
Financial Report 2002-2003

Rutgers, The State University of New Jersey

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DURING THE YEAR ENDED JUNE 30, 2003

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October 10, 2003

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, 2003. The report contains the Independent Auditors' Report of KPMG LLP, Independent Auditors' 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,

JoAnne G. Jackson
Senior Vice President and Treasurer

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Rutgers, The State University of New Jersey (the University), a component unit of the State of New Jersey, as of and for the year ended June 30, 2003, as listed in the table of contents. 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. The accompanying financial statements of the University as of and for the year ended June 30, 2002, were audited by other auditors whose report thereon dated September 13, 2002, expressed an unqualified opinion on those statements and included an explanatory paragraph regarding the University's adoption of the provisions of Governmental Accounting Standards Board Statement No. 35, "Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and University."

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. 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.

October 10, 2003

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2003 and 2002

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, 2003 and 2002, and its results of operations for the years then ended. Management has prepared the financial statements and related footnote disclosures along with this MD&A in accordance with generally accepted accounting principles as defined by the Governmental Accounting Standards Board for public colleges and universities. This MD&A should be read in conjunction with the audited financial statements and related footnotes of the University, which directly follow the MD&A.

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

The financial reporting entity of Rutgers includes its 29 degree granting schools, of which 16 offer 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.

Statement of Net Assets

The statement of net assets presents the financial position of the University at the end of the fiscal year and includes all assets (current and noncurrent), liabilities (current and noncurrent) and net assets (the difference between total assets and total liabilities) of the University. 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.

Current assets include unrestricted cash and cash equivalents, investments that mature within a year, receivables and pledges due within a year, inventories and other short-term assets. Non-current assets include unrestricted investments that mature in more than a year as well as all cash and cash equivalents and investments that are restricted by donors or external parties as to their use. Receivables and pledges deemed to be collectable in more than a year are also included as noncurrent.

Current 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.

Net assets consist of three major categories. The first category, invested in capital assets, net of debt, represents the institution's equity in property, plant and equipment. The next category is restricted net assets, which is divided into two categories, non-expendable and expendable. Nonexpendable net assets are those resources that have been set aside and invested as required by the provider of the resources. These funds are not available for expenditures, but rather must be invested in perpetuity with the earnings on those investments to be used as specified by the external entity at the time the resources are received. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as specified by external entities. 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.

A summarized comparison of the University's assets, liabilities and net assets at June 30, 2003 and 2002 is as follows (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Assets		
Current assets	\$356,803	\$345,378
Noncurrent assets:		
Endowment, restricted and other noncurrent cash and investments	666,463	557,177
Capital assets (Property, plant and equipment), net	1,439,879	1,396,470
Other assets	<u>39,723</u>	<u>34,830</u>
Total assets	<u>2,502,868</u>	<u>2,333,855</u>
Liabilities		
Current liabilities	166,750	163,179
Noncurrent liabilities	<u>540,983</u>	<u>483,369</u>
Total liabilities	<u>707,733</u>	<u>646,548</u>

Net assets (assets less liabilities)		
Invested in capital assets, net of debt	970,139	927,679
Restricted - expendable	347,259	311,502
Restricted - nonexpendable	191,882	183,582
Unrestricted	<u>285,855</u>	<u>264,544</u>
Total net assets	<u>\$1,795,135</u>	<u>\$1,687,307</u>

A review of the University's statement of net assets at June 30, 2003 reflects an increase in total assets of \$169.0 million. This increase was primarily due to an increase of \$109.3 million in the University's noncurrent cash and investments. This increase resulted from the proceeds of additional Higher Education Capital Improvement Program bonds issued by the State in 2003 and the proceeds from Series 2002C bonds issued by the University. The University received an allocation of \$94.0 million from this new bond issued by the State and \$49.8 million from the University's bond issue. These funds will be used for capital expenditures. Capital assets (property, plant and equipment) also increased by \$43.4 million. Included in this increase was the capitalization of improvements to the Stadium, improvements at Davidson Commons to house the RUNet 2000 operations, and improvements to the Engineering Building and Voorhees Chapel.

Total liabilities for the year increased by \$61.2 million. The primary cause for the increase was due to the issuance of Series 2003C bonds in the amount of \$50.0 million and the issuance of additional Higher Education Capital Improvement bonds resulting in an additional \$31.3 million liability to the University. These programs resulted in a total increase of \$46.3 million to our outstanding debt obligation. This was offset by payments to our existing debt totaling \$23.3 million. Deferred revenues also increased by \$2.5 million as a result of an increase in the tuition rates on summer programs and an increase in the enrollments in those programs.

Net assets increased by \$107.8 million primarily as a result of the \$42.4 million increase in the University's invested in capital assets. This increase is a result of a number of Higher Education Capital Improvement Program (HECIP) projects, such as the renovations at the Wright-Rieman Chemistry Building, the Engineering Building, Lipman Hall, and the relocation of underground utilities. The University's restricted expendable net assets increased \$35.7 million primarily as a result of the grant portion of the Higher Education Capital Improvement Program received from the State. These funds are restricted for use on deferred maintenance projects throughout the University.

Statement of Revenues, Expenses and Changes in Net Assets

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

A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2003 and 2002 is as follows (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Operating revenues		
Student tuition and fees (net of scholarship allowance)	\$311,711	\$273,842
Grants and contracts	308,209	287,246
Auxiliary enterprises	157,444	152,124
Other operating revenues	<u>43,617</u>	<u>35,654</u>
Total operating revenues	820,981	748,866
Operating expenses	<u>1,250,212</u>	<u>1,181,313</u>
Operating loss	<u>(429,231)</u>	<u>(432,447)</u>
Nonoperating revenues and expenses		
State appropriations (including fringe benefits paid directly by the state)	436,122	436,602
Gifts	25,139	35,067
Endowment and investment income	20,197	25,755
Unrealized gain (loss) on marketable securities	8,250	(29,179)
Interest on capital asset related debt	(22,419)	(23,577)

Net other nonoperating revenues and (expenses)	<u>(22,969)</u>	<u>1,107</u>
Net nonoperating revenues and (expenses)	<u>444,320</u>	<u>445,775</u>
Income before other revenues, expenses, gains and losses	15,089	13,328
Other revenues, expenses, gains and losses	<u>92,739</u>	<u>90,895</u>
Increase in net assets	107,828	104,223
Net assets at beginning of year	<u>1,687,307</u>	<u>1,583,084</u>
Net assets at end of year	<u>\$1,795,135</u>	<u>\$1,687,307</u>

The University's net assets increased this year by \$107.8 million with \$81.9 million of this increase attributable to capital appropriations, grants and gifts that were used to construct, renovate or acquire capital assets. In addition, \$10.9 million was received from donors to be added to the University's permanent endowment to generate income that the University will be able to use for specific programs.

Tuition and fees are reflected net of scholarship allowances. Scholarship allowances 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 \$97.0 million of a total of \$123.9 million of student aid directly to student accounts. The remaining \$26.9 million was paid to students and is reflected as scholarship and fellowship expense. Scholarship allowances allocated to tuition and fees amounted to \$76.5 million. Another \$20.5 million was allocated to residence fees, which are included in auxiliary revenues. Tuition and fees, net of scholarship allowances, increased \$37.9 million. The increase resulted primarily from the 9.8% increase in tuition rates and a 2.3% increase in enrollment.

Grant and contract activity continues to grow with an increase of \$21.0 million this year. Federal and State funds received as support for student aid are included as grant revenue. The University received an increase of \$3.8 million in federal support and \$1.4 million in state support for student aid. The federal support increased primarily as a result of an increase in the maximum amounts authorized under the Pell Grant Program that provided an additional \$3.9 million to the University. The State support increased primarily due to an increase in Tuition Aid Grant awards this year.

