Financial Report
2004-2005

THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

Rutgers, The State University of New Jersey

Governors and Trustees

DURING THE YEAR ENDED JUNE 30, 2005

Board of Governors

Board of Trustees

THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

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November 11, 2005

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, 2005. 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 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, 2005 and 2004, 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, 2005 and 2004, 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

November 11, 2005

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, 2005 and 2004, 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, 2005, 2004 and 2003 is as follows (dollars in thousands):

	2005	2004	2003
Assets			
Current assets	$481,884	$425,950	$356,803
Noncurrent assets:			
Endowment, restricted and other noncurrent cash and investments	690,390	666,601	666,463
Capital assets, net	1,546,964	1,481,862	1,439,879
Other assets	54,818	53,277	42,204
Total assets	2,774,056	2,627,690	2,505,349

Liabilities			
Current liabilities	190,056	175,784	166,923
Noncurrent liabilities	637,665	572,332	543,291
Total liabilities	827,721	748,116	710,214
Net assets (assets less liabilities)			
Invested in capital assets, net of debt	1,012,432	1,001,582	970,139
Restricted - expendable	333,853	327,554	347,259
Restricted - nonexpendable	243,581	220,131	191,882
Unrestricted	356,469	330,307	285,855
Total net assets	$1,946,335	$1,879,574	$1,795,135

A review of the University's statement of net assets at June 30, 2005 reflects an increase in total assets of $146.4 million in 2005. 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.

In 2004, total assets increased by $122.3 million. This increase was primarily due to an increase of $64.6 million in the University's cash and investments resulting primarily from an increase in market value of $45.4 million. Capital assets also increased by $42.0 million. Included in this increase was the capitalization of improvements to the Hale Center, improvements at the Wright-Rieman Chemistry Building, and Neilson Dining Hall.

Total liabilities for the year 2005 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.

In 2004, total liabilities increased by $37.9 million. The primary cause for the increase was due to the issuance of Series 2003D bonds in the amount of $24.8 million and the issuance of Certificates of Participation Series 2004 resulting in an additional $30.6 million liability to the University. The University also refinanced several of its general obligation bonds, Series 93-1, Series 93-A and Series 93-B, and several revenue bonds, Series S and Series T, in 2004. This refinancing resulted in a reduction of $18.5 million to the University's debt obligation. The net effect of these new issues resulted in a net increase of $37.0 million to our outstanding debt obligation. This was offset by payments to our existing debt totaling $26.9 million. The University's compensated absence liability was also increased by $3.4 million to meet the University's potential obligation for unused sick time for its employees. Deferred revenues also increased by $2.3 million as a result of an increase in the tuition rates on summer programs and an increase in the enrollments in those programs.

Net assets increased by $66.8 million in 2005 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.

In 2004, net assets increased by $84.4 million primarily as a result of the $31.4 million increase in the University's invested in capital assets. This increase is a result of a number of Higher Education Capital Improvement Program (HECIP) projects, such as the construction of the Genetics Research Laboratory facility, renovations at the Mabel Smith Library, and the Wright-Rieman Chemistry Laboratories. The University's unrestricted net assets increased by $44.5 million. The University set aside $10.0 million for academic and student aid initiatives for fiscal 2005 accounting for a major part of this increase. The University's restricted nonexpendable net assets also increased by $28.2 million primarily as a result of an increase in market values. These increases were offset by a reduction in the University's restricted expendable assets resulting primarily from the use of state funds appropriated for capital projects in prior years.

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, 2005, 2004 and 2003 is as follows (dollars in thousands):

	2005	2004	2003
Operating revenues			
Student tuition and fees (net of scholarship allowance)	$361,123	$338,445	$311,711
Grants and contracts	344,689	328,347	308,209
Auxiliary enterprises	170,123	161,351	157,444
Other operating revenues	50,660	46,134	43,617
Total operating revenues	926,595	874,277	820,981
Operating expenses	1,394,052	1,319,923	1,248,265
Operating loss	(467,457)	(445,646)	(427,284)
Nonoperating revenues and (expenses)			
State appropriations (including fringe benefits paid directly by the state)	455,033	435,347	436,122
Contributions	27,659	36,941	25,139
Endowment and investment income	22,426	13,332	17,947
Unrealized and realized gain on marketable securities	29,265	45,403	8,553
Interest on capital asset related debt	(22,423)	(21,486)	(22,419)
Net other nonoperating revenues and (expenses)	3,455	4,030	(22,969)
Net nonoperating revenues	515,415	513,567	442,373
Income before other revenues, expenses, gains and losses	47,958	67,921	15,089
Other revenues, expenses, gains and losses	18,803	16,518	92,739
Increase in net assets	66,761	84,439	107,828
Net assets at beginning of year	1,879,574	1,795,135	1,687,307
Net assets at end of year	$1,946,335	$1,879,574	$1,795,135

