

Financial Report

2010-2011

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During the Year Ended June 30, 2011

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RUTGERS

SENIOR VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

October 31, 2011

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, 2011. The report contains the KPMG LLP Independent Auditors' Report on the University's financial statements. The financial information presented in this report is designed to assist the reader in comprehending the scope of the University's use of resources in meeting its primary missions of instruction, research and public service.

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Bruce C. Fehn".

Bruce C. Fehn
Senior Vice President for Finance
and Administration



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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Rutgers, The State University of New Jersey (the University), a component unit of the State of New Jersey, as of June 30, 2011 and 2010, 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

October 31, 2011

Management's Discussion and Analysis

June 30, 2011 and 2010

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, 2011 and 2010, and its changes in financial position for the fiscal years then ended with fiscal year 2009 data presented for comparative purposes. Management has prepared the basic 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.

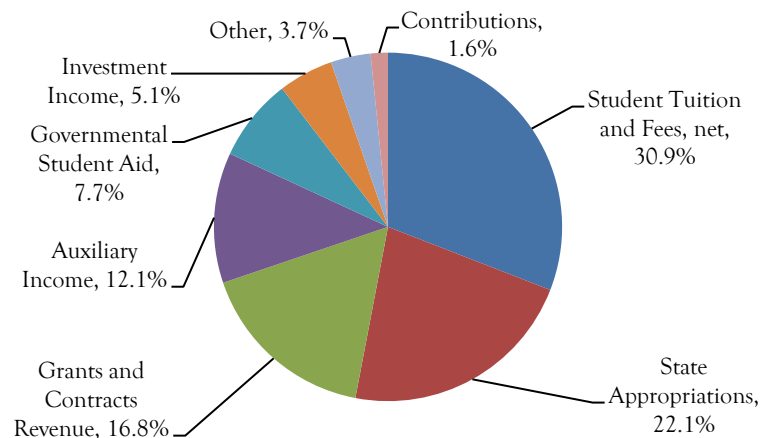
In 2011, the financial reporting entity of Rutgers included 27 degree granting schools, of which 17 offered graduate programs of study. These schools are located on three regional campuses in New Brunswick (Piscataway), Newark and Camden. The financial statements also include the financial activity of the Rutgers University Foundation, which administers the fundraising activities for the University.

Financial Highlights

The university's financial condition at June 30, 2011 remained stable with net assets increasing by 8.7% or \$210.2 million. Total operating revenues increased by \$84.9 million or 7.3% with increases of 11.8% in net student tuition and fees, 4.6% in grant and contract revenue, and 4.7% in auxiliary revenues. Operating expenses increased only 1.7% in 2011 while nonoperating revenues increased 4.8% primarily as a result of increases in the fair value of marketable investments.

As the State University of New Jersey, the appropriation from the State represents a vital part of the university's funding. In fiscal 2011, the State decreased the university's base appropriation by 4.6% and did not provide any funding of salary program increases. In addition to the base operating appropriation, the State provided \$15.4 million in American Reinvestment and Recovery Act (ARRA) funds in fiscal 2010 for that year only. The loss of the ARRA funds in fiscal 2011 was partially offset by \$10.4 million in maintenance of effort funds the state provided in fiscal 2011. This resulted in a net overall decrease (including both base appropriations and ARRA related funds) of 6.0% in fiscal 2011. 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 2011, in addition to an increase in tuition rates averaging 4.2%, enrollment was at our highest with 56,868 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.



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, deferred outflows, total liabilities, and deferred inflows) 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, deferred outflows, deferred inflows, and net assets at June 30, 2011, 2010, and 2009 is as follows (dollars in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current assets	\$677,627	\$694,576	\$648,874
Noncurrent assets			
Endowment, restricted and other noncurrent cash and investments	1,275,569	815,059	849,238
Capital assets, net	2,014,777	1,873,145	1,781,594
Other assets	112,298	92,026	100,345
Total Assets	<u>4,080,271</u>	<u>3,474,806</u>	<u>3,380,051</u>
Deferred Outflows	10,988	18,664	9,013
Liabilities			
Current liabilities	331,032	294,895	277,473
Noncurrent liabilities	<u>1,123,437</u>	<u>771,975</u>	<u>800,953</u>
Total Liabilities	<u>1,454,469</u>	<u>1,066,870</u>	<u>1,078,426</u>
Deferred Inflows	21		1,523
Net Assets			
Invested in capital assets, net of debt	1,126,302	1,103,033	1,056,049
Restricted - nonexpendable	373,633	313,804	295,844
Restricted - expendable	453,428	427,350	414,168
Unrestricted	683,406	582,413	543,054
Total Net Assets	<u><u>\$2,636,769</u></u>	<u><u>\$2,426,600</u></u>	<u><u>\$2,309,115</u></u>

Current Assets and Current Liabilities

Current assets include unrestricted and restricted cash and cash equivalents, investments that mature within one 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 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 decreased \$16.9 million in 2011 as opposed to a \$45.7 million increase in 2010.

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 \$36.1 million in 2011 primarily as a result of the issuance of commercial paper in the amount of \$16.0 million for the Gateway Project. 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.

The university's current assets cover current liabilities by a factor of 2.0 times, an indicator of good liquidity and the ability to bear short term demands on working capital. This coverage in 2010 was 2.4 times. The university's current assets also cover five months of its total operating expenses, excluding depreciation.

Endowment and Other Investments

The primary financial objective of the investment management of the Endowment is to preserve and, hopefully, enhance its real (inflation-adjusted) purchasing power while providing a relatively predictable, stable, and constant (in real terms) stream of earnings 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 18.3% in 2011 and 9.0% in 2010. The average annual return over the 5 year period ending June 30, 2011 and 2010 was 5.2% and 3.8%, 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 \$23.7 million in 2011 and \$21.4 million in 2010.

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 \$59.8 million to \$373.6 million for 2011 from \$313.8 in 2010. Term endowments are those funds received from donors that function as endowment until a specified event occurs. The university's term endowments increased by \$5.0 million to \$44.3 million in 2011 from \$39.3 million in 2010. 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 \$30.7 million in 2011 to \$203.0 million from \$172.3 million in 2010.

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 \$113.5 million or 18.3% (\$100.5 million or 19.3% in 2010), 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 \$141.6 million in 2011, as compared to \$91.6 million in 2010. 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 2011 include:

- A new dining hall on the Livingston Campus
- A new facility for the Institute of Health Science in New Brunswick
- The completion of a welcoming/recruiting lounge in the High Point Solutions Stadium

These additions were funded primarily with the proceeds of bonds. At June 30, 2011, the university had various projects under construction or in the design stage. Significant projects include:

- 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 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 2011, the university issued General Obligation Bonds 2010 Series H and General Obligation Refunding Bonds 2010 Series I in the amounts of \$391.0 million and \$40.8 million, respectively. Series H was issued to finance several capital projects including Livingston and Busch Campus housing. Series I was issued to fully refinance 1998 Series A and partially refinance 2002 Series B, 2003 Series C, and 2003 Series D.

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 \$210.2 million in 2011. In 2010, net assets increased \$117.5 million.

The first category, net assets invested in capital assets, net of related debt, represents the university's capital assets of land, buildings and equipment net of accumulated depreciation and net of outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The increase of \$23.3 million in 2011 is primarily attributable to principal payments of \$38.8 million made on debt issued to finance capital projects. It also includes expenditures on capital projects not financed by debt including the completion of a welcoming and recruiting lounge in the High Point Solutions Stadium, preliminary expenditures for the new business school at Livingston, construction of the Early Family Research Academy in Camden, and renovation at the Zimmerli Art Museum. These additions were offset by the annual depreciation of \$93.7 million. In 2010, there was an increase of \$47.0 million in this category.

The next category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted 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 \$59.8 million in 2011. In 2010, nonexpendable net assets increased by \$18.0 million.