Federal grants for research increased by \$17.1 million. This increase resulted primarily from several large grants received this year; in particular, the University's National Transit Institute received an increase of \$4.0 million in their award from the Federal Transit Administration, \$4.1 million was received from the National Science Foundation for the Macromolecular Structural Database project, and \$2.4 million from the Healthcare Financing Administration for a National Technical Assistance Exchange.

State support for research increased by \$1.6 million this year. This increase is primarily attributed to an increase in grant activity from two State agencies. The State of New Jersey Department of Health and Senior Services grant revenue increased by \$1.7 million and the State of New Jersey Department of Law increased by \$1.4 million. These increases were offset by a decrease from the Commission on Higher Education of \$1.9 million resulting from the discontinuation of the Capacity Building Funds Program.

Finally, non-governmental grants and contracts decreased by \$2.9 million. Therefore, total grant and contract revenue from all three sources, federal, state and non-governmental, for research increased by \$15.8 million. As a result of this increase in revenue, total expenses for research increased by \$22.3 million.

Auxiliary revenue, net of scholarship allowances, increased this year by \$5.3 million while expenditures increased only \$5.0 million. The increase in revenue resulted primarily from an increase in housing and dining rates. The net increase in revenues supports renovations to residence and dining facilities and permits planning for the anticipated debt service increase in 2003. Debt service is not included in the operating expenses for auxiliaries.

Total state appropriations, including fringe benefits paid directly by the state, decreased \$0.5 million. The appropriation by the state for University operations actually decreased \$13.9 million as a result of the State's budget imbalance this year. This decrease was offset by an increase in the state payments on behalf of the University for fringe benefits of \$13.4 million. This increase in benefits was primarily attributable to an increase in the cost of health and prescription plan coverage as well as an increase in the number of employees enrolled in the plan.

Student service expenditures increased by \$3.8 million in 2003. This increase is attributable to an increase in wages and benefits due to contractual salary increases and increasing health care costs, as well as the hiring of support staff for computing services in the University's residence halls. In addition, there was an increase in insurance costs for major medical coverage for students and additional costs for coverage extended to international students.

Expenditures for operation and maintenance of plant increased by \$9.4 million. Insurance costs are responsible for much of this increase. Self insurance reserves were increased as a result of an increase in claims and the occurrence of several significant claims this past year. In addition, insurance premiums increased by approximately 52.0% this year as a result of the difficult insurance market.

The University's endowment and investment income decreased by \$5.6 million this year. This decrease is the result of the continuing decline in interest rates, the maturity of several long term investments that were reinvested at significantly lower rates, and the movement into alternative investments. In January of 2002 the Investment Committee of the Joint Boards adopted a revised asset allocation policy. Alternative investments such as arbitrage, private equity, and real estate investment trusts are being

added to diversify the University's investment portfolio. In addition, the University had unrealized losses on its investments totaling \$22.4 million.

The University has established a policy on the valuation of patents that only the actual cash received and the fair market value of any tangible property received in connection with the patent will be recorded. A value will only be assigned to the intellectual property if there are licenses in place that will generate a clear and convincing revenue stream of royalty income that will exceed the expenditures required to manage and market the technology. In that case, the patent will be valued at the present value of the estimated net revenues expected. A review of the existing patent recorded has determined that there are no clear and convincing revenues at this time, and therefore, the value was written down to reflect only the tangible assets received. This resulted in a write down of \$25.5 million which appears as loss/disposal on capital assets in the Statement of Revenues, Expenses, and Changes in Net Assets during 2003.

The University also received a total of \$67.2 million in additional appropriations from the state for the construction, renovation or acquisition of capital assets. Included in this total is Rutgers' allocation of the proceeds of the Higher Education Capital Improvement Program (HECIP). The HECIP bonds were primarily issued to help the State's institutions of higher education address their deferred maintenance backlog. The University received a total of \$94.0 million and must pay 33.0% of the debt service on these bonds or a total of \$31.3 million. The balance is paid by the state and is reflected as capital funds from the state.

The University received several donations of equipment that are a major factor in the increase in Capital Gifts and Grants. In particular, a high vacuum system and related equipment valued at \$3.1 million was donated to the Chemistry Department. In addition, a donation of a microscope system and tube furnaces was donated to Physics at a value of \$1.7 million.

Capital and Debt Activities

In order to meet the needs of the University's academic and research activities, the University must continually reinvest resources in its capital assets to maintain adequate facilities for these programs. The University has implemented a capital planning process to identify and prioritize our capital needs.

Capital asset increases totaled \$43.4 million in 2003, as compared to \$163.1 million in 2002. 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 2003 include:

- Completion of the facility that houses RU Net 2000 support staff.
- Completion of several deferred maintenance projects to upgrade and improve existing facilities, such as the Engineering Building, Douglass Developmental Disability Center, and Voorhees Chapel.

These additions were funded primarily with the proceeds of bonds and capital appropriations from the State under the Higher Education Capital Improvement Program, the Dormitory Safety Trust Fund and the Equipment Leasing Fund. As of June 30, 2003, the University had various projects under construction or in the design stage. Significant projects include:

- A new facility to provide laboratory space for the Department of Genetics and the New Jersey Center for Biomaterials to be constructed on the Busch Campus. The project will also include a multi purpose atrium to provide a central meeting place for the Division of Life Sciences.
- A new facility on the Busch Campus for Biomedical Engineering. This facility will provide conference and classroom space, research laboratories, laboratory support facilities, teaching laboratories, faculty office and computer facilities.
- Expansion of Olson Hall on the Newark Campus to create a research and instructional facility for the life sciences program. This expansion will provide state-of-the-art laboratories, conference rooms, classroom space and faculty offices for the Biological Sciences and Chemistry disciplines.
- Expansion of the Hale Center to provide additional training and academic support facilities for the University's athletic programs.

In 2003, the University issued general obligation bonds, 2002 Series B, in the amount of \$50.0 million. The proceeds of this debt issue will be used primarily for the construction of the facilities mentioned above.

Economic Outlook

As the State University of New Jersey, the appropriation from the State represents a vital part of University's funding. The continuing economic problems experienced by the State resulted in a reduction of the appropriation to the University for fiscal year 2003 of \$13.9 million. The appropriation for 2004 will remain at the level received in 2003. With increasing costs, particularly resulting from contractual obligations with faculty and staff, the University faces critical funding issues again this year. The University has addressed this funding challenge through various means such as the elimination of positions and reduction of other costs, increases in tuition and fee charges, reallocation of University reserves, fundraising and the use of debt financing.

Current indications are that the state economy is improving modestly. While the unemployment rate in New Jersey has only improved slightly this year, it continues to remain below the national average.

In April 2000, the Boards of the University endorsed a major capital campaign. The goal of this campaign was to raise \$500.0 million by June 2004. The Foundation has already exceeded this goal and has currently received cash and pledges totaling \$530.0 million.

The University refinanced several outstanding general obligation and revenue bonds in July 2003 to take advantage of favorable interest rates. This refinancing reduced the University's debt service by \$34.0 million over the life of the debt. Both Moody's and Standard & Poor's maintained their bond ratings for the University during their reviews of this new debt offering. The University is

also in the process of issuing new debt to help finance the cost of several deferred maintenance projects throughout the University. Debt service on this new debt will not exceed the savings generated on the recent refinancing.

On October 25, 2002, the Board of Governors and the Board of Trustees announced the end of the presidential search with the appointment of Dr. Richard L. McCormick as President of the University. Dr. McCormick effectively assumed the role of President on December 1, 2002 and was officially inaugurated on April 13, 2003.

