Financial Report
2005-2006

THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

Rutgers, The State University of New Jersey

Governors and Trustees

DURING THE YEAR ENDED JUNE 30, 2006

Board of Governors

Board of Trustees

THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

Senior Vice President of Administration and Chief Financial Officer
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January 10, 2007

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

I am pleased to submit the Annual Financial Report of Rutgers, The State University of New Jersey for the year ended June 30, 2006. 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,

Jeffrey C. Apfel
Senior Vice President for Administration
and Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Rutgers, The State University of New Jersey (the University), a component unit of the State of New Jersey, as of June 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rutgers, The State University of New Jersey as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

January 10, 2007

The following management discussion and analysis (MD&A) provides a comprehensive overview of the financial position of Rutgers, the State University of New Jersey (the University) at June 30, 2006 and 2005, 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 related 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, 2006, 2005 and 2004 is as follows (dollars in thousands):

	2006	2005	2004
Assets			
Current assets	$550,104	$481,884	$425,950
Noncurrent assets:			
Endowment, restricted and other noncurrent cash and investments	633,320	690,390	666,601
Capital assets (Property, plant and equipment), net	1,592,726	1,546,964	1,481,862
Other assets	48,299	54,818	53,277
Total assets	2,824,449	2,774,056	2,627,690

	2006	2005	2004
Liabilities			
Current liabilities	175,530	190,056	175,784
Noncurrent liabilities	608,093	637,665	572,332
Total liabilities	783,623	827,721	748,116
Net assets (assets less liabilities)			
Invested in capital assets, net of debt	1,017,840	1,012,432	1,001,582
Restricted - expendable	359,006	333,853	327,554
Restricted - nonexpendable	273,558	243,581	220,131
Unrestricted	390,422	356,469	330,307
Total net assets	$2,040,826	$1,946,335	$1,879,574

A review of the University's statement of net assets at June 30, 2006 reflects an increase in total assets of $50.4 million in 2006. This increase was primarily due to an increase $45.8 million in capital assets caused by the capitalization of completed construction projects including University Square housing in Newark, the Biomedical Engineering facility, the Public Safety building, Olson Hall Life Science facility, and the Administrative Services Building II.

In 2005, total assets increased $146.4 million. This increase was primarily due to an increase of $74.7 million in the University's cash and investments resulting primarily from an increase in market value of $29.3 million and increases to the University's permanent endowments of $12.0 million. Capital assets also increased by $65.1 million. Included in this increase was the capitalization of the new Life Sciences Building, improvements at the Sociology Building in Camden, and the Loree Building on the Douglass Campus.

Total liabilities for the year 2006 decreased by $44.1 million. Total debt obligations decreased $27.9 million as a result of principal payments made on our bonds and capital lease obligations. A decrease in accounts payable and accrued expenses of $19.8 million occurred primarily as a result of a decrease in the accrual for salaries. Salaries were paid on June 30 in fiscal 2006, therefore, no accrual was required for unpaid salaries. In fiscal 2005, salaries were paid on June 24 requiring an accrual for the remaining salaries owed through June 30. Offsetting these decreases, the University's compensated absence liability was increased by $3.0 million to meet the University's potential obligation for unused vacation time for its employees.

In 2005, total liabilities increased by $79.6 million. The primary cause for the increase was due to the issuance of Series 2004E bonds in the amount of $86.7 million. The New Jersey Economic Development Authority (NJEDA) also refinanced general obligation bonds, Series 1994 Civic Square resulting in an increase of $0.6 million to the University's debt obligation. The net effect of these new issues resulted in a net increase of $87.3 million to our outstanding debt obligation. This was offset by payments to our existing debt totaling $25.6 million. In addition, Accounts Payable increased by $11.9 million primarily as a result of outstanding payments due on several construction projects, particularly University Square Housing on the Newark Campus, Olson Hall Life Science facility on the Newark Campus and Modular Classrooms on the New Brunswick Campus. The University's compensated absence liability was also increased by $2.0 million to meet the University's potential obligation for unused vacation time for its employees.

Net assets increased by $94.5 million in 2006 primarily as a result of a $34.0 million increase in the University's unrestricted net assets, a $33.7 million increase in permanent endowments and a $25.2 million increase in the University's restricted assets The increase in unrestricted funds partially resulted from the University setting aside $15.0 million for academic and student aid initiatives to be used in fiscal 2007, as well as, $8.0 million received on a litigation settlement for the stadium. Permanent endowments increased as a result of $19.6 million received from fundraising efforts, in addition to an increase in market value. The most significant increase in restricted funds resulted from $18.0 million provided by the state for a facility for the Rutgers Business School.

In 2005, net assets increased by $66.8 million primarily as a result of the $26.2 million increase in the University's unrestricted net assets and $23.5 million increase in permanent endowments. The increase in unrestricted funds partially resulted from additional funds provided to researchers to assist in obtaining new grants for their projects. The University also set aside $3.8 million for academic and student aid initiatives to be used in fiscal 2006. The increase in endowments resulted from the addition of $12.0 million from fundraising efforts and the increase in market value.

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, 2006, 2005 and 2004 is as follows (dollars in thousands):

	2006	2005	2004
Operating revenues			
Student tuition and fees (net of scholarship allowance)	$386,823	$361,123	$338,445
Grants and contracts	344,284	344,689	328,347
Auxiliary enterprises	181,079	170,123	161,351
Other operating revenues	51,916	50,660	46,134
Total operating revenues	964,102	926,595	874,277
Operating expenses	1,459,888	1,394,052	1,319,923
Operating loss	(495,786)	(467,457)	(445,646)
Nonoperating revenues and (expenses)			
State appropriations (including fringe benefits paid directly by the state)	495,934	455,033	435,347
Contributions	10,050	27,659	36,941
Endowment and investment income	35,815	22,426	13,332
Unrealized and realized gain on marketable securities	30,600	29,265	45,403
Interest on capital asset related debt	(24,525)	(22,423)	(21,486)
Net other nonoperating revenues	11,051	3,455	4,030
Net nonoperating revenues	558,925	515,415	513,567
Income before other revenues, expenses, gains and losses	63,139	47,958	67,921
Other revenues, expenses, gains and losses	31,352	18,803	16,518
Increase in net assets	94,491	66,761	84,439
Net assets at beginning of year	1,946,335	1,879,574	1,795,135
Net assets at end of year	$2,040,826	$1,946,335	$1,879,574

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

In 2005, net assets increased by $66.8 million. A major part of that increase resulted from an increase in market value of the University's investments of $29.3 million. Another $6.8 million of this increase was attributable to grants and gifts that were used to construct, renovate or acquire capital assets. In addition, $12.0 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 $114.6 million of a total $146.3 million of student aid directly to student accounts. The remaining $31.7 million was paid to students and is reflected as scholarship and fellowship expense. Scholarship allowances allocated to tuition and fees amounted to $91.5 million. Another $23.1 million was allocated to residence fees, which are included in auxiliary revenues. Tuition and fees, net of scholarship allowances, increased $25.7 million in 2006. The increase resulted primarily from an increase in tuition rates of 8.00% offset by a slight decrease in enrollment and an increase of 3.0% in the scholarship allowance for additional aid awarded to students. In 2005, tuition and fees net of scholarship allowances, increased $22.7 million. The increase in 2005 resulted from a 8.00% increase in tuition rates offset by an 4.7% increase in the scholarship allowance.