The University's net assets increased by $66.8 million in 2005. 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 $111.7 million of a total $142.3 million of student aid directly to student accounts. The remaining $30.6 million was paid to students and is reflected as scholarship and fellowship expense. Scholarship allowances allocated to tuition and fees amounted to $89.0 million. Another $22.7 million was allocated to residence fees, which are included in auxiliary revenues. Tuition and fees, net of scholarship allowances, increased $22.7 million in 2005. The increase resulted primarily from an increase in tuition rates of 8.00% offset by a slight decrease in enrollment and an increase of 4.7% in the scholarship allowance for additional aid awarded to students. In 2004, tuition and fees net of scholarship allowances, increased $26.7 million. The increase in 2004 resulted from a 9.4% increase in tuition rates offset by an 11.1% increase in the scholarship allowance.

Grant and contract activity continues to grow with an increase of $16.3 million in 2005. Federal and State funds received as support for student aid are included as grant revenue. 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.

In 2004, federal support for student aid increased $1.0 million and state support for student aid increased $0.2 million. Federal support increased in 2004 primarily as a result of an increase in the maximum amounts authorized under the Pell Grant Program and an increase in the number of awards made. Also in 2004, state support increased primarily due to an increase in Tuition Aid Grant awards.

Federal grants for research increased by $6.2 million in 2005. 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.

State support for research increased by $2.0 million this year. 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.

Finally, 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.

In 2004, Federal grants for research increased by $28.3 million. This increase resulted primarily from increased grant activity from two federal agencies, the National Institute of Health (NIH) and the National Science Foundation (NSF). Grants from NIH increased this year by $15.2 million and grants from NSF increased $11.2 million.

State support for research decreased by $3.0 million in 2004. This decrease is primarily attributed to a decrease in grant activity from the Commission on Science and Technology (CST). The State of New Jersey significantly reduced funding of this agency last year as a result of the State's budgetary difficulties. As a result, CST was forced to reduce its awards to the University by $3.9 million.

Finally, non-governmental grants and contracts decreased by $6.4 million in 2004. A significant cause of this decrease is the result of decrease in awards from other institutions, particularly a $3.0 million grant from Washington University of St. Louis. This grant was actually funded by the National Institute of Health (NIH) to Washington University of St. Louis who in turn "passed through" this award to Rutgers. The University is now receiving this grant directly from NIH, and it is, therefore, now included as federal grant revenue. Total grant and contract revenue from all three sources, federal, state and non-governmental, for research increased therefore by $20.1 million. As a result of this increase in revenue, total expenses for research increased by $16.3 million.

Auxiliary revenue, net of scholarship allowances, increased this year by $8.8 million while expenditures increased by $13.7 million in 2005. 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.

In 2004, Auxiliary revenue, net of scholarship allowances, increased $3.9 million while expenditures increased by $9.0 million. The increase in revenue resulted primarily from an increase in housing and dining rates. These increases were offset by a decrease in the numbers of students provided housing on campus. Expenses increased due to additional staff hired, and as in the current year, increasing utility costs and increased food costs.

Total state appropriations, including fringe benefits paid directly by the state, increased $19.7 million in 2005. 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.

In 2004, state appropriations, including fringe benefits paid directly by the state, decreased $0.8 million. The appropriation by the state for University operations actually decreased $3.8 million as a result of the State's budget imbalance that year. This decrease was offset by an increase in the state payments on behalf of the University for fringe benefits of $3.0 million. As in 2005, this increase was primarily due to health and prescription plan cost increases as well as an increase in the number of employees enrolled in the plan.

Student service expenditures increased by $6.7 million in 2005. This increase is 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.

In 2004, student service expenditures increased by $2.9 million. This increase is attributable primarily to an increase in student basic insurance cost as a result of rising healthcare costs and the addition of services covered. The University also implemented a new student undergraduate communication system to provide on-line email communication between the University and its undergraduates.

Expenditures for operation and maintenance of plant increased by $12.9 million in 2005. This increase is 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.