On October 14, 2002, the New Jersey Commission on Health, Science, Education, and Training issued a report recommending that the state create a single research university system by combining the three Rutgers campuses, the University of Medicine and Dentistry of New Jersey schools and its affiliated hospitals, and the New Jersey Institute of Technology. The envisioned system would have principal campuses in Newark, New Brunswick/Piscataway, and Camden/Stratford, each operating as an independent university with its own president. Each of the three universities would have its own undergraduate and graduate programs and medical school. In December 2002, Governor James E. McGreevey established the Review, Planning, and Implementation Steering Committee to create a comprehensive implementation plan for the commission's proposal. The steering committee first met on January 15, 2003, and continues to meet monthly; it is expected to take at least a year to complete its work. The University is an active participant in the endeavor with representatives on the Review, Planning and Implementation Steering Committee and all of the related subcommittees.

Rutgers, The State University of New Jersey

STATEMENTS OF NET ASSETS

For the Years Ended June 30, 2003 and 2002

(dollars in thousands)

	<u>Total 2003</u>	<u>Total 2002</u>
ASSETS:		
Current Assets		
Cash and Cash Equivalents	\$27,416	\$35,710
Short-Term Investments	233,021	216,493
Accounts Receivable, net	61,200	59,406
Student Notes Receivable, net	7,340	7,850
Contributions Receivable, net	12,830	13,447
Inventories	3,702	4,015
Prepaid Expenses and Deferred Charges	6,196	5,813
Construction Costs Reimbursable	5,098	2,644
Total Current Assets	<u>356,803</u>	<u>\$345,378</u>
Noncurrent Assets		
Cash and Cash Equivalents	170,784	72,598
Endowment Investments	359,879	347,988
Other Investments	135,800	136,591
Student Notes Receivable, net	30,074	28,543
Contributions Receivable, net	6,581	3,623
Bond Issuance Costs, net	3,068	2,664
Capital Assets (Property, Plant & Equipment), net	1,439,879	1,396,470
Total Noncurrent Assets	<u>2,146,065</u>	<u>1,988,477</u>
TOTAL ASSETS	<u>2,502,868</u>	<u>2,333,855</u>
LIABILITIES:		
Current Liabilities		
Accounts Payable and Accrued Expenses - Current Portion	98,697	97,639
Deferred Revenue	34,807	32,325
Payroll Withholdings	6,623	6,958
Other Payables	1,208	1,228
Annuities Payable - Current Portion	904	894
Long-Term Liabilities - Current Portion	24,511	24,135
Total Current Liabilities	<u>166,750</u>	<u>163,179</u>
Noncurrent Liabilities		
Accounts Payable and Accrued Expenses	6,800	6,231
Annuities Payable	5,668	5,592
Long-Term Liabilities	528,515	471,546
Total Noncurrent Liabilities	<u>540,983</u>	<u>483,369</u>
TOTAL LIABILITIES	<u>707,733</u>	<u>646,548</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	970,139	927,679
Restricted for		
Nonexpendable		
Instruction	87,091	86,477
Scholarships and Fellowships	90,948	83,981
Libraries	5,819	5,624
Other	8,024	7,500
Expendable		
Instruction	45,102	44,467
Research	39,699	40,939
Scholarships and Fellowships	53,109	62,513
Libraries	8,639	6,071
Loans	38,316	37,890
Capital Projects	69,650	37,123
Debt Service Reserve	24,175	24,358
Renewal and Replacement Reserve	8,854	8,854
Other	59,715	49,287
Unrestricted	285,855	264,544
TOTAL NET ASSETS	<u>\$1,795,135</u>	<u>\$1,687,307</u>

See accompanying notes to the financial statements

Rutgers, The State University of New Jersey

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2003 and 2002

(dollars in thousands)

	<u>Total 2003</u>	<u>Total 2002</u>
OPERATING REVENUES		
Student Tuition and Fees (net of scholarship allowances of \$76,510 in 2003 and \$70,531 in 2002)	\$311,711	\$273,842
Federal Appropriations	6,918	7,079
Federal Grants & Contracts	167,293	146,422
State & Municipal Grants & Contracts	88,288	85,256
Nongovernmental Grants & Contracts	52,628	55,568
Auxiliary Enterprises (net of scholarship allowances of \$20,473 in 2003 and \$20,712 in 2002)	157,444	152,124
Other Operating Revenues	36,699	28,575
Total Operating Revenues	<u>820,981</u>	<u>748,866</u>
OPERATING EXPENSES		
Educational and General		
Instruction	425,448	403,791
Sponsored Research	133,327	122,990
Other Separately Budgeted Research	65,030	63,960
Other Sponsored Programs	66,411	54,420
Extension and Public Service	27,070	27,238
Libraries	33,816	32,694
Student Services	50,328	46,463
Operations and Maintenance of Plant	103,870	94,468
General Administration and Institutional	94,484	91,904
Scholarships and Fellowships	26,899	25,403
Depreciation	73,622	73,166
Auxiliary Enterprises	148,585	143,623
Other Operating Expenses	1,322	1,193
Total Operating Expenses	<u>1,250,212</u>	<u>1,181,313</u>
Operating Loss	<u>(429,231)</u>	<u>(432,447)</u>
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	322,412	336,289
State Paid Fringe Benefits	113,710	100,313
Contributions	25,139	35,067
Endowment and Investment Income	20,197	25,755
Unrealized Gain (Loss) on Marketable Securities	8,250	(29,179)
Interest on Capital Asset Related Debt	(22,419)	(23,577)
Loss on Disposal of Capital Assets (Property, Plant & Equipment)	(26,401)	(762)
Other Nonoperating Revenues	3,432	1,869
Net Nonoperating Revenues	<u>444,320</u>	<u>445,775</u>
Income before Other Revenues and Expenses	15,089	13,328
Capital Appropriations	67,163	66,907
Capital Grants and Gifts	14,689	6,197
Additions to Permanent Endowments	<u>10,887</u>	<u>17,791</u>
Increase in Net Assets	107,828	104,223
Net Assets - Beginning of the Year	<u>1,687,307</u>	<u>1,583,084</u>
Net Assets - End of the Year	<u>\$1,795,135</u>	<u>\$1,687,307</u>

See accompanying notes to the financial statements

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2003 and 2002

(dollars in thousands)

	Total 2003	Total 2002
Cash Flows from Operating Activities		
Student Tuition and Fees	\$351,776	\$311,365
Research Grants and Contracts	313,179	299,022
Federal Appropriations	4,663	6,331
Payments to Employees and for Benefits	(660,044)	(645,353)
Payments to Suppliers	(321,409)	(292,695)
Payments for Utilities	(46,062)	(41,721)
Payments for Scholarships and Fellowships	(49,216)	(54,550)
Collection of Loans to Students and Employees	9,326	9,030
Auxiliary Enterprise Receipts:		
Housing	65,243	62,102
Dining	38,600	38,929
Athletics	9,486	7,181
Parking	5,591	5,146
Other	17,782	21,369
Other Receipts	25,590	28,964
Net Cash Used by Operating Activities	<u>(235,495)</u>	<u>(244,880)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	322,066	335,955
Contributions for other than Capital Purposes	27,914	21,193
Contributions for Endowment Purposes	12,565	27,523
Net Cash Provided by Noncapital Financing Activities	<u>362,545</u>	<u>384,671</u>
Cash Flows from Financing Activities		
Proceeds from Capital Debt and Leases	81,502	158,694
Capital Appropriations	64,331	66,009
Capital Grants and Gifts Received	3,644	20,796
Purchases of Capital Assets and Construction	(145,344)	(159,926)
Principal Paid on Capital Debt and Leases	(22,774)	(17,295)
Interest Paid on Capital Debt and Leases	(24,039)	(24,205)
Debt Defeasance		(121,329)
Bond Issuance Costs	(707)	(635)
Other Receipts	1,841	572
Net Cash Used by Financing Activities	<u>(41,546)</u>	<u>(77,319)</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	4,411,780	4,160,920
Investment Income	21,196	26,579
Purchase of Investments	(4,428,588)	(4,216,902)
Net Cash Provided (Used) by Investing Activities	<u>4,388</u>	<u>(29,403)</u>
Net Increase in Cash and Cash Equivalents	89,892	33,069
Cash and Cash Equivalents - Beginning of the Year	<u>108,308</u>	<u>75,239</u>
Cash and Cash Equivalents - End of the Year	<u>\$198,200</u>	<u>\$108,308</u>