Total grant and contract activity remained relatively flat in 2006 with a slight decrease of $0.4 million. Federal and State funds received as support for student aid are included as grant revenue. Federal support for student aid decreased $1.3 million while State support increased $2.7 million for a net increase of $1.4 million in governmental student support. The federal support decreased primarily as a result of a decrease in the number of Pell grants awarded in 2006. The State support increased primarily due to a $2.3 million increase in Tuition Aid Grant (TAG) awards.

In 2005, grant and contract activity grew with an increase of $16.3 million. Federal support for student aid decreased by $1.4 million while state support increased by $3.9 million in 2005. The federal support decreased primarily as a result of a decrease in the number of Pell grants awarded in 2005. The State support increased primarily due to an increase in the maximum amount of the Tuition Aid Grant award offset by a decline in the number of awards made this year.

Federal grants for research decreased $8.5 million in 2006 primarily from a decrease of $4.3 million in funding from the National Institutes of Health (NIH). Decreases in grants from other federal agencies, included $1.1 million from the National Science Foundation, and $1.0 million each from the Department of Defense, the Department of Energy and the Department of Agriculture.

State support for research increased by $6.6 million this year. A major cause of this increase was a $1.9 million grant for stem cell research, along with a $1.9 million increase in awards from the Commission on Science & Technology and a $1.1 million increase in awards from the Department of Human Services.

Finally, non-governmental grants and contracts remained relatively constant in 2006. Total grant and contract revenue from all three sources, federal, state and non-governmental, for research decreased $1.8 million. As a result of this decrease in revenue, total expenses for research decreased $1.9 million.

In 2005, Federal grants for research increased by $6.2 million. This increase resulted primarily from increased grant activity from the National Institute of Health (NIH). Grants from NIH increased this year by $12.9 million. This increase was offset by decreases in grants from other federal agencies, in particular, the Department of Education decreased $2.5 million, the Department of Defense decreased $1.1 million and grants from NASA decreased $0.9 million.

In 2005, State support for research increased by $2.0 million. This increase is primarily attributed to an increase in grant activity from the Department of Education. The University received a $0.5 million grant from the Department of Education for the evaluation of career and technical education programs and a grant of $0.4 million for the statewide systemic initiative to assist elementary schools in improving the math and science skills of their students.

In 2005, non-governmental grants and contracts increased by $5.5 million. A significant cause of this increase is the result of an increase in awards from foundations, particularly a $5.1 million grant from the Robert Wood Johnson Foundation. Total grant and contract revenue from all three sources, federal, state and non-governmental, for research increased therefore by $13.7 million. As a result of this increase in revenue, total expenses for research increased by $4.7 million.

Auxiliary revenue, net of scholarship allowances, increased in 2006 by $11.0 million while expenditures increased by $10.0 million. The increase in revenue resulted primarily from an increase in housing rates which ranged between 5% and 7%. In addition, dining revenue increased due to student board rate increase of 6.5% and the purchases of more meal plans. Revenues for Athletics increased $2.3 million due to an increase of 10% for Intercollegiate Athletics fees, the football team’s participation in the Insight Bowl and greater revenue sharing from the Big East as a result of increased TV exposure of the football team. Total auxiliary expenses increased due to salary increases and an increase in the fringe benefit cost on those salaries, increasing fuel and utility costs, increased food costs due to an increased participation in the meal plans by students as well as rising food costs and an increase in repair and maintenance costs of housing units. Athletic expenses also increased due to the football team’s participation in the Insight Bowl.

In 2005, auxiliary revenue, net of scholarship allowances, increased by $8.8 million while expenditures increased by $13.7 million. The increase in revenue resulted primarily from an increase in housing rates of between 6% to 7% and dining rates of 3.5%. Expenses increased due to salary increases and an increase in the fringe benefit cost on those salaries, increasing utility costs, increased food costs due to an increased participation in the meal plans by students as well as rising food costs and an increase in repair and maintenance costs.

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

In 2005, total state appropriations, including fringe benefits paid directly by the state, increased $19.7 million. The appropriation by the state for University operations increased $13.7 million primarily as a result of increased funding of University salaries, as well as funding for the Food Innovation Research and Extension Center and the Camden Law School. State payments on behalf of the University for fringe benefits also increased by $6.0 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 plans.

Instruction and departmental research expenses increased by $32.3 million this year. Salary increases and increased fringe benefit costs on those salaries accounted for a total of $25.0 million. The remaining increase is attributable to non-salary expenses related to modifying and equipping academic offices which were moved to new locations. These included the Center for European Studies, the Center for Bio-Materials Devices, and the establishment of the Bionomics Research and Technology Center at EOHSI.

In 2006, student service expenditures increased minimally at $1.5 million. However, student service expenditures increased by $6.7 million in 2005. This increase was primarily due to salary increases and increased fringe benefits costs on those salaries totaling $3.2 million. In addition, $0.8 million was incurred to produce new brochures to improve student recruitment.

Expenditures for operation and maintenance of plant increased by $13.0 million in 2006. This increase is primarily attributable to an increase of $10.0 million in fuel and utilities. Fuel charges for the Busch Cogeneration Plant increased 53%, as well as, utilities required for new facilities, such as, the new Life Sciences Building in Newark. Salary increases and increased fringe benefits costs on those salaries accounted for an increase of $3.2 million.

In 2005, expenditures for operation and maintenance of plant increased by $12.9 million. This increase was primarily attributable to an increase of $5.9 million in fuel and utilities. Salary increases and increased fringe benefits costs on those salaries accounted for an increase of $4.4 million. Insurance costs increased $0.6 million as a result of losses sustained from the fire in the Brower Commons Dining Hall and a flood at the Wright-Rieman Chemistry Lab.

The University's endowment and investment income increased by $13.4 million in 2006 primarily as a result of short-term interest rates increasing from 3% to 5%. In 2005, the University's endowment and investment income increased by $9.1 million as a result of increasing interest rates.

Other nonoperating revenues net of nonoperating expenses increased $7.6 million in 2006. This increase primarily was the result of $8.9 million received as a litigation settlement for the stadium. In 2005 there was a slight decrease in this category of .6 million.