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 \$26.1 million in 2011 is attributable to increases in market value. In 2010, there was an increase of \$13.2 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 \$101.0 million in 2011 is primarily the result of funds designated for deferred maintenance, system improvements and other capital projects totaling \$48.9 million and \$15.1 million for capital improvements housing, dining and student centers. In 2010, unrestricted net assets increased \$39.4 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, nonoperating, or other. 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, 2011, 2010 and 2009 is as follows (dollars in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues			
Student tuition and fees (net of scholarship allowance)	\$614,003	\$549,293	\$525,121
Grants and contracts	334,098	319,469	313,850
Auxiliary enterprises (net of scholarship allowance)	239,890	229,169	221,770
Other operating revenues	<u>63,289</u>	<u>68,431</u>	<u>65,036</u>
Total operating revenues	1,251,280	1,166,362	1,125,777
Operating expenses	<u>1,766,218</u>	<u>1,737,385</u>	<u>1,677,983</u>
Operating loss	<u>(514,938)</u>	<u>(571,023)</u>	<u>(552,206)</u>
Nonoperating revenues (expenses)			
State appropriations (including fringe benefits paid directly by the state)	438,156	444,009	450,134
Contributions	31,957	30,695	37,872
Endowment and investment income	15,540	22,550	23,367
Net increase/(decrease) in fair value of marketable investments	85,497	39,274	(98,632)
Governmental Student Aid	152,681	157,181	123,500
Interest on capital asset related debt	(36,135)	(37,602)	(30,455)
Net other nonoperating revenues	<u>10,781</u>	<u>10,384</u>	<u>5,497</u>
Net nonoperating revenues	698,477	666,491	511,283
Income/(Loss) before other revenues	183,539	95,468	(40,923)
Other revenues	<u>26,630</u>	<u>22,017</u>	<u>39,602</u>
Increase/(Decrease) in net assets	210,169	117,485	(1,321)
Net assets at beginning of year	<u>2,426,600</u>	<u>2,309,115</u>	<u>2,310,436</u>
Net assets at end of year	<u><u>\$2,636,769</u></u>	<u><u>\$2,426,600</u></u>	<u><u>\$2,309,115</u></u>

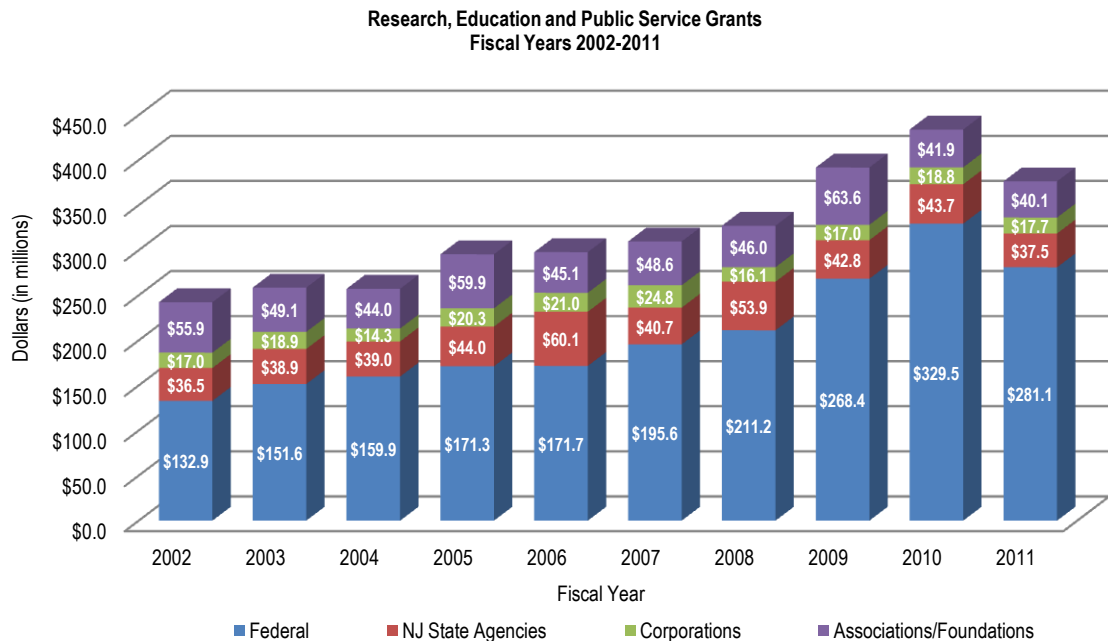
The university's net assets increased by \$210.2 million in 2011. The \$85.5 million increase in market value of the university's investments and the \$64.7 million increase in tuition and fees accounts for most of this overall increase in net assets.

Operating revenues increased \$84.9 million in 2011, and \$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 \$191.6 million of a total \$235.1 million of student aid directly to student accounts. The remaining \$43.5 million was paid to students and is reflected as scholarships and fellowships expense. Scholarship allowances allocated to tuition and fees amounted to \$157.3 million. Another \$34.3 million was allocated to residence fees, which are included in auxiliary revenues. Tuition and fees, net of scholarship allowances, increased \$64.7 million in 2011. The increase resulted primarily from an increase in tuition rates of 4.2% for undergraduates and graduate students, as well as an average increase of 18.2% in student fees. Also, full time enrollment increased by 4.6% while part time enrollment increased by 1.1%. In 2010, tuition and fees net of scholarship allowances, increased \$24.2 million. The increase in 2010 resulted from a 3.7% increase in tuition rates for undergraduates and graduate students, as well as an average increase of 6.3% in student fees. In 2010, full time enrollment also increased by 5.6% while part time enrollment decreased by 0.5%.

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 2011, grants and contracts revenue increased \$14.6 million.

The following table summarizes the research awards received by the university over the last 10 years. This table reflects awards made to the university in the year awarded. Revenue is only recorded as funds are expended on the grant. This table shows a decrease in grants awarded to the university in 2011. This was primarily due to the lack of American Reinvestment and Recovery Act (ARRA) funds in 2011.



In 2011, Federal grants increased \$11.6 million. The Chemistry Department received a \$14.3 million award from the Department of Defense. This was offset by the decrease in expenditures on awards received by the American Reinvestment and Recovery Act (ARRA). In 2010, Federal grants increased \$22.1 million.

In 2011, State grants decreased by \$3.8 million. As a result of the fiscal challenges at the state, there was a general reduction in awards made by state agencies in 2011. In 2010, State grants increased by \$1.9 million.

Finally, in 2011, nongovernmental grants and contracts increased \$6.9 million. The university received an increase in subawards from other universities primarily as a result of American Reinvestment and Recovery Act funds received by these institutions. In 2010, nongovernmental grants decreased \$18.4 million.

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 2011 by \$10.7 million while expenditures increased by \$1.4 million. Auxiliary revenues increased as a result of an increase in housing and dining rates of 5.4% and an increase in occupancy and meal plans purchased. In 2010, auxiliary revenues, net of scholarship allowances, increased by \$7.4 million while expenditures increased by \$3.7 million. Auxiliary revenues increased as a result of an increase in revenues from athletic events as a result of the stadium expansion and increases in housing and dining rates of 4.4%.

Operating expenses increased \$28.8 million in 2011, an increase of 1.7%. Operating expenses are reported by functional classification in the financial statement and by natural classification in the notes to the financial statements (Note 12). The following tables summarize the university's operating expenses by functional and natural classification.

Operating Expenses by Functional Classification
(dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Instruction	\$648,102	\$609,369	\$38,733	6.36%
Sponsored Research	213,850	203,600	10,250	5.03%
Other Separately Budgeted Research	68,854	69,561	(707)	(1.02%)
Other Sponsored Programs	88,056	91,978	(3,922)	(4.26%)
Extension and Public Service	36,440	38,135	(1,695)	(4.44%)
Libraries	37,065	37,139	(74)	(0.20%)
Student Services	70,821	70,041	780	1.11%
Operation and Maintenance of Plant	141,244	147,375	(6,131)	(4.16%)
General Administrative and Institutional	106,743	112,756	(6,013)	(5.33%)
Scholarships and Fellowships	43,537	48,798	(5,261)	(10.78%)
Depreciation	93,733	92,709	1,024	1.10%
Auxiliary Enterprises	215,821	214,376	1,445	0.67%
Other Operating Expenses	1,952	1,548	404	26.10%
Total Operating Expenses	<u>\$1,766,218</u>	<u>\$1,737,385</u>	<u>\$28,833</u>	<u>1.66%</u>

Operating Expenses by Natural Classification
(dollars in thousands)

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Salaries and Wages	\$904,485	\$880,306	\$24,179	2.75%
Fringe Benefits	235,821	223,045	12,776	5.73%
Supplies and Services	532,179	541,325	(9,146)	(1.69%)
Depreciation	93,733	92,709	1,024	1.10%
Total Operating Expenses	<u>\$1,766,218</u>	<u>\$1,737,385</u>	<u>\$28,833</u>	<u>1.66%</u>

Operating expenses increased for instruction and sponsored research while most other functional areas decreased. The natural classification of expenses demonstrates that the major expenditure of the university is salaries and wages accounting for more than 50% of total operating expenses. The functional chart shows increases occurring in instruction and sponsored research while most other areas declined. These changes are consistent with the university's goal of reducing administrative expenses while maintaining the level of academic programs with increasing enrollment. Scholarships and fellowships consist of payments made directly to students as a result of financial aid awarded to the student. The decline in this category resulted primarily from the decrease in state aid awarded this year.

State appropriations, including fringe benefits paid directly by the State, decreased \$5.9 million in 2011. The university's base appropriation was reduced by \$12.6 million and there was no funding of salary increases in 2011, however, the state provided \$10.4 million in maintenance of effort funds. This resulted in a total reduction of \$17.7 million. Fringe benefits paid directly by the State increased \$11.8 million in 2011. In 2010, total State appropriations, including fringe benefits paid directly by the State, decreased \$6.1 million.