(Continued)

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2003 and 2002

(dollars in thousands)

	<u>Total</u> <u>2003</u>	<u>Total</u> <u>2002</u>
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating Loss	(\$429,231)	(\$432,447)
Adjustments to Reconcile Operating Net Cash Used by Operating Activities:		
State Paid Fringe Benefits	113,710	100,313
Depreciation	73,622	73,166
Payment in Lieu of Taxes	700	700
Adjustment of Actuarial Liability for Annuities Payable	86	58
Changes in Assets and Liabilities:		
Receivables, net	(2,916)	757
Inventories	313	(291)
Prepaid Expenses and Deferred Charges	(437)	1,354
Accounts Payable and Accrued Liabilities	6,607	9,782
Deferred revenue	2,482	3,097
Payroll Withholdings	(335)	841
Other Payables	(96)	(2,104)
Other		(106)
Net Cash (Used) by Operating Activities	<u>(\$235,495)</u>	<u>(\$244,880)</u>

See accompanying notes to the financial statements

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Accounting

The financial statements of Rutgers, the State University of New Jersey (the "University") have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). The University reports as a special purpose government engaged only in business type activities as defined in GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments as amended by GASB Statement No. 35 "Basic Financial Statement's – 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 University has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Reporting Entity

The University's financial statements and notes thereto include the financial statements of the Rutgers University Foundation (the "Foundation"). The Foundation was formed to aid the University in obtaining private funds and other resources to meet the needs and achieve the goals of the University. Although the Foundation is a legally separate, not-for-profit organization, it exists for the benefit of the University and is considered a component unit of the University. Its balances and transactions were blended with those of the University for reporting purposes, in accordance with GASB Statement No. 14, "The Financial Reporting Entity."

Under the law, the University is an instrumentality of the State of New Jersey with a high degree of autonomy. However, under GASB Statement No. 14, 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.

Cash and Cash Equivalents

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

Investments

Investments are recorded at fair value in the Statements of Net Assets. The year-to-year change in the fair value of investments held in each fund group is reported in the Statements of Revenues, Expenses, and Changes in Net Assets.

The fair value of investments is based on the last sale price on the last business day of the fiscal year as quoted by an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued by this pricing service based on market evaluations using standard trade publications and other quote devices. Investments 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.

Net realized and unrealized gains (losses) are included in unrealized gains (losses) on marketable securities in the Statements of Revenues, Expenses, and Changes in Net Assets.

Funds Held in Trust

Funds held in trust by others and not in the possession of, nor under the control of, the University are not included in the University's cash and investments. The market value of such funds aggregated approximately \$51.1 million at June 30, 2003 (\$52.1 million in 2002). Income derived from such irrevocable trust funds held by others, aggregating approximately \$2.7 million in 2003 and \$1.7 million in 2002, 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 Issuance Costs

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

Capital Assets (Property, Plant and Equipment)

Capital assets consist of land, buildings, land improvements and infrastructure, equipment, construction in progress, art collections and patents. 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 4.9 million (4.8 million in 2002) volumes have not been capitalized.

Deferred Revenues and Deferred Charges

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

Net Assets

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

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

Restricted net assets – expendable includes all resources in 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 U.S. Government grants refundable.

Restricted net assets – nonexpendable consist of endowment and similar type funds in 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.

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 scholarships applied to student accounts and are recognized in the period earned. Other payments made directly to students are presented as scholarships and are included in operating expenses in the period incurred.

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

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

Contributions, including pledges other than endowment, are recognized as revenues in the period donated. Additions to permanent endowment 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 statement of revenues, expenses, and changes in net assets are those that serve the University's principal purpose and generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Examples include (1) student tuition and fees, net of scholarship allowances, (2) auxiliary enterprises, net of scholarship allowances, and (3) most Federal, State and municipal and other nongovernmental grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as operating appropriations from the State, endowment and investment income and contributions.

Scholarships and Fellowships

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

The University distributes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and unsubsidized loans, through schools, directly to students. During the year ended June 30, 2003, the University disbursed \$131.5 million (\$116.5 million in 2002) under the Federal Direct 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.

Encumbrances

The University maintains an encumbrance system for tracking outstanding purchase orders and other commitments for materials or services not received during the year. At June 30, 2003, encumbrances totaled \$307.2 million, which represents the estimated amount of expenses ultimately to result if unperformed contracts in process at June 30, 2003 are completed. Approximately \$104.3 million of the total is committed for capital projects.

Encumbrances outstanding at June 30, 2003 do not constitute expenses or liabilities and are not reflected in the financial statements.

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.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash

The cash and cash equivalents balance at June 30, 2003 includes a cash book balance of \$3.1 million (negative \$7.9 million in 2002). The actual amount of cash on deposit in the University's bank accounts at June 30, 2003 was \$24.4 million (\$15.3 million in 2002). Of this amount, \$0.6 million (\$0.7 million in 2002) was insured by the Federal Deposit Insurance Corporation at June 30, 2003, \$21.9 million (\$12.9 million in 2002) was collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes at June 30, 2003, and \$1.9 million (\$1.7 million in 2002) was uninsured and uncollateralized at June 30, 2003.

Cash Equivalents and Investments

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

The University's investments at June 30, 2003 and 2002 are categorized by custodial credit risk in the table below. Credit risk pertains to custodial risk, which is the risk that the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. Custodial credit risk should not be confused with market risk, which is the risk that the market value of a security may decline. There are three categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the University's name. GASB Statement No. 3 also states that investments in pools managed by other governments or in mutual funds should be disclosed but not categorized, because they are not evidenced by securities that exist in physical or book entry form.