Other revenues, expenses, gains and losses increased in 2006 by $12.5 million. Additions to permanent endowments increased $7.6 million from $12.0 million in 2005 to 19.6 million in 2006. In addition, capital grants and gifts increased $5.0 million due to gifts received for the Lab for Cancer Research and the baseball field turf, as well as, fine arts and moveable equipment donations.

In 2005, other revenues, expenses, gains and losses increased by $2.3 million. This increase was primarily due to an increase of $4.5 million in additions to permanent endowments resulting from the recent capital campaign. This increase was offset by the lack of any capital appropriations in 2005 resulting in a decrease of $2.7 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 $45.8 million in 2006, as compared to $65.1 million in 2005. 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 2006 include:

- Construction of the University Square housing building in Newark, the Biomedical Engineering facility on the Busch Campus, the Public Safety headquarters building in New Brunswick, the Olson hall Life Science facility in Newark, and the Aquaculture Cape May facility.
- Several deferred maintenance projects to upgrade and improve existing facilities, such as the Administrative Services Building II, the Marryott Music building, the Hurtado Health Center HVAC, and the Camden Science building.

These additions were funded primarily with the proceeds of bonds and capital appropriations from the State under the Higher Education Capital Improvement Program. As of June 30, 2006, the University had various projects under construction or in the design stage. Significant projects include:

- The renovation and expansion of the existing Law building on the Camden campus.
- Construction of a new building for the College of Nursing which will be relocated from the Newark campus to the College Avenue Campus.
- Construction of a new building for the Institute for Health and for the Food Innovation Center.
- Addition of an endocrine research lab at Bartlett Hall on the Cook Campus.
- The expansion of the stem cell research area on the Busch Campus.

In 2005, the University issued general obligation bonds, 2004 Series E, in the amount of $86.7 million. The proceeds of this debt issue will be used to fund capital projects for sites and buildings located at the New Brunswick, Newark and Camden campuses of the University, which include: (i) the construction of a student-housing facility with ancillary student-related and retail space on the Newark Campus; (ii) the expansion to and renovation of the Camden Law School; (iii) the complete interior and exterior reconstruction of the Administrative Services Building II located on the New Brunswick Campus; (iv) the fit-out and equipping of the Public Safety Building being constructed on the New Brunswick Campus; and (v) the construction of a new College of Nursing Building for academic and administrative offices and teaching laboratories.

Economic Outlook

As the State University of New Jersey, the appropriation from the State represents a vital part of University's funding. The base state appropriation to the University for 2006 increased by 2.6%. The University also received a separate appropriation from the State of $18.0 million for the construction of a facility for the Business School on the Newark Campus. In fiscal 2007, the State reduced the University's base appropriation by 4.6% and eliminated the funding of salary program increases, which the University received $13.6 million for in 2006. The University has addressed this shortfall through various means such as an increase in tuition and fee charges, elimination of positions, and a reduction of non-salary expenditures.

Rutgers, The State University of New Jersey

STATEMENTS OF NET ASSETS
June 30, 2006 and 2005
(dollars in thousands)

	2006	2005
ASSETS:		
Current Assets		
Cash and Cash Equivalents	$32,133	$52,394
Short-Term Investments	416,818	323,466
Accounts Receivable, net	67,553	70,679
Student Notes Receivable, net - Current Portion	6,226	7,697
Contribututions Receivable, net - Current Portion	13,055	16,061
Inventories	4,376	3,676
Prepaid Expenses and Deferred Charges	9,651	7,431
Construction Costs Reimbursable	292	480
Total Current Assets	550,104	481,884
Noncurrent Assets		
Cash and Cash Equivalents	57,292	47,784
Endowment Investments	471,374	440,371
Other Investments	104,654	202,235
Student Notes Receivable, net	29,502	29,519
Contributions Receivable, net	7,744	13,603
Bond Issuance Costs, net	11,053	11,696
Capital Assets, net	1,592,726	1,546,964
Total Noncurrent Assets	2,274,345	2,292,172
TOTAL ASSETS	2,824,449	2,774,056
LIABILITIES:		
Current Liabilities		
Accounts Payable and Accrued Expenses - Current Portion	94,990	113,885
Deferred Revenue	38,476	37,195
Payroll Withholdings	10,060	8,254
Other Payables	1,736	1,259
Annuities Payable - Current Portion	1,011	947
Long-Term Liabilities - Current Portion	29,257	28,516
Total Current Liabilities	175,530	190,056
Noncurrent Liabilities		
Accounts Payable and Accrued Expenses	14,887	15,757
Annuities Payable	6,309	6,328
Long-Term Liabilities	586,897	615,580
Total Noncurrent Liabilities	608,093	637,665
TOTAL LIABILITIES	783,623	827,721
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	1,017,840	1,012,432
Restricted for		
Nonexpendable		
Instruction	129,914	110,430
Scholarships and Fellowships	128,381	118,725
Libraries	7,332	6,883
Other	7,931	7,543
Expendable		
Instruction	128,033	127,869
Research	54,782	43,571
Scholarships and Fellowships	60,123	61,615
Libraries	12,040	10,870
Loans	38,768	38,813
Capital Projects	36,667	19,934
Debt Service Reserve	11,766	12,107
Renewal and Replacement Reserve	7,393	7,393
Other	9,434	11,681
Unrestricted	390,422	356,469
TOTAL NET ASSETS	$2,040,826	$1,946,335

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, 2006 and 2005
(dollars in thousands)

	2006	2005
OPERATING REVENUES		
Student Tuition and Fees (net of scholarship		
allowances of $91,523 in 2006 and $88,898 in 2005)	$386,823	$361,123
Federal Appropriations	6,009	7,106
Federal Grants & Contracts	191,707	201,537
State & Municipal Grants & Contracts	100,591	91,389
Nongovernmental Grants & Contracts	51,986	51,763
Auxiliary Enterprises (net of scholarship allowances of $23,122		
in 2006 and $22,653 in 2005)	181,079	170,123
Other Operating Revenues	45,907	43,554
Total Operating Revenues	964,102	926,595
OPERATING EXPENSES		
Educational and General		
Instruction	509,842	477,546
Sponsored Research	151,886	154,575
Other Separately Budgeted Research	68,383	65,800
Other Sponsored Programs	66,747	66,176
Extension and Public Service	30,400	29,045
Libraries	35,857	34,864
Student Services	61,425	59,968
Operations and Maintenance of Plant	133,869	120,846
General Administration and Institutional	95,936	93,755
Scholarships and Fellowships	31,629	30,644
Depreciation	91,145	88,160
Auxiliary Enterprises	181,296	171,341
Other Operating Expenses	1,473	1,332
Total Operating Expenses	1,459,888	1,394,052
Operating Loss	(495,786)	(467,457)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	361,495	332,300
State Paid Fringe Benefits	134,439	122,733
Contributions	10,050	27,659
Endowment and Investment Income (net of investment management		
fees of $2,690 in 2006 and $2,206 in 2005)	35,815	22,426
Unrealized and Realized Gain on Marketable Securities	30,600	29,265
Interest on Capital Asset Related Debt	(24,525)	(22,423)
Loss on Disposal of Capital Assets	(643)	(621)
Other Nonoperating Revenues	11,694	4,076
Net Nonoperating Revenues	558,925	515,415
Income before Other Revenues and Expenses	63,139	47,958
Capital Grants and Gifts	11,752	6,762
Additions to Permanent Endowments	19,600	12,041
Increase in Net Assets	94,491	66,761
Net Assets - Beginning of the Year	1,946,335	1,879,574
Net Assets - End of the Year	$2,040,826	$1,946,335