Governmental Student Aid decreased \$4.5 million in 2011. Federal Aid to students increased \$2.6 million in 2011 primarily as a result of an increase of \$200 per student in the amount of a Pell Grant award and an increase of 669 students receiving these awards. State Aid to students decreased \$7.1 million as a result of 946 fewer students receiving these awards. Governmental Student Aid increased \$33.7 million in 2010.

Contributions increased \$1.3 million in 2011. Contributions have been impacted by the continuing difficult economic conditions this year. Contributions decreased \$7.2 million in 2010.

Endowment and Investment Income decreased \$7.0 million in 2011. This decrease resulted primarily from the decline in interest rates during 2011. Endowment and investment income decreased by \$0.8 million in 2010.

Net increase/(decrease) in fair value of investments increased \$46.2 million in 2011 as a result of improving market conditions this year. The university received gains from some investment activity during the middle months of the fiscal year. Net increase/(decrease) in fair value of investments increased \$137.9 million in 2010.

Other revenues and expenses consist of grants and gifts received by the university for capital projects, as well as additions to permanent endowments. In 2011, this category increased \$4.6 million. This increase primarily resulted from an increase in additions to permanent endowments received this year. This category decreased in 2010 by \$17.6 million.

Economic Factors that will affect the future

As a result of continuing economic issues faced by the State, the base appropriation to the university for 2012 has remained at the same level as 2011. The maintenance of effort funding was not continued in 2011 therefore, the total appropriation in 2012 is 3.8% or \$10.4 million dollars less than in 2010. The university has addressed this shortfall with modest tuition increases and additional cost reductions. Tuition and fees for fiscal year 2011-2012 were increased 1.6% for its state resident students and 5.0% 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 58,000 students enrolled for the fall 2011 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 \$575.0 million towards their goal.

On January 4, 2011, Governor Christie signed Executive Order No. 51 establishing the University of Medicine and Dentistry of New Jersey Advisory Committee. This Committee was charged with examining the delivery of graduate medical education in the State and developing recommendations for the Governor concerning the issue.

On September 20, 2011, the UMDNJ Advisory Committee issued its first report to Governor Christie. The report contained the recommendation to transfer the Robert Wood Johnson Medical School (and ancillary operations), the School of Public Health and the Cancer Institute of New Jersey (CINJ) from UMDNJ to Rutgers at New Brunswick and Piscataway. While the Governor has accepted and supports these recommendations, the state has not yet moved to adopt these recommendations. The addition of these schools will enhance the university's ability to attract research funding. The committee is expected to release an additional report with its recommendations for the remaining schools and units of UMDNJ.

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

(dollars in thousands)

	<u>2011</u>	<u>2010</u>
ASSETS:		
Current Assets		
Cash and Cash Equivalents	\$53,827	\$53,887
Cash and Cash Equivalents - Restricted	131,114	119,659
Short-Term Investments	351,985	375,515
Short-Term Investments - Restricted	2,451	4,664
Accounts Receivable, net	90,751	90,632
Student Notes Receivable, net	7,829	8,435
Contributions Receivable, net	22,028	24,915
Inventories	4,261	4,314
Prepaid Expenses	12,965	12,039
Construction Costs Reimbursable	416	516
Total Current Assets	<u>677,627</u>	<u>694,576</u>
Noncurrent Assets		
Cash and Cash Equivalents	133,488	60,044
Cash and Cash Equivalents - Restricted	157,987	39,641
Long-Term Investments	211,985	191,925
Long-Term Investments - Restricted	619,989	519,419
Investments Held by Trustees - Restricted	152,120	4,030
Accounts Receivable, net	41,066	24,986
Student Notes Receivable, net	28,902	27,751
Contributions Receivable, net	24,254	24,818
Derivative Instruments	21	—
Bond/Commercial Paper Issuance Costs, net	18,055	14,471
Capital Assets, net	2,014,777	1,873,145
Total Noncurrent Assets	<u>3,402,644</u>	<u>2,780,230</u>
TOTAL ASSETS	<u>4,080,271</u>	<u>3,474,806</u>
DEFERRED OUTFLOWS:		
Interest Rate Swaps	10,988	18,664
TOTAL DEFERRED OUTFLOWS	<u>10,988</u>	<u>18,664</u>
LIABILITIES:		
Current Liabilities		
Accounts Payable and Accrued Expenses	159,512	140,324
Deferred Revenue	59,586	59,417
Payroll Withholdings	11,288	8,699
Other Payables	1,875	1,919
Annuities Payable	901	894
Commercial Paper	58,695	44,785
Long-Term Liabilities	39,175	38,857
Total Current Liabilities	<u>331,032</u>	<u>294,895</u>
Noncurrent Liabilities		
Accounts Payable and Accrued Expenses	24,081	17,194
Annuities Payable	5,050	5,133
Derivative Instruments	10,988	18,664
Long-Term Liabilities	1,083,318	730,984
Total Noncurrent Liabilities	<u>1,123,437</u>	<u>771,975</u>
TOTAL LIABILITIES	<u>1,454,469</u>	<u>1,066,870</u>

(Continued)

STATEMENTS OF NET ASSETS
June 30, 2011 and 2010
(dollars in thousands)

	<u>2011</u>	<u>2010</u>
DEFERRED INFLOWS:		
Interest Rate Swaps	21	—
TOTAL DEFERRED INFLOWS	<u>21</u>	<u>—</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	1,126,302	1,103,033
Restricted for		
Nonexpendable		
Instruction	178,185	155,832
Scholarships and Fellowships	174,514	141,879
Libraries	8,038	7,083
Other	12,896	9,010
Expendable		
Instruction	161,319	150,370
Research	96,229	96,068
Scholarships and Fellowships	79,494	72,590
Libraries	11,384	10,382
Loans	38,267	38,398
Capital Projects	47,904	44,655
Debt Service Reserve	5,512	3,229
Other	13,319	11,658
Unrestricted	<u>683,406</u>	<u>582,413</u>
TOTAL NET ASSETS	<u><u>\$2,636,769</u></u>	<u><u>\$2,426,600</u></u>

See accompanying notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2011 and 2010
(dollars in thousands)

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Student Tuition and Fees (net of scholarship allowances of \$157,326 in 2011 and \$148,046 in 2010)	\$614,003	\$549,293
Federal Grants & Contracts	219,780	208,217
State & Municipal Grants & Contracts	45,676	49,461
Nongovernmental Grants & Contracts	68,642	61,791
Auxiliary Enterprises (net of scholarship allowances of \$34,234 in 2011 and \$34,092 in 2010)	239,890	229,169
Other Operating Revenues	63,289	68,431
Total Operating Revenues	<u>1,251,280</u>	<u>1,166,362</u>
OPERATING EXPENSES		
Educational and General		
Instruction	648,102	609,369
Sponsored Research	213,850	203,600
Other Separately Budgeted Research	68,854	69,561
Other Sponsored Programs	88,056	91,978
Extension and Public Service	36,440	38,135
Libraries	37,065	37,139
Student Services	70,821	70,041
Operations and Maintenance of Plant	141,244	147,375
General Administration and Institutional	106,743	112,756
Scholarships and Fellowships	43,537	48,798
Depreciation	93,733	92,709
Auxiliary Enterprises	215,821	214,376
Other Operating Expenses	1,952	1,548
Total Operating Expenses	<u>1,766,218</u>	<u>1,737,385</u>
Operating Loss	<u>(514,938)</u>	<u>(571,023)</u>
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	273,188	290,877
State Paid Fringe Benefits	164,968	153,132
Federal Appropriations	8,510	8,469
Federal Student Aid	71,202	68,598
State Student Aid	81,479	88,583
Contributions	31,957	30,695
Endowment and Investment Income (net of investment management fees of \$2,918 in 2011 and \$2,674 in 2010)	15,540	22,550
Net Increase in Fair Value of Investments	85,497	39,274
Interest on Capital Asset Related Debt	(36,135)	(37,602)
Loss on Disposal of Capital Assets	(87)	(483)
Other Nonoperating Revenues	2,358	2,398
Net Nonoperating Revenues	<u>698,477</u>	<u>666,491</u>
Income before Other Revenues	183,539	95,468
Capital Grants and Gifts	8,077	11,504
Additions to Permanent Endowments	18,553	10,513
Increase in Net Assets	<u>210,169</u>	<u>117,485</u>
Net Assets - Beginning of the Year	<u>2,426,600</u>	<u>2,309,115</u>
Net Assets - End of the Year	<u>\$2,636,769</u>	<u>\$2,426,600</u>

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2011 and 2010
(dollars in thousands)