In 2004, expenditures for operation and maintenance of plant increased by $4.0 million. This increase is attributable to an increase of $5.0 million in fuel and utility costs. This increase was offset by a reduction in insurance costs of $1.3 million as a result of favorable settlement of workers compensation claims.

The University's endowment and investment income increased by $9.1 million this year. This increase is the result of increasing interest rates.

In 2004, the University's endowment and investment income decreased by $4.6 million. This decrease was the result of the continuing decline in interest rates, the maturity of several long term investments that were reinvested at significantly lower rates, and the movement into alternative investments.

Other revenues, expenses, gains and losses increased this year by $2.3 million. This increase is 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 this year resulting in a decrease of $2.7 million.

Other revenues, expenses, gains and losses decreased in 2004 by $76.2 million. The University received a total of $67.2 million in additional appropriations from the state for the construction, renovation or acquisition of capital assets in fiscal 2003 as a part of the Higher Education Capital Improvement Program (HECIP). This year the University only received $2.7 million from the State for the expansion of the Hale Center. This decrease of $64.5 in capital appropriations is the primary cause of the decrease in this category.

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 $65.1 million in 2005, as compared to $42.0 million in 2004. 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 2005 include:

- Construction of the Life Sciences Building, a new facility for the Department of Genetics and the New Jersey Center for Biomaterials on the Busch Campus.
- Several deferred maintenance projects to upgrade and improve existing facilities, such as the Sociology Building in Camden, Loree Building on the Douglass Campus, and Van Dyck Hall on the College Avenue Campus.
- Renovations of the Nichols Apartments on the Busch Campus.

These additions were funded primarily with the proceeds of bonds and capital appropriations from the State under the Higher Education Capital Improvement Program, the Dormitory Safety Trust Fund and the Equipment Leasing Fund. As of June 30, 2005, the University had various projects under construction or in the design stage. Significant projects include:

- A new facility on the Busch Campus for Biomedical Engineering. This facility will provide conference and classroom space, research laboratories, laboratory support facilities, teaching laboratories, faculty office and computer facilities.
- A new student housing facility on the Newark Campus. This facility will provide housing units from small efficiency units for graduate students to four bedroom units for undergraduates. In addition, space will be available for student use and retail space will also be provided.
- A renovation at Olson Hall on the Newark Campus to house Life Sciences.
- The renovation and expansion of the existing Law building on the Camden 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. In 2005, the University received a 1.0% increase in the base appropriation. In addition, the state provided $10.0 million for salary program costs in 2005. The base state appropriation to the University for 2006 has increased by 2.6%. While this is an improvement, increasing costs, particularly resulting from contractual obligations with faculty and staff, have necessitated an increase in tuition and fee charges again this year. The University has also received a separate appropriation this year from the State of $18.0 million for the construction of a facility for the Business School on the Newark Campus.

Rutgers, The State University of New Jersey

STATEMENTS OF NET ASSETS
June 30, 2005 and 2004
(dollars in thousands)

	2005	2004
ASSETS:		
Current Assets		
Cash and Cash Equivalents	$52,394	$35,222
Short-Term Investments	323,466	289,683
Accounts Receivable, net	70,679	67,794
Student Notes Receivable, net - Current Portion	7,697	7,369
Contribututions Receivable, net - Current Portion	16,061	15,071
Inventories	3,676	3,729
Prepaid Expenses and Deferred Charges	7,431	6,644
Construction Costs Reimbursable	480	438
Total Current Assets	481,884	425,950
Noncurrent Assets		
Cash and Cash Equivalents	47,784	89,204
Endowment Investments	440,371	397,987
Other Investments	202,235	179,410
Student Notes Receivable, net	29,519	30,548
Contributions Receivable, net	13,603	11,846
Bond Issuance Costs, net	11,696	10,883
Capital Assets, net	1,546,964	1,481,862
Total Noncurrent Assets	2,292,172	2,201,740
TOTAL ASSETS	2,774,056	2,627,690
LIABILITIES:		
Current Liabilities		
Accounts Payable and Accrued Expenses - Current Portion	113,885	98,898
Deferred Revenue	37,195	37,095
Payroll Withholdings	8,254	8,492
Other Payables	1,259	1,274
Annuities Payable - Current Portion	947	966
Long-Term Liabilities - Current Portion	28,516	29,059
Total Current Liabilities	190,056	175,784
Noncurrent Liabilities		
Accounts Payable and Accrued Expenses	15,757	12,088
Annuities Payable	6,328	6,396
Long-Term Liabilities	615,580	553,848
Total Noncurrent Liabilities	637,665	572,332
TOTAL LIABILITIES	827,721	748,116
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	1,012,432	1,001,582
Restricted for		
Nonexpendable		
Instruction	110,430	99,347
Scholarships and Fellowships	118,725	107,049
Libraries	6,883	6,537
Other	7,543	7,198
Expendable		
Instruction	127,869	107,169
Research	43,571	38,078
Scholarships and Fellowships	61,615	61,282
Libraries	10,870	9,403
Loans	38,813	38,577
Capital Projects	19,934	42,857
Debt Service Reserve	12,107	12,122
Renewal and Replacement Reserve	7,393	7,393
Other	11,681	10,673
Unrestricted	356,469	330,307
TOTAL NET ASSETS	$1,946,335	$1,879,574