See accompanying notes to the financial statements

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2006 and 2005
(dollars in thousands)

	2006	2005
Cash Flows from Operating Activities		
Student Tuition and Fees	$429,557	$403,117
Research Grants and Contracts	366,062	359,451
Federal Appropriations	6,090	9,057
Payments to Employees and for Benefits	(751,925)	(709,944)
Payments to Suppliers	(398,089)	(384,162)
Payments for Utilities	(72,919)	(57,604)
Payments for Scholarships and Fellowships	(64,480)	(64,998)
Collection of Loans to Students and Employees	9,949	9,294
Auxiliary Enterprise Receipts:		
Housing	79,618	71,902
Dining	44,177	41,036
Athletics	11,003	9,628
Parking	5,762	5,643
Other	19,154	18,912
Other Receipts	46,164	40,161
Net Cash Used by Operating Activities	(269,877)	(248,507)
Cash Flows from Noncapital Financing Activities		
State Appropriations	357,323	330,780
Contributions for other than Capital Purposes	31,450	23,322
Contributions for Endowment Purposes	18,646	16,751
Net Cash Provided by Noncapital Financing Activities	407,419	370,853
Cash Flows from Financing Activities		
Proceeds from Capital Debt and Leases		103,820
Capital Grants and Gifts Received	4,168	4,745
Purchases of Capital Assets and Construction	(149,035)	(137,648)
Principal Paid on Capital Debt and Leases	(25,833)	(24,908)
Interest Paid on Capital Debt and Leases	(27,854)	(29,187)
Debt Defeasance		(15,233)
Bond Issuance Costs	(120)	(1,274)
Other Receipts	10,242	1,299
Net Cash Used by Financing Activities	(188,432)	(98,386)
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	5,249,082	4,482,321
Investment Income	37,555	22,770
Purchases of Investments	(5,246,500)	(4,553,299)
Net Cash Provided (Used) by Investing Activities	40,137	(48,208)
Net Decrease in Cash and Cash Equivalents	(10,753)	(24,248)
Cash and Cash Equivalents - Beginning of the Year	100,178	124,426
Cash and Cash Equivalents - End of the Year	$89,425	$100,178

Continued on next page.

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS (cont'd)

For the Years Ended June 30, 2006 and 2005
(dollars in thousands)

	2006	2005
Reconciliation of operating loss to net cash used by operating activities:		
Operating Loss	($495,786)	($467,457)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
State Paid Fringe Benefits	134,439	122,733
Depreciation	91,145	88,160
Payment in Lieu of Taxes	700	700
Adjustment of Actuarial Liability for Annuities Payable	45	
Changes in Assets and Liabilities:		
Receivables, net	9,580	22
Inventories	(700)	53
Prepaid Expenses and Deferred Charges	(1,808)	(1,112)
Accounts Payable and Accrued Expenses	(10,994)	8,951
Deferred Revenue	1,260	100
Payroll Withholdings	1,806	(238)
Other Payables	436	(419)
Net Cash Used by Operating Activities	($269,877)	($248,507)

See accompanying notes to the financial statements.

Rutgers, The State University of New Jersey

Notes to the Financial Statements

JUNE 30, 2006 and 2005

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. The balances and transactions of the Foundation were blended with those of the University for reporting purposes, in accordance with GASB Statement No. 14, “The Financial Reporting Entity”, as amended by GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”. Copies of the Foundation’s financial statements can be obtained by writing to the Foundation at Rutgers University Foundation, Winants Hall, 7 College Avenue, New Brunswick, NJ 08901, Attention: Janine Purcaro.

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

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. The University reports as a business type activity, as defined by GASB Statement No. 34. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Cash and Cash Equivalents

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

Investments

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

The fair value of investments is based on the last sale price on the last business day of the fiscal year as quoted by an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued by this pricing service based on market evaluations using standard trade publications and other quote devices. Investments with a maturity greater than one year and investments externally restricted for endowment purposes and to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the Statements of Net Assets.

Funds Held in Trust

Funds held in trust by others 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 $67.2 million at June 30, 2006 ($69.0 million in 2005). Income derived from such irrevocable trust funds held by others, aggregating approximately $2.5 million in 2006 and $2.8 million in 2005, is reported in the accompanying financial statements as non-operating 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 capitalizes costs incurred in connection with its bond issues and amortizes these costs over the life of the respective obligations.

Capital Assets

Capital assets consist of land, buildings, land improvements and infrastructure, equipment, construction in progress and art collections. Capital assets are recorded at cost at the date of acquisition, or fair market value on the date of gift if donated, and are shown net of accumulated depreciation. Depreciation on buildings, land improvements and infrastructure, and equipment is calculated using the straight line method over the assets' estimated useful lives, ranging from 5 to 50 years. Library books totaling approximately 5.1 million (5.1 million in 2005) volumes have not been capitalized.

Deferred Revenue and Deferred Charges

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

Net Assets

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

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

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

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

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

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

Revenue Recognition

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

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

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

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

Classification of Revenue

The University's policy for defining operating activities in the Statements of Revenues, Expenses, and Changes in Net Assets are those that serve the University's principal purpose and generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Examples include (1) student tuition and fees, net of scholarship allowances, (2) auxiliary enterprises, net of scholarship allowances, and (3) most Federal, State and municipal and other nongovernmental grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as operating appropriations from the State, endowment and investment income and contributions.

Scholarships and Fellowships

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

The University distributes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and unsubsidized loans, through schools, directly to students. During the year ended June 30, 2006, the University disbursed $155.5 million ($151.3 million in 2005) 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.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Cash and Cash Equivalents

The University's cash and cash equivalents balance at June 30, 2006 includes a cash book balance negative $0.5 million ($1.0 million in 2005). The actual amount of cash on deposit in the University's bank accounts at June 30, 2006 was $21.1 million ($19.0 million in 2005). Of this amount, $0.4 million ($0.4 million in 2005) was insured by the Federal Deposit Insurance Corporation at June 30, 2006. $20.6 million ($18.5 million in 2005) was collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes at June 30, 2006, and $0.1 million ($0.1 million in 2005) was uninsured and uncollateralized at June 30, 2006.