	2011	2010
Cash Flows from Operating Activities		
Student Tuition and Fees	\$686,597	\$628,437
Research Grants and Contracts	355,667	343,313
Payments to Employees and for Benefits	(957,473)	(900,459)
Payments to Suppliers	(454,654)	(467,242)
Payments for Utilities	(71,919)	(75,740)
Payments for Scholarships and Fellowships	(103,359)	(104,202)
Collection of Loans to Students and Employees	5,349	5,135
Auxiliary Enterprises Receipts:		
Housing	115,695	103,896
Dining	65,747	59,115
Athletics	16,625	17,161
Parking	8,071	7,062
Other	17,478	18,438
Other Receipts	64,928	61,715
Net Cash Used by Operating Activities	(251,248)	(303,371)
Cash Flows from Noncapital Financing Activities		
State Appropriations	273,188	290,087
Federal Appropriations	9,341	9,448
Federal and State Student Aid	157,580	148,155
Contributions for other than Capital Purposes	29,279	28,886
Contributions for Endowment Purposes	24,095	11,512
Net Cash Provided by Noncapital Financing Activities	493,483	488,088
Cash Flows from Financing Activities		
Proceeds from Capital Debt	477,515	4,425
Capital Grants and Gifts Received	7,712	11,374
Purchases of Capital Assets and Construction in Progress	(228,237)	(189,000)
Principal Paid on Capital Debt and Leases	(64,990)	(35,745)
Interest Paid on Capital Debt and Leases	(44,502)	(38,667)
Debt Defeasance	(45,897)	—
Bond Issuance Costs	(3,582)	—
Other Receipts	4,423	6,620
Net Cash Provided/(Used) by Financing Activities	102,442	(240,993)
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	5,204,977	3,948,250
Investment Income	16,648	17,626
Purchase of Investments	(5,363,117)	(3,954,520)
Net Cash (Used)/Provided by Investing Activities	(141,492)	11,356
Net Increase/(Decrease) in Cash and Cash Equivalents	203,185	(44,920)
Cash and Cash Equivalents - Beginning of the year	273,231	318,151
Cash and Cash Equivalents - End of the year	\$476,416	\$273,231

(Continued)

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2011 and 2010

(dollars in thousands)

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Loss to		
Net Cash Used by Operating Activities:		
Operating Loss	(\$514,938)	(\$571,023)
Adjustments to Reconcile Operating Loss to Net Cash		
Used by Operating Activities:		
State Paid Fringe Benefits	164,968	153,132
Depreciation	93,733	92,709
Payment in Lieu of Taxes	—	700
Adjustment of Actuarial Liability for Annuities Payable	(76)	(401)
Changes in Assets and Liabilities:		
Receivables, net	(7,234)	(111)
Inventories	53	153
Prepaid Expenses	1,019	621
Accounts Payable and Accrued Expenses	7,720	16,867
Deferred Revenue	169	3,321
Payroll Withholdings	2,589	465
Other Payables	749	196
Net Cash Used by Operating Activities	<u>(\$251,248)</u>	<u>(\$303,371)</u>

See accompanying notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Accounting

The basic 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 Statements – 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) and the units of the New Market Tax Credit (NMTC) Transaction (One Washington Park), which include One Washington Park Capital, LLC, Parkside RUN Investments, LLC, and One Washington Park Holdings, LLC. 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 governing body of the One Washington Park units is primarily the same as that of the university, and it provides financing services to the university classifying it as a component unit. The balances and transactions of the foundation and One Washington Park 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. Copies of the financial statements for One Washington Park may be obtained by writing to the Executive Director of Business and Financial Services, 249 University Avenue, Room 306, Newark, NJ 07102-1896.

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

Current cash and cash equivalents, which are both unrestricted and restricted in nature, 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. Noncurrent unrestricted cash and cash equivalents consist of funds that are not externally restricted and are to be used to purchase plant related items not related to capital construction. Noncurrent restricted cash and cash equivalents are externally restricted to maintain sinking or reserve funds, purchase or construct capital or other noncurrent assets, or are related to endowed funds.

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 marketable 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 net asset 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.

Funds Held in Trust

Funds held in trust by others or not in the possession of, nor under the control of, the university are not included in the university's accompanying financial statements because they do not meet eligibility requirements for recognition. The market value of such funds aggregated approximately \$60.0 million at June 30, 2011 (\$52.5 million in 2010). Income derived from such irrevocable trust funds held by others, aggregating approximately \$2.1 million in 2011 (\$2.3 million in 2010), 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 (5.5 million in 2010) volumes have not been capitalized. The capitalization threshold is \$5,000 and above. Works of art or historical treasures that are held for public exhibition, education, or research in furtherance of public service are capitalized at the fair market value of the item at the time of acquisition.

Deferred Revenue

Deferred revenue includes 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, deferred outflows, and its liabilities less deferred inflows. 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 when all eligibility requirements for revenue recognition are met which is generally the period in which the related expenses are incurred.

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

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

Classification of Revenue

The university's policy for defining operating activities in the statements of revenues, expenses, and changes in net assets are those that serve the university's principal purpose and generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Examples include (1) student tuition and fees, net of scholarship allowances, (2) auxiliary enterprises, net of scholarship allowances, and (3) most federal, state and municipal and other nongovernmental grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as operating appropriations from the State, student aid, endowment and investment income and contributions. Interest on capital asset related debt is reported as nonoperating expenses.

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 received \$60.1 million during the year ended June 30, 2011 (\$56.9 million in 2010) from the Pell program, and \$68.2 million during the year ended June 30, 2011 (\$73.8 million in 2010) from Tuition Aid Grants, the largest state student aid program.

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, 2011, the university disbursed \$307.7 million (\$262.5 million in 2010) 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.

Recently Adopted Accounting Standards

The university adopted GASB Statement No. 59, *Financial Instruments Omnibus*, as of July 1, 2010, to update and improve the accounting and financial reporting requirements that address financial instruments. There is limited impact on the accompanying financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The university's cash and cash equivalents balance at June 30, 2011 includes a cash book balance of \$35.1 million (\$6.6 million in 2010). The actual amount of cash on deposit in the university's bank accounts at June 30, 2011 was \$47.0 million (\$22.6 million in 2010). Of this amount, \$1.1 million (\$0.9 million in 2010) was insured by the Federal Deposit Insurance Corporation at June 30, 2011. At June 30, 2011, \$45.9 million (\$21.7 million in 2010) was collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes, and no cash was uninsured and uncollateralized at June 30, 2011 and 2010.

The 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, 2011 includes a cash book balance of \$15.7 million (\$21.9 million in 2010). The actual amount of cash on deposit in the foundation's bank accounts at June 30, 2011 was \$29.2 million (\$26.4 million in 2010). Of this amount, \$0.5 million (\$0.5 million in 2010) was insured by the Federal Deposit Insurance Corporation at June 30, 2011. Cash and cash equivalents in excess of those balances, \$28.7 million in 2011 (\$25.9 million in 2010), 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, 2011 and 2010 (dollars in thousands):

	2011	2010
Money Market Funds	\$406,773	\$211,820
Repurchase Agreements	16,087	35,634
Cash and Deposits	53,556	25,777
Total Cash and Cash Equivalents	\$476,416	\$273,231

Investments

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 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.

The university's investments are carried in the financial statements at fair value and consist of the following at June 30, 2011 and 2010 (dollars in thousands):

	<u>2011</u>	<u>2010</u>
Commercial Paper	\$300,792	\$239,315
U.S. Government Treasury Securities	182,618	122,185
U.S. Government Agency Securities	151,072	110,820
Commodities	42,040	32,592
U.S. Corporate Equities	317,910	268,104
Foreign Corporate Equities	119,894	91,749
Real Estate	32,774	23,815
Corporate Bonds	48,623	60,235
Municipal Bonds	14,995	17,165
Bonds - Other Holdings	89,793	86,873
Other Investments	2,489	3,608
Total Investments	<u>\$1,303,000</u>	<u>\$1,056,461</u>

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

The primary financial objective of the foundation's investment management of assets for the General Endowment Fund is to earn the highest yield possible without unnecessary risk to 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, and consist of the following at June 30, 2011 and 2010 (dollars in thousands):

	<u>2011</u>	<u>2010</u>
U.S. Government Treasury Securities	\$6,465	\$2,589
U.S. Government Agency Securities	235	7,429
Corporate Bonds	2,971	2,833
Municipal Bonds	980	139
Mortgage-backed Securities	16,828	17,611
Asset-backed Securities	720	860
Preferred Stock	570	227
Common Stock	3,814	2,615
Foreign Corporate Debt Securities	497	125
Real Estate	1,882	3,767
Other Investments	568	897
Total Investments	<u>\$35,530</u>	<u>\$39,092</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 of cash and cash equivalents and investments at June 30, 2011 and 2010 (dollars in thousands):

