have deductibles that vary by policy, the most significant of which provides for the payment of general liability claims.

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

The university is self-insured for workers compensation and retains various deductibles for general liability, automobile liability, and all risk property insurance. The total liability at June 30, 2010 for these items is \$12.9 million (\$11.0 million in 2009). The reserve balance recorded at June 30, 2010 is \$15.0 million (\$13.8 million in 2009). 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.

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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 the 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 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).

The transaction, which occurred during the fiscal year 2009 related to the NMTC program, involved the university's purchase of property designated as Unit No. B-1B of One Washington Park Condominium for \$22.0 million from the QALICB.

NOTE 17 – SUBSEQUENT EVENT

In November 2010, the university will issue General Obligation Bonds, 2010 Series H (Federally Taxable – Build America Bonds), in the aggregate amount of \$391.4 million, General Obligation Bonds, 2010 Series I (Tax-Exempt), in the aggregate amount of \$108.6 million, and General Obligation Bonds, 2010 Series J (Federally Taxable) in the amount of \$8.4 million. Collectively, they will be known as the 2010 Series Bonds.

The 2010 Series Bonds are being issued to (i) finance and/or refinance a portion of the construction of various capital projects of the university, (ii) provide for the refinancing of (a) certain outstanding commercial paper of the university and (b) the current and/or advance refunding of all or a portion of certain outstanding bonds of the university, (iii) finance the termination fee with respect to an interest rate swap agreement in connection with certain outstanding bonds, and (iv) finance costs of issuance with respect to the 2010 capital projects.

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Executive Vice President for Academic Affairs

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Bruce C. Fehn, B.S., C.P.A.
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