Investments by custodial credit risk at June 30, 2003 are as follows (dollars in thousands):

	Category 1 Insured or Registered	Category 2 Uninsured or Unregistered in University's Name	Category 3 Uninsured or Unregistered not in University's Name	Total
Cash Equivalents:				
Money Market Funds	\$6,140	\$40,545	\$125,013	\$171,698
Repurchase Agreements		23,453		23,453
Total Cash Equivalents	<u>\$6,140</u>	<u>\$63,998</u>	<u>\$125,013</u>	<u>\$195,151</u>
Investments:				
Commercial Paper	\$58,678	\$125,935		\$184,613
US Government Direct Securities	59,272	55,818	\$17,105	132,195
US Government Agency Securities	25,222	95,883		121,105
Fixed Income		713		713
US Corporate Debt Securities	34,292	10,698		44,990
Foreign Corporate Debt Securities	4,414			4,414
US Corporate Equities	124,538	8,991	53,916	187,445
Foreign Corporate Equities	38,504			38,504
Asset-backed Securities	1,295	33		1,328
Real Estate		490	12,903	13,393
Total Investments	<u>\$346,215</u>	<u>\$298,561</u>	<u>\$83,924</u>	<u>\$728,700</u>
Total Cash Equivalents and Investments				<u>\$923,851</u>

Investments by custodial credit risk at June 30, 2002 are as follows (dollars in thousands):

	Category 1 Insured or Registered	Category 2 Uninsured or Unregistered in University's Name	Category 3 Uninsured or Unregistered not in University's Name	Total
Cash Equivalents:				
Money Market Funds	\$8,626	\$35,493	\$50,793	\$94,912
Repurchase Agreements		21,287		21,287
Total Cash Equivalents	<u>\$8,626</u>	<u>\$56,780</u>	<u>\$50,793</u>	<u>\$116,199</u>
Investments:				
Commercial Paper	\$72,248	\$115,493		\$187,741
Demand Notes		36,635		36,635
US Government Direct Securities	33,739	31,532		65,271
US Government Agency Securities	34,518	87,400		121,918
State and County Municipal Securities	652			652
Fixed Income	2,952	1,150		4,102
US Corporate Debt Securities	40,369	12,733		53,102
Foreign Corporate Debt Securities	4,513			4,513
US Corporate Equities	153,635	11,634	\$52,492	217,761
Foreign Corporate Equities	2,539			2,539
Asset-backed Securities	6,302	58		6,360
Real Estate		478		478
Total Investments	<u>\$351,467</u>	<u>\$297,113</u>	<u>\$52,492</u>	<u>\$701,072</u>
Total Cash Equivalents and Investments				<u>\$817,271</u>

Investments - Endowment Funds

The majority of endowment funds assets are combined into two separate investment pools. Each individual fund subscribes to or disposes of units in the pools on the basis of the per-unit market value at the beginning of the three-month period within which the transaction takes place. At June 30, 2003, the pooled cash, receivables and investments had a total market value of \$305.4 million (\$291.8 million in 2002). In addition, the aggregate market value of endowment funds cash receivables and investments separately invested was \$55.6 million at June 30, 2003 (\$56.0 million in 2002). The investment appreciation was \$10.1 million at June 30, 2003 (depreciation of \$15.7 million in 2002). 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.

NOTE 3 - RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are shown net of the allowance for doubtful accounts and were comprised of the following at June 30, 2003 and 2002 (dollars in thousands):

	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net 2003</u>	<u>Net 2002</u>
Government Grants Receivable and Other Sponsored Programs	\$43,740	\$580	\$43,160	\$42,052
Student Accounts Receivable	4,185	1,392	2,793	2,268
Other	<u>15,900</u>	<u>653</u>	<u>15,247</u>	<u>15,086</u>
Total	<u>\$63,825</u>	<u>\$2,625</u>	<u>\$61,200</u>	<u>\$59,406</u>

Students' notes receivable in the Statements of Net Assets are also shown net of the allowance for doubtful notes which amounted to \$3.8 million at June 30, 2003 (\$3.8 million in 2002).

The allowances for doubtful accounts and notes are based upon management's best estimate of uncollectible accounts and notes at June 30, 2003 and 2002 on the Statements of Net Assets, considering type, age, collection history and other appropriate factors.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

The anticipated receipt of contributions receivable is as follows (dollars in thousands):

<u>Year</u>	<u>Amount</u>
2004	\$12,855
2005-2008	6,531
Thereafter	<u>50</u>
	19,436
Less allowance for uncollectible receivables	<u>25</u>
	<u>\$19,411</u>

Contributions receivable related to permanent endowments and term endowments do not meet the recognition criteria of GASB Statement No. 33. These contributions receivable, which approximated \$11.4 million at June 30, 2003 (\$10.1 million in 2002) have not been included in the accompanying Statements of Net Assets.

NOTE 5 – CAPITAL ASSETS (PROPERTY, PLANT AND EQUIPMENT)

The detail of Capital assets activity for the years ended June 30, 2003 and 2002 is as follows (dollars in thousands):

	<u>Balance 2002</u>	<u>Additions</u>	<u>Retirements/ Capitalization</u>	<u>Balance 2003</u>
Capital Assets Not Being Depreciated				
Land	\$38,608	\$1,513		\$40,121
Capitalized Collections	38,666	3,633		42,299
Construction in Progress	97,071	91,522	\$114,884	73,709
Total	<u>174,345</u>	<u>96,668</u>	<u>114,884</u>	<u>156,129</u>
Capital Assets Being Depreciated				
Land Improvements	157,970	17,824		175,794
Buildings	1,349,156	99,146		1,448,302
Equipment	489,947	44,678	8,237	526,388
Intangible Assets - Patents	28,525		28,525	
Total	<u>2,025,598</u>	<u>161,648</u>	<u>36,762</u>	<u>2,150,484</u>
Less Accumulated Depreciation				
Land Improvements	43,420	13,890		57,310
Buildings	416,994	29,033		446,027
Equipment	340,056	30,699	7,358	363,397
Intangible Assets - Patents	3,003		3,003	
Total	<u>803,473</u>	<u>73,622</u>	<u>10,361</u>	<u>866,734</u>
Net Capital Assets Being Depreciated	<u>1,222,125</u>	<u>88,026</u>	<u>26,401</u>	<u>1,283,750</u>
Total Capital Assets (net)	<u>\$1,396,470</u>	<u>\$184,694</u>	<u>\$141,285</u>	<u>\$1,439,879</u>

During 2003, the University has capitalized interest income of \$217 thousand and interest expense of \$974 thousand in construction in progress in the accompanying Statements of Net Assets.

	<u>Balance 2001</u>	<u>Additions</u>	<u>Retirements/ Capitalization</u>	<u>Balance 2002</u>
Capital Assets Not Being Depreciated				
Land	\$38,052	\$808	\$252	\$38,608
Capitalized Collections	33,002	5,664		38,666
Construction in Progress	82,848	100,523	86,300	97,071
Total	<u>153,902</u>	<u>106,995</u>	<u>86,552</u>	<u>174,345</u>
Capital Assets Being Depreciated				
Land Improvements	80,324	77,646		157,970
Buildings	1,333,111	16,045		1,349,156
Equipment	450,446	48,663	9,162	489,947
Intangible Assets - Patents	28,525			28,525
Total	<u>1,892,406</u>	<u>142,354</u>	<u>9,162</u>	<u>2,025,598</u>
Less Accumulated Depreciation				
Land Improvements	37,153	6,267		43,420
Buildings	387,664	29,330		416,994
Equipment	313,891	34,566	8,401	340,056
Intangible Assets - Patents	3,003	3,003		3,003
Total	<u>738,708</u>	<u>73,166</u>	<u>8,401</u>	<u>803,473</u>
Net Capital Assets Being Depreciated	<u>1,153,698</u>	<u>69,188</u>	<u>761</u>	<u>1,222,125</u>
Total Capital Assets (net)	<u>\$1,307,600</u>	<u>\$176,183</u>	<u>\$87,313</u>	<u>\$1,396,470</u>

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2003 and 2002 (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Vendors	\$31,598	\$37,480
Compensated Absences	32,613	25,119
Accrued Salaries and Benefits	16,686	15,017
Retainage	4,561	7,745
Workers Compensation	10,203	7,595
Interest Payable	3,420	4,086
Other Accrued Expenses	<u>6,416</u>	<u>6,828</u>
Total	<u>\$105,497</u>	<u>\$103,870</u>

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2003 and 2002 was as follows (dollars in thousands):