Investment Type	2011				
	Market Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Commercial Paper	\$300,792	\$300,792			
U.S. Government Treasury Securities	182,618	94,369	\$86,105		\$2,144
U.S. Government Agency Securities	151,072	42,848	108,149	\$13	62
Corporate Bonds	48,623	36,546	12,077		
Municipal Bonds	14,995	14,995			
Money Market Funds	406,773	406,773			
Repurchase Agreements	16,087	16,087			
Total	1,120,960	\$912,410	\$206,331	\$13	\$2,206
U.S. Corporate Equities	317,910				
Foreign Corporate Equities	119,894				
Bonds - Other Holdings	89,793				
Commodities	42,040				
Real Estate	32,774				
Other Investments	2,489				
Total	\$1,725,860				
Investment Type	2010				
	Market Value	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			
Money Market Funds	211,820	211,820			
Repurchase Agreements	35,634	35,634			
Total	797,174	\$616,261	\$178,498	\$10	\$2,405
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	\$1,303,915				

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, 2011 and 2010 (dollars in thousands):

Investment Type	2011				
	Market Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Treasury Securities	\$6,465	\$4,507	\$1,289	\$610	\$59
U.S. Government Agency Securities	235		179	56	
Corporate Bonds	2,971		2,261	655	55
Municipal Bonds	980		384	481	115
Mortgage-backed Securities	16,828			2,961	13,867
Asset-backed Securities	720		73	647	
Foreign Corporate Debt Securities	497	1	448	47	1
Preferred Stock	570	4	462		104
Total	29,266	\$4,512	\$5,096	\$5,457	\$14,201
Common Stock	3,814				
Real Estate	1,882				
Other Investments	568				
Total	\$35,530				

Investment Type	2010				
	Market Value	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				

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, 2011, \$35,146 of the university's money market funds included in cash and cash equivalents were not rated. At June 30, 2011 and 2010, all of the university's repurchase agreements included in cash and cash equivalents were not rated. At June 30, 2011 and 2010, the university's cash and cash equivalent and investment quality ratings as rated by Standard & Poor's were as follows (dollars in thousands):

Investment Type	Quality Rating	2011	2010
U.S. Government Treasury and Agency Securities	AAA	\$333,690	\$233,005
Money Market Funds	AAA	371,627	211,820
Corporate Bonds	AAA	48,247	59,855
Corporate Bonds	AA+	77	77
Corporate Bonds	A	200	201
Corporate Bonds	BBB+	99	102
Municipal Bonds	AAA	8,735	
Municipal Bonds	AA+	1,600	
Municipal Bonds	AA	1,000	
Municipal Bonds	A-1+		9,915
Municipal Bonds	A-1		2,400
Municipal Bonds	N/R	3,660	4,850
Commercial Paper	A-1+	213,423	140,562
Commercial Paper	A-1	87,369	98,753
Total		<u>\$1,069,727</u>	<u>\$761,540</u>

The foundation's Investment Policy states that individual bonds shall be rated an investment grade by at least two rating agencies (Moody's and S&P). The average credit quality of the Fixed Income Securities must be maintained at a class BBB/Baa or higher as rated by both standard services (Moody's and S&P). Up to 10% of the investment manager's portfolio may be invested in securities rated BBB/Baa or 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.

At June 30, 2011 and 2010, the foundation's investment quality ratings, at fair value, as rated by S&P were as follows (dollars in thousands):

Investment Type	Quality Rating	2011	2010
U.S. Government Treasury and Agency Securities	AAA	\$6,700	\$10,018
Corporate Bonds	AAA	5	
Corporate Bonds	AA+	72	69
Corporate Bonds	AA-	64	126
Corporate Bonds	A+	176	178
Corporate Bonds	A	1,848	1,704
Corporate Bonds	A-	436	270
Corporate Bonds	BBB+	159	186
Corporate Bonds	BBB	77	190
Corporate Bonds	BBB-	48	48
Corporate Bonds	CCC	86	62
Municipal Bonds	AA+	15	25
Municipal Bonds	AA	26	
Municipal Bonds	A+	552	35
Municipal Bonds	A	288	
Municipal Bonds	A-	99	79
Mortgage-backed Securities	AAA	16,828	17,611
Asset-backed Securities	AAA	73	193
Asset-backed Securities	AA-	647	667
Foreign Debt Securities	AAA	20	
Foreign Debt Securities	AA-	47	52
Foreign Debt Securities	A+	21	20
Foreign Debt Securities	A	342	15
Foreign Debt Securities	A-	37	37
Foreign Debt Securities	BBB+		1
Foreign Debt Securities	BBB	30	
Preferred Stock	A		34
Preferred Stock	A-	284	101
Preferred Stock	BBB	118	21
Preferred Stock	BB+	50	
Preferred Stock	BB		67
Preferred Stock	BB-	58	
Preferred Stock	B+	56	
Preferred Stock	B		4
Preferred Stock	CC	4	
Total		<u>\$29,266</u>	<u>\$31,813</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 not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At June 30, 2011 and 2010, the university had \$393.6 and \$344.4 million, respectively, of investments that were uninsured and unregistered and not held by the outside party in the university's name.

<u>Investment Type</u>	<u>2011</u>	<u>2010</u>
Corporate Equities	\$251,126	\$221,718
Bonds - Other Holdings	67,686	66,267
Commodities	42,040	32,592
Real Estate	32,774	23,816
Total	<u>\$393,626</u>	<u>\$344,393</u>

As of June 30, 2011 and 2010, 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 not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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, 2011, the market value of the Long-Term Investment Pool was \$577.9 million (\$481.6 million in 2010). In addition, the aggregate endowment market value of funds separately invested was \$61.1 million at June 30, 2011 (\$60.2 million in 2010). The investment appreciation was \$83.1 million at June 30, 2011 (appreciation of \$13.6 million in 2010). 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. The university complies with the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) P.L. 2009, Chapter 64, adopted by New Jersey. This law speaks to the management and use of funds held by charitable institutions.

Alternative Investments

As part of its investment strategy, the university has committed to invest a total of \$175.5 million to 37 non-marketable alternative asset partnerships, hedge funds and real estate funds at June 30, 2011 (\$169.5 million to 35 non-marketable alternative assets in 2010). As of June 30, 2011, the university has \$122.3 million of paid-in capital to these alternative assets (\$102.7 million in 2010) and \$56.4 million in unfunded commitments (\$67.8 million in 2010).

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, 2011 and 2010 (dollars in thousands):

	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net 2011</u>
Government Grants Receivable and Other Sponsored			
Programs	\$54,840	\$500	\$54,340
Plant Receivables	41,066		41,066
Student Accounts Receivable	10,170	3,310	6,860
Interest Receivable	5,213		5,213
Federal and State Governments	8,060		8,060
Other	17,407	1,129	16,278
Total	<u>\$136,756</u>	<u>\$4,939</u>	<u>\$131,817</u>
	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net 2010</u>
Government Grants Receivable and Other Sponsored			
Programs	\$53,590	\$500	\$53,090
Plant Receivables	24,986		24,986
Student Accounts Receivable	8,849	3,006	5,843
Interest Receivable	7,499		7,499
Federal and State Governments	4,986		4,986
Other	20,110	896	19,214
Total	<u>\$120,020</u>	<u>\$4,402</u>	<u>\$115,618</u>

Students' notes receivable in the statements of net assets are also shown net of the allowance for doubtful notes which amounted to \$4.2 million at June 30, 2011 (\$3.8 million in 2010).

The allowances for doubtful accounts and notes are based upon management's best estimate of uncollectible accounts and notes at June 30, 2011 and 2010, 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, 2011 and 2010 (dollars in thousands):

Year Ending June 30:	<u>2011</u>	<u>2010</u>
Within one year	\$22,328	\$25,349
Two to five years	24,254	24,828
	46,582	50,177
Less allowance for uncollectible contributions	(300)	(444)
Total Contributions Receivable	<u>\$46,282</u>	<u>\$49,733</u>

Pledges of permanent endowments and term endowments do not meet the recognition criteria of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, until cash or other assets are received. These pledges, which approximated \$34.2 million at June 30, 2011 (\$19.7 million in 2010) have not been included in the accompanying statements of net assets.

NOTE 5 - CAPITAL ASSETS

The detail of Capital Assets activity for the years ended June 30, 2011 and 2010 is as follows (dollars in thousands):

	Balance 2010	Additions	Retirements/ Capitalization	Balance 2011
Capital Assets Not Being Depreciated:				
Land	\$59,436	\$38		\$59,474
Capitalized Art Collections	58,007	441		58,448
Construction in Progress	147,531	176,607	\$83,851	240,287
Total	<u>264,974</u>	<u>177,086</u>	<u>83,851</u>	<u>358,209</u>
Capital Assets Being Depreciated:				
Land Improvements	256,532	14,675		271,207
Buildings	2,162,205	97,051	1,621	2,257,635
Equipment	435,010	32,113	13,105	454,018
Total	<u>2,853,747</u>	<u>143,839</u>	<u>14,726</u>	<u>2,982,860</u>
Less Accumulated Depreciation:				
Land Improvements	174,942	19,004		193,946
Buildings	752,889	47,750		800,639
Equipment	317,745	26,979	13,017	331,707
Total	<u>1,245,576</u>	<u>93,733</u>	<u>13,017</u>	<u>1,326,292</u>
Net Capital Assets Being Depreciated	<u>1,608,171</u>	<u>50,106</u>	<u>1,709</u>	<u>1,656,568</u>
Total Capital Assets, net	<u>\$1,873,145</u>	<u>\$227,192</u>	<u>\$85,560</u>	<u>\$2,014,777</u>

During 2011, the university has capitalized interest expense of \$10.7 million in construction in progress in the accompanying statements of net assets.