The University and Foundation's cash and cash equivalents are carried in the financial statements at fair value and consist of the following as of June 30, 2006 and 2005 (dollars in thousands):

	2006	2005
Money Market Funds	$46,023	$79,435
Repurchase Agreements	26,821	4,894
Cash and Deposits	16,581	15,849
Total Cash and Cash Equivalents	$89,425	$100,178

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. In addition, under the terms of the University's bond indentures, bond proceeds and debt service funds may be invested and reinvested only in obligations which will by their terms mature on or before the date funds are needed for expenditure or withdrawal.

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

The University's investments are carried in the financial statements at fair value and consist of the following at June 30, 2006 and 2005 (dollars in thousands):

	2006	2005
Commercial Paper	$280,106	$232,144
US Government Direct Securities	93,124	85,393
US Government Agency Securities	155,683	214,235
Commodities	40,361	18,924
US Corporate Debt Securities	655	675
Foreign Corporate Debt Securities	371	397
US Corporate Equities	216,986	204,884
Foreign Corporate Equities	99,336	88,042
Real Estate	85,345	98,474
Total Investments	$971,967	$943,168

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

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

Foundation investments are carried in the financial statements at fair value, based on quoted market values, and consist of the following as of June 30, 2006 and 2005 (dollars in thousands):

	2006	2005
US Treasury Securities	$782	$1,591
US Agency Securities	986	2,103
Corporate Bonds	2,318	4,334
Mortgage-backed Securities	3,483	3,075
Common Stock	6,671	10,638
Other Investments	6,639	1,163
Total Investments	$20,879	$22,904

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The operating funds of the University are managed against the expected cash requirements of these funds. The University projects its cash requirements and arranges investment maturities accordingly. Special attention is given to the interest rate environment in times of economic growth or downturns. The table below reflects the operation of this process. Endowment funds have a much longer outlook and are invested by professional managers against an index as provided in the University's investment guidelines. For the University, the following table summarizes the maturities as of June 30, 2006 and 2005 (dollars in thousands):

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

	2005				
		Investment Maturities (in years)			
Investment Type	Market Value	Less Than 1	1-5	6-10	More Than 10
US Treasury	$85,394	$53,197	$31,159		$1,038
US Agencies	100,866	53,142	47,202		522
Corporate Bonds	1,072		789	$107	176
Commercial Paper	345,513	345,513			
Total	532,845	$451,852	$79,150	$107	$1,736
Common Stock	290,967				
Other Investments	119,356				
Total	$943,168				

The Foundation does not have a provision in the investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. While the general provisions of the investment strategy should be implemented with a long-term prospective, all holdings must be sufficiently liquid so as to allow liquidation of the entire portfolio on one month's notice. In addition, annuity pooled investments in the planned giving portion of the portfolio are governed by the New Jersey Prudent Investor Act. The required reserves for this pool are reviewed utilizing actuarial assumptions of the charitable gift annuity assets. For the Foundation, the following table summarizes the maturities as of June 30, 2006 and 2005 (dollars in thousands):

	2006				
		Investment Maturities (in years)			
Investment Type	Market Value	Less Than 1	1-5	6-10	More Than 10
US Treasury	$782		$77	$496	$209
US Agencies	986		157	287	542
Corporte Bonds	2,318		213	694	1,411
Mortgage-backed Securities	3,483		184	536	2,763
Total	$7,569		$631	$2,013	$4,925

	2005				
		Investment Maturities (in years)			
Investment Type	Market Value	Less Than 1	1-5	6-10	More Than 10
US Treasury	$1,591	$424	$424	$352	$391
US Agencies	2,103		336	708	1,059
Corporte Bonds	4,334	275	1,035	1,264	1,760
Mortgage-backed Securities	3,075		278	346	2,451
Total	$11,103	$699	$2,073	$2,670	$5,661

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's Investment Policy states that individual bonds shall be rated investment grade by at least two of the three rating agencies (Moody's, Fitch, and Standard & Poor's). The average credit quality of the Core Fixed Income Fund shall be maintained at "AA" (by S&P or equivalent rating by Moody's or Fitch) or higher. The prospect of credit risk or risk of permanent loss shall be avoided in the Core Fixed Income Fund. Issues of state or municipal agencies shall not be purchased except in unusual circumstances. A fixed income manager may invest in foreign securities up to a limit of 20% of the portfolio. At June 30, 2006 and 2005, the University's investment quality ratings as rated by Standard & Poor's were as follows (dollars in thousands):

Investment Type	Quality Rating	2006	2005
US Government Agencies	AAA	$164,697	$186,260
Corporate Bonds	AA+	73	81
Corporate Bonds	AA	298	317
Corporate Bonds	A	9	
Corporate Bonds	A-	548	558
Corporate Bonds	BBB+	98	107
Corporate Bonds	BB+		9
Commercial Paper	A-1+	242,804	221,326
Commercial Paper	A-1	121,313	124,187
Total		$529,840	$532,845

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

Poor's). The dollar-weighted average rating of the fixed income portfolio for each manager of marketable bonds shall be "A/A" or better.

As of June 30, 2006 and 2005, the Foundation's investment quality ratings, at fair value, as rated by Standards & Poors were as follows (dollars in thousands):

Investment Type	Quality Rating	2006	2005
US Government Agencies	AAA	$1,768	$3,694
Mortgage-backed Securities	AAA	3,483	3,075
Corporate Bonds	AA	1,741	2,929
Corporate Bonds	A	418	884
Corporate Bonds	A1	71	316
Corporate Bonds	BBB+	56	137
Corporate Bonds	BB+	32	68
Total		$7,569	$11,103

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. Custodial credit risk should not be confused with market risk, which is the risk that the market value of a security may decline. The University's investment securities are exposed to custodial credit risk if the securities are uninsured and unregistered and held by the counterparty, or by its trust department or agent but not in the University's name. Money market and mutual funds are subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At June 30, 2006 and 2005, the University had $349.6 million and $247.2 million respectively, of investments that were uninsured or unregistered but not in the University's name.

The custodial credit risk associated with the Foundation's cash and cash equivalents includes uncollateralized deposits, including any bank balance that is collateralized with securities held by a pledging financial institution, or by its trust department or agent but not in the Foundation's name. As of June 30, 2006 and 2005, the Foundation had insured deposits up to the Federal Deposit Insurance Corporation ("FDIC") coverage limits totaling $0.3 million and $0.3 million, respectively. Cash and cash equivalents in excess of those balances are uncollateralized.