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, 2005 and 2004
(dollars in thousands)

	2005	2004
OPERATING REVENUES		
Student Tuition and Fees (net of scholarship allowances of $88,898 in 2005 and $84,999 in 2004)	$361,123	$338,445
Federal Appropriations	7,106	6,799
Federal Grants & Contracts	201,537	196,665
State & Municipal Grants & Contracts	91,389	85,457
Nongovernmental Grants & Contracts	51,763	46,225
Auxiliary Enterprises (net of scholarship allowances of $22,653 in 2005 and $21,540 in 2004)	170,123	161,351
Other Operating Revenues	43,554	39,335
Total Operating Revenues	926,595	874,277
OPERATING EXPENSES		
Educational and General		
Instruction	477,546	439,715
Sponsored Research	154,575	149,754
Other Separately Budgeted Research	65,800	63,094
Other Sponsored Programs	66,176	66,288
Extension and Public Service	29,045	27,162
Libraries	34,864	34,486
Student Services	59,968	53,268
Operations and Maintenance of Plant	120,846	107,905
General Administration and Institutional	93,755	91,487
Scholarships and Fellowships	30,644	29,750
Depreciation	88,160	97,265
Auxiliary Enterprises	171,341	157,656
Other Operating Expenses	1,332	2,093
Total Operating Expenses	1,394,052	1,319,923
Operating Loss	(467,457)	(445,646)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	332,300	318,580
State Paid Fringe Benefits	122,733	116,767
Contributions	27,659	36,941
Endowment and Investment Income (net of investment management fees of $2,206 in 2005 and $1,907 in 2004)	22,426	13,332
Unrealized and Realized Gain on Marketable Securities	29,265	45,403
Interest on Capital Asset Related Debt	(22,423)	(21,486)
Loss on Disposal of Capital Assets	(621)	(833)
Other Nonoperating Revenues	4,076	4,863
Net Nonoperating Revenues	515,415	513,567
Income before Other Revenues and Expenses	47,958	67,921
Capital Appropriations		2,688
Capital Grants and Gifts	6,762	6,341
Additions to Permanent Endowments	12,041	7,489
Increase in Net Assets	66,761	84,439
Net Assets - Beginning of the Year	1,879,574	1,795,135
Net Assets - End of the Year	$1,946,335	$1,879,574

See accompanying notes to the financial statements

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2005 and 2004
(dollars in thousands)

	2005	2004
Cash Flows from Operating Activities		
Student Tuition and Fees	$403,117	$382,677
Research Grants and Contracts	359,451	331,496
Federal Appropriations	9,057	6,980
Payments to Employees and for Benefits	(709,944)	(662,871)
Payments to Suppliers	(384,162)	(343,568)
Payments for Utilities	(57,604)	(52,566)
Payments for Scholarships and Fellowships	(64,998)	(77,305)
Collection of Loans to Students and Employees	9,294	8,805
Auxiliary Enterprise Receipts:		
Housing	71,902	69,337
Dining	41,036	39,022
Athletics	9,628	8,437
Parking	5,643	5,766
Other	18,912	19,103
Other Receipts	40,161	34,454
Net Cash Used by Operating Activities	(248,507)	(230,233)
Cash Flows from Noncapital Financing Activities		
State Appropriations	330,780	317,351
Contributions for other than Capital Purposes	23,322	40,382
Contributions for Endowment Purposes	16,751	8,408
Net Cash Provided by Noncapital Financing Activities	370,853	366,141
Cash Flows from Financing Activities		
Proceeds from Capital Debt and Leases	103,820	191,740
Capital Appropriations		6,142
Capital Grants and Gifts Received	4,745	1,910
Purchases of Capital Assets and Construction	(137,648)	(135,753)
Principal Paid on Capital Debt and Leases	(24,908)	(26,228)
Interest Paid on Capital Debt and Leases	(29,187)	(24,713)
Debt Defeasance	(15,233)	(146,804)
Bond Issuance Costs	(1,274)	(2,438)
Other Receipts	1,299	2,480
Net Cash Used by Financing Activities	(98,386)	(133,664)
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	4,482,321	4,020,631
Investment Income	22,770	15,668
Purchases of Investments	(4,553,299)	(4,112,317)
Net Cash Used by Investing Activities	(48,208)	(76,018)
Net Decrease in Cash and Cash Equivalents	(24,248)	(73,774)
Cash and Cash Equivalents - Beginning of the Year	124,426	198,200
Cash and Cash Equivalents - End of the Year	$100,178	$124,426