	Balance 2009	Additions	Retirements/ Capitalization	Balance 2010
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 had 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.

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2011 and 2010 (dollars in thousands):

	<u>2011</u>	<u>2010</u>
Vendors	\$62,102	\$47,972
Compensated Absences	52,588	52,277
Accrued Salaries and Benefits	31,601	26,843
Workers Compensation	13,153	12,897
Interest Payable	10,872	6,624
Retainage	9,756	3,679
Other Accrued Expenses	3,521	7,226
Total Accounts Payable and Accrued Expenses	<u>\$183,593</u>	<u>\$157,518</u>

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liability activity for the years ended June 30, 2011 and 2010 is as follows (dollars in thousands):

	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>	<u>Current Portion</u>
Accounts Payable and Accrued Expenses	\$157,518	\$29,780	\$3,705	\$183,593	\$159,512
Annuities Payable	6,027		76	5,951	901
Long-Term Liabilities	769,841	439,343	86,691	1,122,493	39,175
Total Noncurrent Liabilities	<u>\$933,386</u>	<u>\$469,123</u>	<u>\$90,472</u>	<u>\$1,312,037</u>	<u>\$199,588</u>

	<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
Long-Term Liabilities	807,429	378	37,966	769,841	38,857
Total Noncurrent Liabilities	<u>\$963,741</u>	<u>\$17,402</u>	<u>\$47,757</u>	<u>\$933,386</u>	<u>\$180,075</u>

NOTE 8 - COMMERCIAL PAPER

On February 28, 2007, the university instituted the commercial paper program to provide interim or short-term financing for the acquisition and construction of and improvements, repairs, replacements, additions and betterments to the facilities, and the acquisition of equipment, and other property in connection therewith, of the university, and the refinancing of certain outstanding obligations 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 (now known as Wells Fargo Bank, National Association) (the Liquidity Provider) under which the Liquidity Provider is obligated to purchase newly issued commercial paper to pay the principal of other commercial paper, subject to suspension or termination upon the occurrence of certain events. The Standby Commercial Paper Purchase Agreement will terminate at the close of business on February 28, 2012, unless terminated prior to such date in accordance with its terms. Morgan Stanley & Co. Incorporated will be the exclusive dealer in connection with the offering and issuance of the Series A Tax-Exempt Commercial Paper, the Series C Taxable Commercial Paper and the Series D Extendable Commercial Paper.

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 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 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.

During fiscal year 2011, the university issued General Obligation Commercial Paper Series A and C for \$26.2 million and \$16.0 million, respectively. These issuances were to provide interim financing of the 2010 Capital Projects. In addition, as part of the issuance of General Obligation Bonds, 2010 Series H, the university redeemed \$26.2 million of General Obligation Commercial Paper Series A. In addition, using university funds, the university redeemed \$0.5 million and \$1.6 million of General Obligation Commercial Paper Series A and C, respectively.

Commercial Paper activity as of June 30, 2011 and June 30, 2010 is as follows (dollars in thousands):

	2010 Balance	Additions	Retirements	2011 Balance
Series A	\$2,360	\$26,170	\$26,680	\$1,850
Series C	42,425	16,000	1,580	56,845
	<u>\$44,785</u>	<u>\$42,170</u>	<u>\$28,260</u>	<u>\$58,695</u>
	2009 Balance	Additions	Retirements	2010 Balance
Series A	\$2,360			\$2,360
Series C	38,750	\$4,425	\$750	42,425
	<u>\$41,110</u>	<u>\$4,425</u>	<u>\$750</u>	<u>\$44,785</u>

NOTE 9 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2011 and 2010 is as follows (dollars in thousands):

	Balance 2010	Additions	Retirements	Balance 2011	Current Portion
General Obligation					
Bonds Payable	\$612,651	\$435,535	\$74,980	\$973,206	\$30,290
Lease Obligations	116,538	3,808	11,583	108,763	8,752
Notes Payable	1,709		128	1,581	133
Loans Payable	38,943			38,943	
Total Long-Term Liabilities	<u>\$769,841</u>	<u>\$439,343</u>	<u>\$86,691</u>	<u>\$1,122,493</u>	<u>\$39,175</u>
	Balance 2009	Additions	Retirements	Balance 2010	Current Portion
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	38,943			38,943	
Total Long-Term Liabilities	<u>\$807,429</u>	<u>\$378</u>	<u>\$37,966</u>	<u>\$769,841</u>	<u>\$38,857</u>

OTHER OBLIGATIONS OF THE UNIVERSITY

Notes Payable

Notes payable at June 30, 2011 and 2010 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 an agreement 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, 2011, the outstanding amount due on the loans was \$0.5 million (\$0.6 million in 2010).

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 MCI) \$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 MCI'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.

At June 30, 2011 and 2010, the outstanding balance of the NJCC CDE I and II loans remained at \$38.9 million and \$38.9 million, respectively.

Bonds Payable – General Obligation

A summary of bonds issued and outstanding at June 30, 2011 and 2010 is as follows (dollars in thousands):

	<u>Date of Series</u>	<u>Original Amount</u>	<u>Outstanding June 30,</u>	
			<u>2011</u>	<u>2010</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	\$10,030	\$14,580
2002 Series A, variable-rate, due serially to May 1, 2018	Feb. 1, 2002	110,000	61,400	65,300
2003 Series C, 3.41% effective, due serially to May 1, 2019	July 15, 2003	111,320	41,460	56,880
2010 Series I, 3.46% effective, due serially to May 1, 2025 and term bonds due May 1, 2029	Nov. 1, 2010	<u>40,830</u>	<u>40,830</u>	
Total General Obligation Refunding Bonds		<u>356,520</u>	<u>153,720</u>	<u>136,760</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
2002 Series B, 4.60% effective, due serially to May 1, 2012 and term bonds due May 1, 2027, 2032 and 2034	Nov. 1, 2002	50,000	25,155	43,465
2003 Series D, 3.74% effective, due serially to May 1, 2019	Dec. 1, 2003	24,805	10,305	15,255
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	78,720	80,700
2009 Series F, 4.56% effective, due serially to May 1, 2031 and term bonds due May 1, 2039	Feb. 10, 2009	233,105	220,995	227,510
2009 Series G, variable-rate, due serially to May 1, 2039	Apr. 29, 2009	80,000	77,085	78,580
2010 Series H, 3.70% effective, due serially to May 1, 2019 through May 1, 2022 and term bonds due May 1, 2029 and 2040	Nov. 1, 2010	<u>390,990</u>	<u>390,990</u>	
Total General Obligation Bonds		<u>915,625</u>	<u>803,250</u>	<u>461,675</u>
Total Bonds		<u>\$1,272,145</u>	<u>\$956,970</u>	<u>\$598,435</u>

The General Obligation Bonds Payable includes premium on bonds, net of bond discounts, of \$16.2 million at June 30, 2011 (\$14.2 million in 2010, 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, Series 2009 F, and Series 2010 I.

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 Wells Fargo 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 (now known as Wells Fargo 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 2011, \$0.3 million (\$0.3 million in 2010) has been expensed leaving \$2.2 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 2003 Series 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 Wells Fargo 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 (now known as Wells Fargo 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 Wells Fargo 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 (now known as Wells Fargo Bank) sold all trustee rights to U.S. Bank. The 2004 Series E Bonds are authorized to be issued pursuant to the terms of the Fifth Supplemental Indenture, supplemental to and amendatory of the Master Indenture. The 2004 Series E Bonds are authorized under the provisions of Rutgers, The State University Law, constituting Chapter 65 of Title 18A of the New Jersey Statutes Annotated (the Act), 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 on 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 Wachovia Bank, National Association and 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.

The General Obligation Bonds, 2010 Series H, and the General Obligation Refunding Bonds, 2010 Series I (collectively the 2010 Series Bonds) were issued in the amount of \$391.0 million and \$40.8 million, respectively, on November 1, 2010. 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 Wachovia Bank, National Association and First Union National Bank), as trustee (the Trustee), as supplemented and amended, including by the Eighth Supplemental Indenture of Trust, dated as of November 1, 2010, by and between the university and the Trustee (the Eighth Supplemental Indenture, together with the Master Indenture, the Indenture). The 2010 Series 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 2010 Series Bonds were issued to (i) finance and/or refinance a portion of the construction of various capital projects of the university (the 2010 Capital Projects), (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, and (iii) finance costs of issuance with respect to the 2010 Capital Projects. The bonds which were refunded in whole included General Obligation Bonds 1998 Series A (\$16.2 million), and in part General Obligation Bonds 2002 Series B (\$17.3 million), 2003 Series C (\$6.8 million), and 2003 Series D (\$3.4 million).