	<u>Balance 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2003</u>	<u>Current Portion</u>
Accounts Payable and Accrued Expenses	\$103,870	\$1,627		\$105,497	\$98,697
Annuities Payable	6,486	86		6,572	904
Long-Term Liabilities	<u>495,681</u>	<u>81,744</u>	<u>\$24,399</u>	<u>553,026</u>	<u>24,511</u>
Total	<u>\$606,037</u>	<u>\$83,457</u>	<u>\$24,399</u>	<u>\$665,095</u>	<u>\$124,112</u>

	<u>Balance 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2002</u>	<u>Current Portion</u>
Accounts Payable and Accrued Expenses	\$94,063	\$9,807		\$103,870	\$97,639
Annuities Payable	6,011	475		6,486	894
Long-Term Liabilities	<u>480,517</u>	<u>156,418</u>	<u>\$141,254</u>	<u>495,681</u>	<u>24,135</u>
Total	<u>\$580,591</u>	<u>\$166,700</u>	<u>\$141,254</u>	<u>\$606,037</u>	<u>\$122,668</u>

NOTE 8 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2003 and 2002 is as follows (dollars in thousands):

	<u>Balance 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 2003</u>	<u>Current Portion</u>
General Obligation Bonds Payable	\$293,279	\$50,000	\$12,007	\$331,272	\$12,428
Revenue Bonds Payable	83,850		5,580	78,270	5,860
Lease Obligations	116,925	31,744	6,760	141,909	6,168
Notes Payable	<u>1,627</u>		<u>52</u>	<u>1,575</u>	<u>55</u>
Total Long-Term Liabilities	<u>\$495,681</u>	<u>\$81,744</u>	<u>\$24,399</u>	<u>\$553,026</u>	<u>\$24,511</u>

	<u>Balance 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 2002</u>	<u>Current Portion</u>
General Obligation Bonds Payable	\$243,460	\$110,138	\$60,319	\$293,279	\$12,007
Revenue Bonds Payable	160,855		77,005	83,850	5,580
Lease Obligations	74,525	46,280	3,880	116,925	6,495
Notes Payable	<u>1,677</u>		<u>50</u>	<u>1,627</u>	<u>53</u>
Total Long-Term Liabilities	<u>\$480,517</u>	<u>\$156,418</u>	<u>\$141,254</u>	<u>\$495,681</u>	<u>\$24,135</u>

Notes Payable

Notes payable at June 30, 2003 and 2002 consist of an unsecured note payable to the U.S. Department of Education with interest at 5.5%, final installment due January 1, 2021.

The University has an unsecured \$20.0 million line of credit with a bank to be used for interim financing requirements. The amount available under the line of credit is reduced by a \$0.1 million letter of credit which is used for interim financing of construction projects and as collateral for a lease obligation. No portion of the line of credit is in use, and no funds have been drawn on the letter of credit at June 30, 2003 or 2002.

Bonds Payable

A summary of bonds issued and outstanding at June 30, 2003 and 2002 is as follows (dollars in thousands):

	Date Of Series	Original Amount	Outstanding June 30,	
			2003	2002
Revenue Refunding Bonds:				
Series S, 5.11% effective, due serially to May 1, 2014	Apr. 15, 1993	\$35,170	\$17,030	\$19,245
Series T, 5.34% effective, due serially to May 1, 2016	Apr. 15, 1993	36,270	25,430	26,755
Series U, 4.89% effective, due serially to May 1, 2021	Dec. 1, 1997	<u>40,015</u>	<u>32,115</u>	<u>33,605</u>
Total Revenue Refunding Bonds		<u>111,455</u>	<u>74,575</u>	<u>79,605</u>
Revenue Bonds:				
Series E, 3.75%, due serially to May 1, 2016	May 1, 1967	1,200	555	585
Series F, 3.00%, due serially to May 1, 2016	Nov. 1, 1967	2,350	1,000	1,060
Series H, 5.90% effective, due serially to May 1, 2007	Nov. 1, 1970	<u>8,300</u>	<u>2,140</u>	<u>2,600</u>
Total Revenue Bonds		<u>11,850</u>	<u>3,695</u>	<u>4,245</u>
General Obligation Refunding Bonds:				
1992 Series A, 6.51% effective, due serially to May 1, 2007 and term bonds due May 1, 2013 and 2018	Feb. 1, 1992	94,370	26,605	26,605
1993 Series 1, 5.32% effective, due serially to May 1, 2015	Apr. 15, 1993	10,275	6,910	7,320
1993 Series A, 5.12% effective, due serially to May 1, 2014 and term bonds due May 1, 2014 and 2019	Oct. 1, 1993	81,600	59,860	62,290
2002 Series A, 3.96% effective, due serially to May 1, 2018	Feb. 1, 2002	<u>110,000</u>	<u>103,000</u>	<u>110,000</u>
Total General Obligation Refunding Bonds		<u>296,245</u>	<u>196,375</u>	<u>206,215</u>
General Obligation Bonds:				
1993 Series B, 5.37% effective, due serially to May 1, 2012 and term bonds due May 1, 2016	Apr. 15, 1993	28,020	20,560	21,645
1997 Series A, 5.34% effective, due serially to May 1, 2017 and term bonds due May 1, 2002 and 2027	June 1, 1997	25,385	22,820	23,295
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	46,450	47,390
2002 Series B, 4.60% effective, due serially to May 1, 2023 and term bonds due May 1, 2027, 2032 and 2034	Nov. 1, 2002	<u>50,000</u>	<u>50,000</u>	<u> </u>
Total General Obligation Bonds		<u>153,405</u>	<u>139,830</u>	<u>92,330</u>
Total Bonds		<u>\$572,955</u>	<u>\$414,475</u>	<u>\$382,395</u>

The General Obligation Bonds Payable is net of \$4.9 million at June 30, 2003 (\$5.3 million in 2002) of unamortized charges related to Series 2002A.

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

The General Obligation Refunding Bonds, 1992 and 1993 Series A, and General Obligation Bonds, 1993 Series B, 1997 and 1998 Series A, were issued under an open-ended indenture of trust, dated May 1, 1987, as supplemented; the General Obligation Refunding Bonds, 1993 Series 1, were issued under an indenture of trust, dated May 1, 1986, 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.

In September 2001, the University entered into an interest rate swap agreement, effective February 4, 2002, with the intention of lowering its effective interest rate related to the \$110.0 million of its 2002 Series A General Obligation Refunding Bonds. The swap's notional amount is \$109.1 million. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.96% to the counterparty to the swap. In return, the counterparty owes the University floating rate interest based on the BMA Municipal Swap Index. Only the net difference in interest payments is actually exchanged with the counterparty. The \$110.0 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$9.6 million at June 30, 2003. The swap's negative fair value may be countered by a reduction in total interest payments required under the floating-rate bonds, creating a lower synthetic rate. Because the coupons on the University's floating-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was provided by the counterparty and derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions.

At June 30, 2003, the University was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA- by Standard & Poor's at June 30, 2003.

The swap exposes the University to basis risk should the relationship between the floating rate and the BMA converge, changing the synthetic rate of the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate, 3.6%, and the synthetic rate at June 30, 2003, 3.68%. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. At June 30, 2003, the BMA rate was 1.05%.

The swap terminates on February 4, 2018, but is cancelable at the option of the counterparty under certain circumstances. Beginning on May 1, 2005, the counterparty may terminate the swap on each day that the average of the BMA index for the immediately preceding 180 day period exceeds 7.0%. In the unlikely event that the counterparty fails to perform under the contract, the University bears the credit risk that payments due to the University may not be collected. If at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for a payment equal to the swap's fair value.