Concentration of Credit Risk

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

Investments - Endowment Funds

The majority of endowment funds assets are combined into two separate investment pools. Each individual fund subscribes to or disposes of units in the pools on the basis of the per-unit market value at the beginning of the three-month period within which the transaction takes place. At June 30, 2006, the pooled cash, receivables and investments had a total market value of $436.5 million ($386.2 million in 2005). In addition, the aggregate market value of endowment funds, cash, receivables and investments separately invested was $61.4 million at June 30, 2006 ($55.4 million in 2005). The investment appreciation was $37.5 million at June 30, 2006 (appreciation of $39.7 million in 2005). 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 are comprised of the following at June 30, 2006 and 2005 (dollars in thousands):

	Accounts Receivable	Allowance	Net 2006	Net 2005
Government Grants Receivable and Other Sponsored Programs	$44,273	$430	$43,843	$50,114
Student Accounts Receivable	4,248	1,731	2,517	2,518
Other	22,262	1,069	21,193	18,047
Total	$70,783	$3,230	$67,553	$70,679

Students' notes receivable in the Statements of Net Assets are also shown net of the allowance for doubtful notes which amounted to $3.3 million at June 30, 2006 ($3.7 million in 2005).

The allowances for doubtful accounts and notes are based upon management's best estimate of uncollectible accounts and notes at June 30, 2006 and 2005, 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):

Year Ending June 30:	**2006**	**2005**
Wtinin one year	$17,730	$18,248
Two to five years	7,744	13,603
	25,474	31,851
Less allowance for uncollectible contributions receivables	(4,675)	(2,187)
Total Contributions Receivable	$20,799	$29,664

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 $27.0 million at June 30, 2006 ($34.8 million in 2005) have not been included in the accompanying Statements of Net Assets.

NOTE 5 – CAPITAL ASSETS

The detail of Capital Assets activity for the years ended June 30, 2006 and 2005 is as follows (dollars in thousands):

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

During 2006, the University has capitalized interest income of $920 thousand and interest expense of $3,213 thousand in construction in progress in the accompanying Statement of Net Assets.

	Balance 2004	Additions	Retirements/ Capitalization	Balance 2005
Capital Assets Not Being Depreciated:				
Land	$45,088	$6,549		$51,637
Capitalized Collections	44,396	602		44,998
Construction in Progress	74,437	121,797	$77,647	118,587
Total	163,921	128,948	77,647	215,222
Capital Assets Being Depreciated:				
Land Improvements	187,923	12,663		200,586
Buildings	1,538,898	69,256		1,608,154
Equipment	435,454	20,664	30,062	426,056
Total	2,162,275	102,583	30,062	2,234,796
Less Accumulated Depreciation:				
Land Improvements	72,630	15,511		88,141
Buildings	486,389	38,870		525,259
Equipment	285,315	33,779	29,440	289,654
Total	844,334	88,160	29,440	903,054
Net Capital Assets Being Depreciated	1,317,941	14,423	622	1,331,742
Total Capital Assets (net)	$1,481,862	$143,371	$78,269	$1,546,964

During 2005, the University has capitalized interest income of $1,920 thousand and interest expense of $5,894 thousand in construction in progress in the accompanying Statement of Net Assets.

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2006 and 2005 (dollars in thousands):

	2006	2005
Compensated Absences	$41,076	$38,074
Vendors	31,294	37,716
Accrued Salaries and Benefits	12,961	28,188
Workers Compensation	8,859	9,076
Retainage	6,164	6,513
Interest Payable	3,572	3,499
Other Accrued Expenses	5,951	6,576
Total Accounts Payable and Accrued Expenses	$109,877	$129,642

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2006 and 2005 is as follows (dollars in thousands):

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

	Balance 2004	Additions	Reductions	Balance 2005	Current Portion
Accounts Payable and Accrued Expenses	$110,986	$18,656		$129,642	$113,885
Annuities Payable	7,362		$87	7,275	947
Long-Term Liabilities	582,907	104,142	42,953	644,096	28,516
Total Noncurrent Liabilities	$701,255	$122,798	$43,040	$781,013	$143,348

NOTE 8 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2006 and 2005 is as follows (dollars in thousands):

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

	Balance 2004	Additions	Retirements	Balance 2005	Current Portion
General Obligation Bonds Payable	$373,730	$88,053	$18,551	$443,232	$18,291
Revenue Bonds Payable	33,523	9	2,260	31,272	2,283
Lease Obligations	173,278	16,080	22,042	167,316	7,838
Notes Payable	2,376		100	2,276	104
Total Long-Term Liabilities	$582,907	$104,142	$42,953	$644,096	$28,516

OTHER OBLIGATIONS OF THE UNIVERSITY

Notes Payable

Notes payable at June 30, 2006 and 2005 consist of an unsecured note payable to the U.S. Department of Education with interest at 5.5%, final installment due January 1, 2021.

The University has an unsecured $20.0 million line of credit with a bank to be used for interim financing requirements for construction projects. The amount available under the line of credit is reduced by a $0.1 million letter of credit which is collateral for a lease obligation. No portion of the line of credit is in use, and no funds have been drawn on the letter of credit at June 30, 2006 or 2005.

Rutgers Community Park

In 1999, the University and the City of Camden entered into a joint venture for the acquisition, development and construction of an outdoor recreational complex designated the “Rutgers Community Park” which was made available to University students and the public. On June 26, 2002, the University agreed to assume the obligation for debt service payable on an aggregate of $1.0 million in loans that the City of Camden received from the Green Acres Program of the State of New Jersey in connection with the Rutgers Community Park, pursuant to an Amended and Restated Interlocal Services Agreement between the City of Camden and the University. The assumption of the debt service payable on the Green Acres Program of the State of New Jersey loan is a general obligation of the University secured by the full faith and credit of the University. At June 30, 2006, the outstanding amount due on the loans was $0.8 million ($0.8 million in 2005).

Guaranty of LEAP School Bond Financing

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

College Hall Student Housing Project

The University entered into a Limited Minimum Revenue Guaranty, dated January 22, 2004, pursuant to which the University agreed to pay the debt service payable for a two-year period on, and thereafter to replenish the debt service reserve account established in connection with, the Middlesex County Improvement Authority's (the "MCIA") $4.2 million aggregate principal amount of Revenue Bonds (George Street Student Housing Project), 2003 Series B. The 2004 Series B Bonds mature on August 15, 2011 and were issued, together with the MCIA's $49.9 million Revenue Bonds (George Street Student Housing Project), 2004 Series A, to finance the cost of the planning, design, development, supervision, construction, furnishing, equipping and opening of a student housing facility for use primarily by the University's students. The University's obligations under the Limited Revenue Guaranty are a general obligation of the University secured by the full faith and credit of the University.