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 agreements with JP Morgan Chase, Merrill Lynch, and Bank of New York. (See NOTE 10 for additional information about derivatives.) The university is exposed to basis risk due to the difference between the floating rate on the bonds and the SIFMA/LIBOR rate. The following is the synthetic rate, related to the 2002 Series A bond, at the end of fiscal years 2011 and 2010:

	Terms	2011	Terms	2010
Interest rate swap				
Fixed payment to counterparty	Fixed	3.96%	Fixed	3.96%
Variable payment from counterparty	SIFMA	<u>-0.13%</u>	SIFMA	<u>-0.29%</u>
Net interest rate swap payments		3.83%		3.67%
Variable rate bond coupon payments		<u>0.03%</u>		<u>0.10%</u>
Synthetic interest rate		<u><u>3.86%</u></u>		<u><u>3.77%</u></u>

The following is the synthetic rate, related to the 2009 Series G Bonds, at the end of fiscal year 2011:

	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	<u>-0.25%</u>	SIFMA	<u>-0.13%</u>
Net interest rate swap payments		3.83%		3.69%
Variable rate bond coupon payments		<u>0.03%</u>		<u>0.03%</u>
Synthetic interest rate		<u><u>3.86%</u></u>		<u><u>3.72%</u></u>

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	<u>-0.54%</u>	SIFMA	<u>-0.29%</u>
Net interest rate swap payments		3.54%		3.53%
Variable rate bond coupon payments		<u>0.10%</u>		<u>0.10%</u>
Synthetic interest rate		<u><u>3.64%</u></u>		<u><u>3.63%</u></u>

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

Year	Fixed-Rate Bonds		Variable-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest	Principal	Interest		
2012	\$23,620	\$41,883	\$5,655	\$42	\$5,276	\$76,476
2013	24,890	40,693	5,815	40	5,061	76,499
2014	19,340	39,633	11,580	38	4,839	75,430
2015	19,450	38,740	11,945	35	4,398	74,568
2016	19,550	37,855	12,410	31	3,943	73,789
2017-2021	88,275	178,017	32,565	105	11,311	310,273
2022-2026	107,825	156,727	12,335	82	10,708	287,677
2027-2031	155,070	123,749	14,995	61	8,287	302,162
2032-2036	184,300	79,105	18,310	36	5,299	287,050
2037-2041	176,165	25,564	12,875	8	1,644	216,256
Total	<u>\$818,485</u>	<u>\$761,966</u>	<u>\$138,485</u>	<u>\$478</u>	<u>\$60,766</u>	<u>\$1,780,180</u>

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

EXTINGUISHMENT OF DEBT

As part of the General Obligation Refunding Bonds, 2010 Series I, the university completed the advance refunding of General Obligation Bonds 1998 Series A and partial refunding of General Obligation Bonds 2002 Series B, 2003 Series C, and 2003 Series D to reduce its total debt service payments over the next 19 years by \$5.7 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 \$2.3 million. The difference between the acquisition price and the net carrying amount of the old debt of \$1.8 million and the issuance cost related to the refunding of \$0.3 million is being deferred and amortized as interest expense through the year 2029 using the effective interest method. In 2011, \$0.1 million has been expensed leaving \$2.0 million as deferred charges.

This refunding defeased all of the General Obligations Bonds 1998 Series A, totaling \$16.2 million, and defeased \$17.3 million, \$6.8 million, and \$3.4 million of General Obligation Bonds 2002 Series B, 2003 Series C, and 2003 Series D, respectively. As a result, at June 30, 2011, the remaining outstanding balances for the partially refunded issues were \$25.2 million, \$41.5 million, and \$10.3 million of General Obligation Bonds 2002 Series, B, 2003 Series C, and 2003 Series D, respectively. Also at June 30, 2011, \$18.0 million, \$7.4 million, and \$3.7 million was held in escrow for General Obligation Bonds 2002 Series B, 2003 Series C, and 2003 Series D, respectively.

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, 2011, the university had a capital lease obligation of \$42.0 million (\$44.3 million in 2010).

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, 2011, the university had a capital lease obligation of \$10.4 million (\$12.4 million in 2010).

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. On March 25, 2011, these bonds were refinanced, once again, in the aggregate amount of \$31.3 million, at an effective interest rate of 3.2% per annum. The bonds mature serially from July 1, 2011, through July 1, 2020. 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, 2011, this liability was \$28.8 million (\$33.4 million in 2010). 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, 2011, the estimated present value of the Hospital sublease over the full lease term, including renewal periods, amounted to \$5.1 million (\$5.9 million in 2010). 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 (now known as Wells Fargo 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, 2011, the university had a capital lease obligation of \$27.8 million (\$28.3 million in 2010).

Future lease payments (receipts) applicable to the aforementioned capital leases at June 30, 2011 are as follows (dollars in thousands):

Year	Facilities Authority			Housing Authority	Hospital Sublease	Certificates of Participation	Total
	HECIP	DSTF (2001A)	DSTF (2001B)				
2012	\$4,455	\$2,040	\$33	\$4,036	(\$716)	\$1,858	\$11,706
2013	4,457	2,039	33	4,044	(718)	1,860	11,715
2014	4,462	2,040	33	4,052	(719)	1,860	11,728
2015	4,458	2,040	32	4,053	(719)	1,864	11,728
2016	4,456	2,040	32	4,051	(719)	1,861	11,721
2017-2021	22,270			16,199	(2,874)	9,285	44,880
2022-2026	12,125					9,265	21,390
2027-2031						9,230	9,230
2032-2036						9,187	9,187
2037-2041						3,661	3,661
Total Lease Payments	56,683	10,199	163	36,435	(6,465)	49,931	146,946
Less Amount Representing Interest	14,645			7,625	(1,388)	22,111	42,993
Present Value of Lease Payments	<u>\$42,038</u>	<u>\$10,199</u>	<u>\$163</u>	<u>\$28,810</u>	<u>(\$5,077)</u>	<u>\$27,820</u>	<u>\$103,953</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, 2011, the aggregate capitalized lease obligation associated with these agreements, which excludes future interest payments, is approximately \$4.1 million (\$3.3 million in 2010). The annual rentals for these capitalized lease obligations are provided for in the university's operating budget.

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.

For the years ended June 30, 2011 and 2010, 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>Termination Date</u>	<u>Terms</u>	<u>2011 Fair Value</u>	<u>Change in 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	\$61,400	2/4/2002	5/1/2018	Pay 3.96%; receive SIFMA swap index	(\$6,952)	\$163
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)	21	7,173
Bank of New York	Pay-fixed interest rate swap	Hedge of changes in cash flows on the General Obligation Bond (GOB) 2009 Series G	19,720	5/1/2007	5/1/2027	Pay 3.82%; receive SIFMA swap index	(1,875)	177
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)	(2,160)	185
Total			<u>\$194,620</u>				<u>(\$10,966)</u>	<u>\$7,698</u>

<u>Derivative Instrument</u>	<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Terms</u>	<u>2010 Fair Value</u>	<u>Change in 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)	(\$974)
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)	8,675
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)	(864)
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)	(661)
Total			<u>\$199,230</u>				<u>(\$18,664)</u>	<u>\$6,176</u>

Fair Value:

As of June 30, 2011, the swaps had a total negative fair value of \$11.0 million (negative fair value of \$18.7 million in 2010). The fair value was provided by Prager, Sealy & Co., LLC and derived from proprietary models based on estimates about relevant future market conditions. As this is a hedging derivative, the aggregate change in fair value is reported as deferred outflows (for the swaps in a liability position) and deferred inflows (for the swaps in an asset position) in the statement of net assets.

Credit Risk:

As of June 30, 2011 and 2010, the university was not exposed to credit risk with JP Morgan, Bank of New York, and UBS because the swaps had negative fair values. However, the university was exposed to credit risk in the amount of Merrill Lynch's fair value. The credit ratings for each of the counterparties are as follows:

<u>Derivative Instrument</u>	<u>2011 Counterparty Credit Rating</u>	<u>2010 Counterparty Credit Rating</u>
JP Morgan & Co.	AA-	AA-
Merrill Lynch	A	A
Bank of New York	AA	AA
UBS	A+	A+

The mark-to-market value of the swap will not require collateralization unless (i) the Qualified Swap Provider is downgraded by a nationally recognized rating agency below the two highest grade categories, and (ii) the market value of the swap exceeds the current collateralization threshold specified in the respective Agreement. Any such collateral shall consist of direct obligations of, or obligations which are guaranteed by, the United States of America or other securities weighted to take into account their relative security compared to such obligations of the United States of America. The amount of (i.e., value of) such collateral shall equal the market value of the swap in excess of the applicable collateral threshold based on the rating of such counterparty at such time. The table below provides when collateralization would be required or triggered.