Using rates as of June 30, 2003, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows (dollars in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year	Floating Rate Bonds		Interest Rate Swap, Net	Total
	Principal	Interest		
2004	\$6,300	\$793	\$2,997	\$10,090
2005	6,600	745	2,814	10,159
2006	6,800	694	2,622	10,116
2007	7,000	641	2,424	10,065
2008	3,500	587	2,220	6,307
2009-2013	19,700	561	2,119	22,380
2014-2018	53,100	409	1,545	55,054
Total	<u>\$103,000</u>	<u>\$4,430</u>	<u>\$16,741</u>	<u>\$124,171</u>

The General Obligation Bonds, 2002 Series B, were issued in the amount of \$50.0 million and dated November 1, 2002. The 2002 Series B Bonds are secured under the provisions of an Indenture of Trust, dated as of February 1, 2002, as supplemented by a First Supplemental Indenture of Trust, dated as of February 1, 2002, each between the University and First Union National Bank (now known as Wachovia Bank, National Association), as trustee and a Second Supplemental Indenture of Trust, dated as of November 1, 2002, between the University and the Trustee. 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.

Debt service payments to maturity at June 30, 2003 are as follows (dollars in thousands):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$18,620	\$19,689	\$38,309
2005	19,515	18,869	38,384
2006	19,320	18,001	37,321
2007	20,125	17,142	37,267
2008	20,420	16,237	36,657
2009-2013	115,375	64,770	180,145
2014-2018	118,055	35,708	153,763
2019-2023	34,945	16,068	51,013
2024-2028	29,270	8,693	37,963
2029-2033	15,860	2,738	18,598
2034-2038	<u>2,970</u>	<u>141</u>	<u>3,111</u>
Total	<u>\$414,475</u>	<u>\$218,056</u>	<u>\$632,531</u>

CAPITALIZED LEASE OBLIGATIONS

Facilities Authority

Dormitories — Pursuant to the terms of a lease and agreement dated September 1, 1971 between the University and the New Jersey Educational Facilities Authority (the “Facilities Authority”), the University transferred to the Facilities Authority title to certain land, upon which dormitories have been constructed. In 1974, the Facilities Authority issued bonds in the aggregate amount of \$6.7 million at an effective interest cost of 5.95% per annum, for the purpose of providing long-term financing for the aforementioned facilities. Such bonds mature serially through 2008. In accordance with the agreement, the University is required to pay an annual rental to the Facilities Authority over the life of the agreement in amounts necessary to retire the bonds, including interest, provide sinking fund and reserve account requirements and reimburse the Facilities Authority for its administrative costs. As security for its obligation under the agreement, the University has pledged the revenues arising from the financed facilities. Upon retirement of the bonds, title to the land and facilities will revert to the University. Accordingly, the land and facilities have been capitalized with a corresponding liability classified as a capitalized lease obligation. At June 30, 2003, this liability was \$1.9 million (\$2.3 million in 2002).

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 will be obligated to pay one-third of the debt service on the bonds when issued. 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, 2003, the University had a capital lease obligation of \$54.9 million (\$24.4 million in 2002).

Equipment Leasing Fund (ELF) - Under the terms of the Higher Education Equipment Leasing Fund Act of 1993 (ELF), the State issued bonds to finance additional equipment for laboratory and instructional facilities at state institutions of higher education. The University received \$22.3 million from this bond issue. The bonds were issued on October 11, 2001 and bear interest at a rate of 3.089%. In accordance with this act, the University is required to make annual lease payments to retire 25% of the University’s portion of the bonds, including interest. The State of New Jersey is obligated to pay the remaining 75% of the annual debt service. Title to all equipment purchased under this lease agreement will be transferred to the University at the conclusion of the lease. At June 30, 2003, the University had a capital lease obligation of \$4.9 million for equipment purchased under the terms of this agreement (\$5.6 million in 2002).

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, 2003, the University had a capital lease of \$26.9 million (\$29.0 million in 2002).

Housing Authority

In connection with a redevelopment project undertaken by the Housing and Urban Development Authority of the City of New Brunswick (the “Housing Authority”), a series of agreements were entered into by the University, the Housing Authority and Robert Wood Johnson University Hospital, Inc., the outcome of which was the construction of a student apartment complex, parking deck, health club facility and multi-unit retail center. Pursuant to the terms of the capital lease and agreement dated July 1, 1992 between the University and the Housing Authority, the Housing Authority issued bonds in the aggregate amount of \$55.3 million on

July 23, 1992, at an effective interest rate of 6.23% per annum, for the purpose of providing long-term financing for the project. On December 1, 1998, these bonds were refinanced in the aggregate amount of \$54.5 million, at an effective interest rate of 4.83% per annum. Such bonds mature serially through 2024. In accordance with the agreement, the University is required to pay an annual rental to the Housing Authority over the life of the agreement in amounts necessary to retire the University's portion of the bonds, including interest, to provide for sinking fund and reserve account requirements and to reimburse the Housing Authority for its administrative costs. Upon retirement of the bonds, title to the student apartment complex, parking deck, health club facility and the related common space will be transferred to the University. Accordingly, the land and facilities have been capitalized with a corresponding liability classified as a capital lease obligation. At June 30, 2003, this liability was \$44.8 million (\$46.2 million in 2002). 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, 2003, the estimated present value of the Hospital sublease over the full lease term, including renewal periods, amounted to \$7.9 million (\$8.2 million in 2002). Payments required under the lease and agreement between the University and the Housing Authority are in no way conditional upon the receipt of payments from the Hospital under the sublease and agreement.

Development Authority

Pursuant to the terms of a lease and agreement dated September 1, 1993 between the University and the New Jersey Economic Development Authority (the "Development Authority"), the University transferred to the Development Authority title to certain land, upon which a facility was constructed to house the Visual Arts Department of the Mason Gross School of the Arts, the Edward J. Bloustein School of Planning and Public Policy and the Center for Urban Policy Research. On May 1, 1994, the Development Authority issued bonds in the aggregate amount of \$17.6 million, maturing serially through July 1, 2024, at an effective interest rate of 6.138% per annum. The bonds were issued for the purpose of providing long-term financing for the construction of the aforementioned facility. Additional financing of approximately \$20.0 million was also provided by grants from The Port Authority of New York and New Jersey and the State of New Jersey. In accordance with the lease and agreement, the University is required to pay an annual rental to the Development Authority over the life of the agreement in amounts necessary to retire the bonds, including interest, and reimburse the Development Authority for its administrative costs. Upon retirement of the bonds, title to the land and facility will revert to the University. Accordingly, the University has recorded a capitalized lease obligation for the debt financed portion of the project. At June 30, 2003, the outstanding balance of this obligation was \$15.0 million (\$15.4 million in 2002).

Future lease payments (receipts) applicable to the aforementioned capital leases at June 30, 2003 are as follows (dollars in thousands):

Year	Facilities Authority					Housing Authority	Hospital Sublease	Development Authority	Total
	Dormitories	HECIP	ELF	DSTF (2001A)	DSTF (2001B)				
2004	\$462	\$2,655	\$939	\$2,040	\$33	\$3,664	(\$653)	\$1,283	\$10,423
2005	461	3,598	939	2,040	33	3,664	(652)	1,286	11,369
2006	464	3,598	940	2,040	33	3,659	(652)	1,282	11,364
2007	461	4,486	939	2,040	33	3,667	(653)	1,282	12,255
2008	461	4,488	939	2,040	32	3,660	(652)	1,281	12,249
2009-2013		22,442	939	10,199	162	18,319	(3,262)	6,414	55,213
2014-2018		22,453		6,119	97	18,328	(3,262)	6,447	50,182
2019-2023		25,657				18,318	(3,263)	6,487	47,199
2024-2028								1,305	1,305
Total Lease Payments	2,309	89,377	5,635	26,518	423	73,279	(13,049)	27,067	211,559
Less Amount Representing Interest	364	34,447	762			28,503	(5,101)	12,052	71,027
Present Value of Lease Payments	\$1,945	\$54,930	\$4,873	\$26,518	\$423	\$44,776	(\$7,948)	\$15,015	\$140,532

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, 2003, the aggregate capitalized lease obligation associated with these agreements, which excludes future interest

payments, is approximately \$1.4 million (\$2.3 million in 2002). The annual rentals for these capitalized lease obligations are provided for in the University's operating budget and in the aggregate are not considered material.