Continued on next page.

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS (cont'd)

For the Years Ended June 30, 2005 and 2004
(dollars in thousands)

	2005	2004
Reconciliation of operating loss to net cash used by operating activities:		
Operating Loss	($467,457)	($445,646)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
State Paid Fringe Benefits	122,733	116,767
Depreciation	88,160	97,265
Payment in Lieu of Taxes	700	700
Adjustment of Actuarial Liability for Annuities Payable		791
Changes in Assets and Liabilities:		
Receivables, net	22	(7,274)
Inventories	53	(27)
Prepaid Expenses and Deferred Charges	(1,112)	(529)
Accounts Payable and Accrued Expenses	8,951	3,033
Deferred Revenue	100	2,288
Payroll Withholdings	(238)	1,869
Other Payables	(419)	530
Net Cash Used by Operating Activities	($248,507)	($230,233)

See accompanying notes to the financial statements.

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: Chief Financial Officer.

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 $69.0 million at June 30, 2005 ($68.0 million in 2004). Income derived from such irrevocable trust funds held by others, aggregating approximately $2.8 million in 2005 and $1.8 million in 2004, is reported in the accompanying financial statements as nonoperating revenues.

Inventories

Inventories are stated at lower of cost or market. Cost is determined principally on a first-in, first-out basis.

Bond Issuance Costs

The University 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 (5.0 million in 2004) 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, 2005, the University disbursed $151.3 million ($144.9 million in 2004) 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 accounting principles generally accepted in the United States of America 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. Comparative information at June 30, 2004 is not presented in the accompanying notes to the financial statements.

University Only
Cash and Cash Equivalents

The University's cash and cash equivalents balance at June 30, 2005 includes a cash book balance of $1.0 million ($2.4 million in 2004). The actual amount of cash on deposit in the University's bank accounts at June 30, 2005 was $19.0 million ($19.2 million in 2004). Of this amount, $0.4 million ($0.4 million in 2004) was insured by the Federal Deposit Insurance Corporation at June 30, 2005. $18.5 million ($18.8 million in 2004) was collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes at June 30, 2005, and $0.1 million ($0.0 million in 2004) was uninsured and uncollateralized at June 30, 2005.

The University's cash and cash equivalents are carried in the financial statements at fair value, consist of the following as of June 30, 2005 and 2004 (dollars in thousands):

	2005	2004
Money Market Funds	$75,536	$80,351
Repurchase Agreements	4,894	19,596
Cash and Deposits	656	2,382
Total Cash and Cash Equivalents	$81,086	$102,329

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 at June 30, 2005 and 2004 are as follows (dollars in thousands):

	2005	2004
Commercial Paper	$232,144	$229,962
US Government Direct Securities	85,393	78,880
US Government Agency Securities	214,235	248,283
Commodities	18,924	
US Corporate Debt Securities	675	3,061
Foreign Corporate Debt Securities	397	515
US Corporate Equities	204,884	206,471
Foreign Corporate Equities	88,042	56,819
Asset-backed Securities		75
Real Estate	98,474	18,030
Total Investments	$943,168	$842,096

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. The following table summarizes the maturities as of June 30, 2005 (dollars in thousands):

		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				

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, 2005, the University's investment quality ratings as rated by Standard & Poor's were as follows (dollars in thousands):

Investment Type	Quality Rating	Market Value
US Government Agencies	AAA	$186,260
Corporate Bonds	AA+	81
Corporate Bonds	AA	317
Corporate Bonds	A-	558
Corporate Bonds	BBB+	107
Corporate Bonds	BB+	9
Commercial Paper	A-1+	221,326
Commercial Paper	A-1	124,187
Total		$532,845

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, 2005, the University had $247.2 million of investments that were uninsured or unregistered but not in the University's name.