<u>Ratings by Moody's and S&P</u>	<u>Counterparty Collateral Threshold</u>
AAA/Aaa	Infinite
Aa3/AA-	Infinite
A1/A+	\$20.0 million
A2/A	\$10.0 million
A3/A-	\$10.0 million
Baa1/BBB+	\$5.0 million
Baa2/BBB	\$5.0 million
Baa3/BBB-	Zero
Below Baa3/BBB- or not rated	Zero

In the table above, a Counterparty is not obligated to provide collateral if it has a credit rating in the highest two categories regardless of the mark-to market value of the swap. Collateralization would be required, for example, if the Counterparty was rated "A2/A" and the mark-to-market value of the swap exceeded \$10.0 million. In this example, the collateral required would be equal to the amount by which the mark-to market value of the swap exceeds \$10.0 million.

If either S&P or Moody's ceases to be in the business of rating debt securities and such business is not continued by a successor, a nationally recognized credit rating agency would be selected in substitution.

Basis Risk:

The pay-fixed receive-variable swaps expose the university to basis risk because the rates resulting from the Securities Industry and Financial Markets Association Index (SIFMA), 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 are not the same rate the university pays on the hedged debt.

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.

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 university shall pay two business days after the optional termination date the fixed amount for the period from 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.

NOTE 11 - COMMITMENTS

At June 30, 2011, 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 \$756.8 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, 2011</u>	<u>Additional Funding Required at June 30, 2011</u>	
Borrowing	\$454,407	\$135,905	\$590,312
State Bond Issues and Capital			
Appropriations	18,335		18,335
Gifts and Other Sources	87,772	60,369	148,141
Total	<u>\$560,514</u>	<u>\$196,274</u>	<u>\$756,788</u>

The university leases certain space used in general operations. Rental expense was approximately \$6.6 million in 2011 (\$4.4 million in 2010). The leases are non cancelable and have been classified as operating leases which are expected to expire through 2038. Minimum annual rental commitments approximate the following (dollars in thousands):

<u>Year</u>	<u>Amount</u>
2012	\$6,064
2013	4,414
2014	4,089
2015	3,291
2016	2,333
2017-2021	10,762
2022-2026	9,575
2027-2031	9,421
2032-2036	9,187
2037-2041	3,661
Total	<u>\$62,797</u>

NOTE 12 - NATURAL EXPENSES BY FUNCTIONAL CLASSIFICATION

The university reports operating expenses by functional classification. Details of these expenses by natural classification at June 30, 2011 and 2010 are as follows (dollars in thousands):

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Supplies and Services</u>	<u>Depreciation</u>	<u>2011 Total</u>
Instruction	\$442,353	\$115,647	\$90,102		\$648,102
Sponsored Research	91,526	20,928	101,396		213,850
Other Separately Budgeted Research	44,395	12,201	12,258		68,854
Other Sponsored Programs	41,103	10,008	36,945		88,056
Extension and Public Service	22,528	6,174	7,738		36,440
Libraries	19,784	5,105	12,176		37,065
Student Services	36,748	9,774	24,299		70,821
Operation & Maintenance of Plant	55,073	14,156	72,015		141,244
General Administrative and Institutional	67,802	18,828	20,113		106,743
Scholarships and Fellowships	467	77	42,993		43,537
Depreciation				\$93,733	93,733
Auxiliary Enterprises	82,706	22,923	110,192		215,821
Other Operating Expenses			1,952		1,952
Total Operating Expenses	<u><u>\$904,485</u></u>	<u><u>\$235,821</u></u>	<u><u>\$532,179</u></u>	<u><u>\$93,733</u></u>	<u><u>\$1,766,218</u></u>

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Supplies and Services</u>	<u>Depreciation</u>	<u>2010 Total</u>
Instruction	\$417,030	\$103,773	\$88,566		\$609,369
Sponsored Research	87,827	20,696	95,077		203,600
Other Separately Budgeted Research	43,955	11,926	13,680		69,561
Other Sponsored Programs	41,727	9,981	40,270		91,978
Extension and Public Service	23,448	6,210	8,477		38,135
Libraries	20,161	4,985	11,993		37,139
Student Services	37,962	9,158	22,921		70,041
Operation & Maintenance of Plant	57,635	13,990	75,750		147,375
General Administrative and Institutional	67,928	19,812	25,016		112,756
Scholarships and Fellowships	362	45	48,391		48,798
Depreciation				\$92,709	92,709
Auxiliary Enterprises	82,271	22,469	109,636		214,376
Other Operating Expenses			1,548		1,548
Total Operating Expenses	<u><u>\$880,306</u></u>	<u><u>\$223,045</u></u>	<u><u>\$541,325</u></u>	<u><u>\$92,709</u></u>	<u><u>\$1,737,385</u></u>

NOTE 13 - 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. Under these plans, participants make annual contributions, and 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 2011 aggregated \$43.3 million (\$43.2 million in 2010) of which \$7.0 million (\$7.3 million in 2010) 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 is charged for contributions on behalf of employees through a fringe benefits charge assessed by the State which is included within the state paid fringe benefits in the accompanying statements of revenues, expenses, and changes in net assets. 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 under the provisions of N.J.S.A. 43:15A. The payroll for employees covered by PERS for the year ended June 30, 2011 was \$165.1 million (\$168.2 million in 2010).

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 position 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.

Members enrolled in PERS on or after June 28, 2011, are eligible for retirement at age 65 with no minimum years of service. The annual allowance is equal to years of service divided by 60, times the final annual average salary. Final average salary means the average salaries received by the member for the last five years (50 months for 10-month employees) of membership or the five highest fiscal years, whichever provides the largest benefit. Pension benefits fully vest on reaching 10 years of credited service.

Contributions – Covered university employees were required by PERS to contribute 5.5% of their annual compensation during fiscal years 2011 and 2010. 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. Employers were not required to contribute in 2011 and 2010 due to legislation enacted in 1997 by the State, which fully funded previously existing unfunded accrued liabilities of PERS through State of New Jersey bonds. The contribution requirements of the plan members and the university are established and may be amended by the state.

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, 2011 was \$526.3 million (\$528.4 million in 2010).

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 2011. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code. Employer contributions for the year ended June 30, 2011 were \$42.1 million (\$42.1 million in 2010). Employee contributions for the year ended June 30, 2011 were \$26.3 million (\$26.4 million in 2010).

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 elect pre-tax and/or after-tax Roth contributions to 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.

Postemployment Benefits Other Than Pension

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.

NOTE 14 - 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 \$38.3 million at June 30, 2011 (\$38.8 million in 2010). The liability is calculated based upon employees' accrued vacation time as of the statements of net assets date and is recorded in accounts payable and accrued expenses in the accompanying statements of net assets.

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The pay out to retirees for unused accumulated sick time is calculated at the lesser of ½ the value of earned time or \$15,000. Employees separating from the university service prior to retirement are not entitled to payments for accumulated sick leave balances. The university recorded a liability for accumulated sick leave balances in the amount of \$8.2 million at June 30, 2011 (\$7.4 million in 2010) which is included in noncurrent 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, 2011 (\$6.1 million in 2010), which is included in noncurrent accounts payable and accrued expenses in the accompanying statement of net assets. Employees may begin using these days on July 1, 2011, 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 15 - 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 16.8% 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, 2011 for these items is \$13.2 million (\$12.9 million in 2010). The reserve balance recorded at June 30, 2011 is \$14.0 million (\$15.0 million in 2010). 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 reserve includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported (IBNR).

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

NOTE 16 - 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 17 - 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 NMTC compliance period will end as of December 1, 2014. Once the transaction is complete, the university will control the property indirectly through its blended component units, Parkside RUN Investments, LLC and QALICB.

On October 15, 2009, the new home of the Rutgers Business School at One Washington Park was officially opened. Classes began in the facility at the start of the 2009 fall semester. The building houses Rutgers Business school classes, faculty and staff offices, departments, centers, and a police substation for added security.

NOTE 18 - SUBSEQUENT EVENT

On August 25, 2011, the university, along with First Union National Bank (predessor to U.S. Bank, National Association), the Trustee, and TD Bank, N.A. (the Substitute Liquidity Facility), entered into a Standby Bond Purchase Agreement for General Obligation Refunding Bonds, 2002 Series A pursuant to Section 5.9(b) of the First Supplemental Indenture of Trust, dated as of February 1, 2002, which supplements the Indenture of Trust, dated as of February 1, 2002. The original purchase agreement was among the university, the Trustee, and Landesbank Hessen-Thuringen Girozentrale, New York Branch. In connection with the delivery of the Substitute Liquidity Facility, Standard & Poor's has affirmed its AA/A-1+ rating on the bonds, and Moody's has affirmed its Aa2, Aa2/VMIG1 and P-1 ratings on the bonds.

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Interim Executive Vice President for Academic Affairs

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Senior Vice President and General Counsel

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