Bonds Payable – General Obligation and Revenue

A summary of bonds issued and outstanding at June 30, 2006 and 2005 is as follows (dollars in thousands):

	Date Of Series	Original Amount	Outstanding June 30, 2006	Outstanding June 30, 2005
Revenue Refunding Bonds:				
Series U, 4.89% effective, due serially to May 1, 2021	Dec. 1, 1997	$40,015	$27,220	$28,920
Total Revenue Refunding Bonds		40,015	27,220	28,920
Revenue Bonds:				
Series E, 3.75%, due serially to May 1, 2016	May 1, 1967	1,200	450	485
Series F, 3.00%, due serially to May 1, 2016	Nov. 1, 1967	2,350	800	870
Series H, 5.90% effective, due serially to May 1, 2007	Nov. 1, 1970	8,300	585	1,140
Total Revenue Bonds		11,850	1,835	2,495
General Obligation Refunding Bonds:				
1992 Series A, 6.51% effective, due serially to May 1, 2007 and term bonds due May 1, 2013 and 2018	Feb. 1, 1992	94,370	26,605	26,605
2002 Series A, 3.96% effective, due serially to May 1, 2018	Feb. 1, 2002	110,000	83,300	90,100
2003 Series C, 3.41% effective, due serially to May 1, 2019	July 15, 2003	111,320	87,700	94,540
Total General Obligation Refunding Bonds		315,690	197,605	211,245
General Obligation Bonds:				
1997 Series A, 5.34% effective, due serially to May 1, 2017 and term bonds due May 1, 2002 and 2027	June 1, 1997	25,385	21,245	21,795
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	43,395	44,455
2002 Series B, 4.60% effective, due serially to May 1, 2023 and term bonds due May 1, 2027, 2032 and 2034	Nov. 1, 2002	50,000	47,340	48,245
2003 Series D, 3.74% effective, due serially to May 1, 2019	Dec. 1, 2003	24,805	20,930	22,250
2004 Series E, 4.69% effective, due serially to May 1, 2029 and term bonds due May 1, 2031 and 2034	July 1, 2004	86,725	86,550	86,725
Total General Obligation Bonds		236,915	219,460	223,470
Total Bonds		$604,470	$446,120	$466,130

The General Obligation Bonds Payable includes premium on bonds, net of bond discounts, of $7.9 million at June 30, 2006 ($8.5 million in 2005, discount on bonds, net of bond premium) related to Series 1992 A, Series 1997 A, Series 1998 A, Series 2002 B, Series 2003 C, Series 2003 D and Series 2004 E.

The Revenue Refunding Bonds Payable are net of $134 thousand at June 30, 2006 ($143 thousand in 2005) of unamortized bond discounts related to Series U.

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

The General Obligation Refunding Bonds, 1992 Series A, and General Obligation Bonds, 1997 and 1998 Series A, were issued under an open-ended Indenture of Trust, dated May 1, 1987, as supplemented; 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 $83.3 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.

The swap had a negative fair value of $0.2 million at June 30, 2006 (negative $4.6 million in 2005). 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 on estimates about relevant future market conditions.

At June 30, 2006 and June 30, 2005, 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-1 by Standard & Poor's at June 30, 2006 (AA+ by Standard & Poor's in 2005).

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 of 3.96% and the synthetic rate at June 30, 2006 of 3.90% (3.75% in 2005). If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. At June 30, 2006, the BMA rate was 3.68% (2.43% in 2005).

The swap terminates on February 4, 2018, but is cancelable at the option of the counterparty under certain circumstances. Effective on May 1, 2005, the counterparty may terminate the swap on each day that the average of the BMA index for the immediately preceeding 180 day period exceeds 7.0%. In the unlikely event that the counterparty fails to perform under the contract, the University bears the credit risk that payments due to the University may not be collected. If at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for a payment equal to the swap's fair value. At June 30, 2006, the average of the BMA index did not exceed 7.0%, therefore, the counterparty has not terminated the swap.

Using rates as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (dollars in thousands). As rates vary, floating-rate bond interest payments and net swap payments will vary.

	Floating Rate Bonds		Interest Rate	
Year	Principal	Interest	Swap, Net	Total
2007	$7,000	$3,015	$233	$10,248
2008	3,500	2,762	214	6,476
2009	3,700	2,635	204	6,539
2010	3,800	2,501	193	6,494
2011	3,900	2,364	183	6,447
2012-2016	39,000	8,978	694	48,672
2017-2018	22,400	1,224	95	23,719
Total	$83,300	$23,479	$1,816	$108,595

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.

The General Obligation Refunding Bonds, 2003 Series C, were issued in the amount of $111.3 million and dated July 15, 2003. The bonds were issued under the terms of an Indenture of Trust, dated February 1, 2002, as supplemented, and a Third Supplemental Indenture of Trust, dated as of July 1, 2003. The 2003 Series C Bonds were issued to refund in whole the University's outstanding (i) Revenue Refunding Bonds, Series S, (ii) Revenue Refunding Bonds, Series T, (iii) General Obligation Refunding Bonds, 1993 Series 1, (iv) General Obligation Refunding Bonds, 1993 Series A, and (v) General Obligation Bonds, 1993 Series B. The proceeds of the 2003 Series C Bonds, along with certain other monies provided, were used to (i) redeem the above mentioned bonds prior to maturity, in whole on July 31, 2003, at their appropriate respective principal amounts plus the applicable redemption premium, if any and interest, and (ii) to pay certain administrative, legal, financing and incidental expenses relating to the issuance of the 2003 Series C Bonds. The University completed the advance refunding to reduce its total debt service payments over the next 16 years by $33.8 million and to obtain an economic gain (difference between the present values of the old and new debt service payments less escrow funds used) of $12.0 million. The difference between the reacquisition price and the net carrying amount of the old debt, $4.4 million, is being deferred and amortized as interest expense through the year 2019 using the effective interest method. In 2006, $0.3 million has been expensed leaving $3.6 million as deferred charges.

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

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

Debt service payments to maturity at June 30, 2006 on the University's bonds are as follows (dollars in thousands):

Year	Principal	Interest	Total
2007	$20,995	$20,575	$41,570
2008	22,655	19,672	42,327
2009	23,640	18,772	42,412
2010	24,765	17,623	42,388
2011	25,900	16,453	42,353
2012-2016	133,860	63,737	197,597
2017-2021	81,580	36,702	118,282
2022-2026	45,055	23,359	68,414
2027-2031	43,485	11,900	55,385
2032-2034	24,185	2,415	26,600
Total	$446,120	$231,208	$677,328

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, 2006, this liability was $0.8 million ($1.2 million in 2005).