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 limits 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.

Rutgers University Foundation
Cash and Cash Equivalents

The Foundation's cash and cash equivalents are carried in the financial statements at fair value and consist of the following as of June 20, 2005 and 2004 (dollars in thousands):

	2005	2004
Money Market Funds	$3,899	$4,512
Cash and Deposits	15,193	17,585
Total Cash and Cash Equivalents	$19,092	$22,097

Investments

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 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 Foundation's assets within General Endowment Fund and Planned Giving Portfolio are divided into an Equity Portion (equities including convertibles and cash devoted to equities) and a Fixed Income Portion (bonds, notes, non-convertible preferred stock and cash devoted to fixed income).

Investments are carried in the financial statements at fair value, based on quoted market values, and consist of the following as of June 30, 2005 and 2004 (dollars in thousands):

	2005	2004
US Treasury Securities	$1,591	$1,587
US Agency Securities	2,103	2,098
Corporate Bonds	4,334	5,295
Mortgage-backed Securities	3,075	3,320
Common Stock	10,638	9,939
Other Investments	1,163	2,744
Total Investments	$22,904	$24,983

Custodial Credit Risk

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, 2005 and 2004, the Foundation had insured deposits up to the Federal Deposit Insurance Corporation ("FDIC") coverage limits totaling $0.3 million and $0.4 million, respectively. Cash and cash equivalents in excess of those balances are uncollateralized.

Concentration of Credit Risk

The Foundation limits the concentration of credit risk by placing a limit on the amount the investment managers may invest in any one issuer. No initial purchase of an equity security in any one issuer should exceed 5% of the equity portion of the Foundation's assets under management by each investment manager. In addition, no single equity security should be greater than 10% of the market value of the Foundation's assets under management.

Credit Risk

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, 2005, the Foundation's investment quality ratings as rated by Standards & Poors were as follows (dollars in thousands):

Investment Type	Quality Rating	Market Value
US Government Agencies	AAA	$3,694
Mortgage-backed Securities	AAA	3,075
Corporate Bonds	AA	2,929
Corporate Bonds	A	884
Corporate Bonds	A1	316
Corporate Bonds	BBB+	137
Corporate Bonds	BB+	68
Total		$11,103

Interest Rate Risk

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. The following table summarizes the maturities as of June 30, 2005 (dollars in thousands):

Investment Type	Market Value	Investment Maturities (in years) 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

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, 2005 and 2004 (dollars in thousands):

	Accounts Receivable	Allowance	Net 2005	Net 2004
Government Grants Receivable and Other Sponsored Programs	$50,544	$430	$50,114	$47,616
Student Accounts Receivable	4,034	1,516	2,518	2,200
Other	18,531	484	18,047	17,978
Total	$73,109	$2,430	$70,679	$67,794

Students' notes receivable in the Statements of Net Assets are also shown net of the allowance for doubtful notes which amounted to $3.7 million at June 30, 2005 ($3.7 million in 2004).

The allowances for doubtful accounts and notes are based upon management's best estimate of uncollectible accounts and notes at June 30, 2005 and 2004, 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	Amount
2006	$18,248
2007-2010	13,603
	31,851
Less allowance for uncollectible receivables	(2,187)
Total	$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 $34.8 million at June 30, 2005 ($22.7 million in 2004) 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, 2005 and 2004 is as follows (dollars in thousands):

	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.

	Balance 2003	Additions	Retirements/ Capitalization	Balance 2004
Capital Assets Not Being Depreciated:				
Land	$40,121	$4,967		$45,088
Capitalized Collections	42,299	2,097		44,396
Construction in Progress	73,709	95,324	$94,596	74,437
Total	156,129	102,388	94,596	163,921
Capital Assets Being Depreciated:				
Land Improvements	175,794	12,129		187,923
Buildings	1,448,302	90,882	286	1,538,898
Equipment	526,388	29,278	120,212	435,454
Total	2,150,484	132,289	120,498	2,162,275
Less Accumulated Depreciation:				
Land Improvements	57,310	15,320		72,630
Buildings	446,027	40,419	57	486,389
Equipment	363,397	41,526	119,608	285,315
Total	866,734	97,265	119,665	844,334
Net Capital Assets Being Depreciated	1,283,750	35,024	833	1,317,941
Total Capital Assets (net)	$1,439,879	$137,412	$95,429	$1,481,862