NOTE 9 - COMMITMENTS

At June 30, 2003, 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 \$286.2 million. Anticipated sources of funding for these projects are summarized as follows (dollars in thousands):

	<u>Total Project Funding</u>		
	<u>Received at June 30, 2003</u>	<u>Additional Funding Required at June 30, 2003</u>	<u>Estimated Total Cost</u>
Borrowing	\$50,000	\$25,000	\$75,000
State Bond Issues and Capital Appropriations	125,000	7,885	132,885
Gifts and Other Sources	<u>44,767</u>	<u>33,532</u>	<u>78,299</u>
Total	<u>\$219,767</u>	<u>\$66,417</u>	<u>\$286,184</u>

The University leases certain space used in general operations. Rental expense was approximately \$2.9 million in 2003 (\$2.5 million in 2002). The leases are non-cancelable and have been classified as operating leases which are expected to expire through 2033. Minimum annual rental commitments approximate the following (dollar in thousands):

<u>Year</u>	<u>Amount</u>
2004	\$2,340
2005	1,841
2006	1,429
2007	894
2008	598
2009-2013	1,427
2014-2018	649
2019-2023	649
2024-2028	649
2029-2033	<u>396</u>
Total	<u>\$10,872</u>

NOTE 10 - EMPLOYEE BENEFITS

Retirement Plans

The University has primarily two retirement plans available to its employees, the State of New Jersey Public Employees Retirement System, a defined benefit plan, and the Alternate Benefit Program, a defined contribution plan. The State of New Jersey, in accordance with State statutes, makes employer contributions on behalf of the University for these plans. Pension expense paid directly by the State of New Jersey for 2003 aggregated \$28.7 million (\$27.8 and \$26.3 million in 2002 and 2001, respectively) of which \$3.6 million (\$5.3 and \$4.6 million in 2002 and 2001, respectively) has been reimbursed to the State from amounts recovered from self-supporting operations and sponsored programs. Reimbursement is based upon a composite fringe benefit rate provided by the State for all State plans. The University has no direct pension obligation associated with the State plans, and no liability for such costs has been reflected in the accompanying financial statements. Summary information regarding these plans is provided below.

Public Employees Retirement System ("PERS")

Plan Description — PERS is a multiple-employer, public cost-sharing retirement system which is administered by the State of New Jersey. The payroll for employees covered by PERS for the year ended June 30, 2003 was \$144.0 million (\$150.3 million in 2002).

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

Contributions — Covered University employees were required by PERS to contribute 3.0% of their annual compensation during fiscal year 2003 and 2002. The State contributes the remaining amounts necessary to pay benefits when due. The State

contribution is based upon annual actuarially determined percentages of total compensation of all active members. The State's annual contribution approximates the actuarially determined pension cost for the year.

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

Financial statements for the PERS are included in the State of New Jersey's Comprehensive Annual Financial Report, which may be obtained by writing to the State of New Jersey, Department of the Treasury, Office of Management and Budget, CN 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, 2003 was \$363.1 million (\$349.1 million in 2002).

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

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

Other Retirement Plans

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

Post-Retirement Health Care Benefits

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

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

Deferred Compensation Plan

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

NOTE 11 - COMPENSATED ABSENCES

The University recorded a liability for accumulated vacation time in the amount of \$26.7 million at June 30, 2003 (\$24.5 million in 2002). The liability is calculated based upon employees' accrued vacation time as of the Statements of Net Assets date. The University also recorded a liability for the Early Retirement Incentive (ERI) program which was offered to regular full time employees who are eligible for the State Health Benefits Program and meet certain eligibility criteria based upon age and years of service. The amount recorded was \$2.4 million at June 30, 2003. The liabilities above were recorded in accounts payable and accrued expenses in the accompanying Statement 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 \$3.5 million at June 30, 2003 (\$0.6 million in 2002) which is included in accounts payable and accrued expenses in the accompanying Statements of Net Assets.

NOTE 12 - RISK MANAGEMENT

The University manages property and liability risks through the purchase of insurance policies which have deductibles that vary by policy, the most significant of which provides for the payment of general liability and workers compensation benefits.

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. No excess costs have been paid by the University in excess of the deductibles.

NOTE 13 - CONTINGENCIES

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

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

NOTE 14 – SUBSEQUENT EVENTS

General Obligation Refunding Bonds, 2003 Series C

On July 15, 2003, the University issued General Obligation Refunding Bonds, 2003 Series C, in the aggregate amount of \$111.3 million. 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, will be 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.

LEAP Academy University Charter School, Inc.

The Delaware River Port Authority is planning to issue its \$8.5 million Charter School Project Bonds, Series of 2003, LEAP Academy University Charter School, Inc. The Charter School Project Bonds are being issued to provide funds to pay (i) a portion of the costs of construction and equipping of a charter high school for students in grades 9 through 12 on a parcel of real property at Sixth and Cooper Streets in Camden, New Jersey, owned by Rutgers, and leased by Rutgers pursuant to the Lease Agreement to LEAP, which will own and operate the School, (ii) capitalized interest on the Charter School Project Bonds to October 1, 2004, and (iii) all or a portion of the costs of issuance and sale of the Charter School Project Bonds. The balance of the costs of the Project including a portion of the costs of issuance of the charter School Project Bonds are to be paid from the proceeds of a \$2.0 million grant to LEAP from the Authority. Timely payment of the principal of and interest on the Charter School Project Bonds is guaranteed by Rutgers pursuant to the Guaranty.

Rutgers, The State University of New Jersey

University Administrative Officers

DURING THE YEAR ENDED JUNE 30, 2003

Richard L. McCormick, Ph.D.
President

Raphael J. Caprio, Ph.D.
Vice President for Continuous Education and Outreach

Michael W. Carroll, M.A.
*President of the Rutgers University Foundation and
Vice President for Development and Alumni Relations*

John L. Colaizzi, Ph.D.
Acting Executive Vice President for Academic Affairs

Emmet A. Dennis, Ph.D.
*Vice President for Student Affairs and
Dean, University College - New Brunswick*

Roger J. Dennis, J.D.
Provost, Camden

Steven J. Diner, Ph.D.
Provost, Newark and Dean, Graduate School - Newark

James L. Flanagan, Sc.D.
Vice President for Research

Susan G. Forman, Ph.D.
Vice President for Undergraduate Education

Marianne I. Gaunt, M.L.S.
University Librarian

JoAnne G. Jackson, M.B.A.
Senior Vice President and Treasurer

Karen Kavanagh, M.S.
Executive Vice President for Administrative Affairs

Mildred R. Schildkamp, B.S.
Secretary of the University and Assistant to the President

David R. Scott, J.D.
University Counsel

Paul A. Snyder, Ph.D.
Vice President for Institutional Research and Planning

Nancy S. Winterbauer, Ed.D.
Vice President for University Budgeting

Stephen J. DiPaolo, C.P.A.
University Controller