Higher Education Capital Improvement Fund (HECIP) — Under the provisions of the State of New Jersey Higher Education Capital Improvement Fund Act (the "HECIP Act") of 1999 (P.L. 1999, c. 217), the University has been allocated $169.0 million to help finance certain of its deferred maintenance and other capital needs. The funds are provided through bonds issued by the Facilities Authority. The University is obligated to pay one-third of the debt service on the bonds. On December 20, 2000, the Facilities Authority issued bonds, the University's portion of which amounted to $75.0 million. The bonds bear an effective interest rate of 5.06% per annum and mature on September 1, 2020. Additional bonds, Series 2002 A, were issued by the Facilities Authority on November 21, 2002. The University's portion and remaining balance of the $169.0 million amounted to $94.0 million. The bonds bear an effective interest rate of 3.47% per annum and mature on September 1, 2022. In accordance with the act, the University is required to make annual lease payments to retire 33.3% of the bonds, representing the University's portion, including interest. The State of New Jersey is obligated to pay the remaining 66.7% of the annual debt service. At June 30, 2006, the University had a capital lease obligation of $52.3 million ($53.3 million in 2005).

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, 2006, the University had a capital lease obligation of $2.6 million for equipment purchased under the terms of this agreement ($3.4 million in 2005).

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, 2006, the University had a capital lease obligation of $20.7 million ($22.8 million in 2005).

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, 2006, this liability was $40.3 million ($41.8 million in 2005). 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, 2006, the estimated present value of the Hospital sublease over the full lease term, including renewal periods, amounted to $7.2 million ($7.4 million in 2005). Payments required under the lease and agreement between the University and the Housing Authority are in no way conditional upon the receipt of payments from the Hospital under the sublease and agreement.

Development Authority

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

Certificates of Participation, Series 2004

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

Future lease payments (receipts) applicable to the aforementioned capital leases at June 30, 2006 are as follows (dollars in thousands):

	Facilities Authority									
Year	Dorms	HECIP	ELF	DSTF (2001A)	DSTF (2001B)	Housing Authority	Hospital Sublease	Development Authority	Certificates of Participation	Total
2007	$461	$4,486	$939	$2,040	$33	$3,667	($653)	$1,062	$1,863	$13,898
2008	461	4,488	939	2,040	32	3,660	(652)	1,068	1,865	13,901
2009		4,488	939	2,040	32	3,664	(652)	1,098	1,862	13,471
2010		4,488		2,040	32	3,665	(653)	1,077	1,861	12,510
2011		4,487		2,039	33	3,666	(652)	1,105	1,863	12,541
2012-2016		22,451		10,199	163	18,322	(3,261)	5,692	9,303	62,869
2017-2021		22,439				18,324	(3,262)	6,015	9,285	52,801
2022-2026		12,195				7,324	(1,306)	3,825	9,265	31,303
2027-2031									9,230	9,230
2032-2036									9,187	9,187
2037-2041									3,661	3,661
Total Lease Payments	922	79,522	2,817	20,398	325	62,292	(11,091)	20,942	59,245	235,372
Less Amount Representing Interest	77	27,176	201			22,016	(3,940)	6,142	29,035	80,707
Present Value of Lease Payments	$845	$52,346	$2,616	$20,398	$325	$40,276	($7,151)	$14,800	$30,210	$154,665

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, 2006, the aggregate capitalized lease obligation associated with these agreements, which excludes future interest payments, is approximately $4.5 million ($5.4 million in 2005). 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, 2006, 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 $188.6 million. Anticipated sources of funding for these projects are summarized as follows (dollars in thousands):

	Total Project Funding		
	Received at June 30, 2006	Additional Funding Required at June 30, 2006	Estimated Total Cost
Borrowing	$58,202	$26,500	$84,702
State Bond Issues and Capital Appropriations	26,535	11,000	37,535
Gifts and Other Sources	58,741	7,584	66,325
Total	$143,478	$45,084	$188,562

The University leases certain space used in general operations. Rental expense was approximately $3.9 million in 2006 ($3.2 million in 2005). The leases are non-cancelable and have been classified as operating leases which are expected to expire through 2031. Minimum annual rental commitments approximate the following (dollar in thousands):

Year	Amount
2007	$3,057
2008	2,044
2009	1,659
2010	1,613
2011	1,351
2012-2016	4,036
2017-2021	451
2022-2026	564
2027-2031	410
Total	$15,185

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 2006 aggregated $36.1 million ($31.8 and $29.2 million in 2005 and 2004, respectively) of which $3.8 million ($4.1 and $3.3 million in 2005 and 2004, 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, 2006 was $155.4 million ($150.4 million in 2005).

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

Contributions — Covered University employees were required by PERS to contribute 5.0% of their annual compensation during fiscal year 2006 and 2005. 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, 2006 was $436.5 million ($396.0 million in 2005).

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

Contributions — The employee mandatory contribution rate for ABP is 5.0% of base salary and is matched by the State at 8.0% of base salary. Contributions can be invested with up to six investment carriers available under the plan for fiscal year 2006. 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 was administered by the State of New Jersey, but effective January 1, 2006, Prudential Financial administers this plan. The plan does not include any matching employer (State) contributions. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are held in trust by the State for the exclusive benefit of the participating employees and their beneficiaries.

NOTE 11 - COMPENSATED ABSENCES

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

The University recorded a liability for accumulated vacation time in the amount of $32.3 million at June 30, 2006 ($29.3 million in 2005). The liability is calculated based upon employees' accrued vacation time as of the Statements of Net Assets date and is recorded in accounts payable and accrued expenses in the accompanying Statements of Net Assets.

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The pay out to retirees for unused accumulated sick time is calculated at the lesser of ½ the value of earned time or $15,000. Employees separating from the University service prior to retirement are not entitled to payments for accumulated sick leave balances. The University recorded a liability for accumulated sick leave balances in the amount of $8.8 million at June 30, 2006 ($8.7 million in 2005) 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.

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 EVENT

On September 28, 2006, the University entered into the purchase of a building at 1 Washington Park in Newark, New Jersey in the amount of $31.4 million. The building is to be converted into a condominium in which 11 floors along with a proposed 15,000 square foot addition will be established as the “Rutgers Business School Space”. An $18.0 million State Appropriation was used to acquire this building. The remaining funds were advanced by the University and will be funded by future bonds.

Rutgers, The State University of New Jersey
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President

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Executive Vice President for Academic Affairs

Jeffrey C. Apfel, M.P.A., M.A.T.
Senior Vice President for Administration and Chief Financial Officer

Jonathan R. Alger, J.D.
Vice President and General Counsel

Gregory S. Blimling, Ph.D.
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Raphael J. Caprio, Ph.D.
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Provost, Camden

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

Leslie A. Fehrenbach, B.S.
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University Controller