During 2004, the University has capitalized interest income of $596 thousand and interest expense of $2,814 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, 2005 and 2004 (dollars in thousands):

	2005	2004
Vendors	$37,716	$30,895
Compensated Absences	38,074	33,654
Accrued Salaries and Benefits	28,188	22,701
Retainage	6,513	5,890
Workers Compensation	9,076	8,963
Interest Payable	3,499	3,570
Other Accrued Expenses	6,576	5,313
Total	$129,642	$110,986

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2005 and 2004 is as follows (dollars in thousands):

	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	$701,255	$122,798	$43,040	$781,013	$143,348

	Balance 2003	Additions	Reductions	Balance 2004	Current Portion
Accounts Payable and Accrued Expenses	$105,497	$5,489		$110,986	$98,898
Annuities Payable	6,572	790		7,362	966
Long-Term Liabilities	555,507	186,750	$159,350	582,907	29,059
Total	$667,576	$193,029	$159,350	$701,255	$128,923

NOTE 8 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2005 and 2004 is as follows (dollars in thousands):

	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

	Balance 2003	Additions	Retirements	Balance 2004	Current Portion
General Obligation Bonds Payable	$334,321	$146,383	$106,974	$373,730	$18,441
Revenue Bonds Payable	77,702	416	44,595	33,523	2,251
Lease Obligations	141,909	39,006	7,637	173,278	8,267
Notes Payable	1,575	945	144	2,376	100
Total Long-Term Liabilities	$555,507	$186,750	$159,350	$582,907	$29,059

OTHER OBLIGATIONS OF THE UNIVERSITY

Notes Payable

Notes payable at June 30, 2005 and 2004 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, 2005 or 2004.

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 will be 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, dated June 26, 2002. 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, 2005, the outstanding amount due on the loans was $0.8 million ($0.9 million in 2004).

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

A summary of bonds issued and outstanding at June 30, 2005 and 2004 is as follows (dollars in thousands):

	Date Of Series	Original Amount	Outstanding June 30, 2005	2004
Revenue Refunding Bonds:				
Series U, 4.89% effective, due serially to May 1, 2021	Dec. 1, 1997	$40,015	$28,920	$30,560
Total Revenue Refunding Bonds		40,015	28,920	30,560
Revenue Bonds:				
Series E, 3.75%, due serially to May 1, 2016	May 1, 1967	1,200	485	520
Series F, 3.00%, due serially to May 1, 2016	Nov. 1, 1967	2,350	870	940
Series H, 5.90% effective, due serially to May 1, 2007	Nov. 1, 1970	8,300	1,140	1,655
Total Revenue Bonds		11,850	2,495	3,115
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	90,100	96,700
2003 Series C, 3.41% effective, due serially to May 1, 2019	July 15, 2003	111,320	94,540	102,150
Total General Obligation Refunding Bonds		315,690	211,245	225,455
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	21,795	22,320
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	44,455	45,470
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	48,245	49,130
2003 Series D, 3.74% effective, due serially to May 1, 2019	Dec. 1, 2003	24,805	22,250	23,525
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	86,725	
Total General Obligation Bonds		236,915	223,470	140,445
Total Bonds		$604,470	$466,130	$399,575

The General Obligation Bonds Payable includes premium on bonds, net of bond discounts, of $8.5 million at June 30, 2005 ($7.8 million in 2004, 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 $143 thousand at June 30, 2005 ($152 thousand in 2004) 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 $90.1 million. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.96% to the counterparty to the swap. In return, the counterparty owes the University floating rate interest based on the BMA

Municipal Swap Index. Only the net difference in interest payments is actually exchanged with the counterparty. The $110.0 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of $4.6 million at June 30, 2005 (negative $3.5 million in 2004). 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, 2005 and June 30, 2004, the University was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA+ by Standard & Poor's at June 30, 2005 (AA+ by Standard & Poor's in 2004).

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, 2005 of 3.75% (3.89% in 2004). If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. At June 30, 2005, the BMA rate was 2.43% (1.06% in 2004).

The swap terminates on February 4, 2018, but is cancelable at the option of the counterparty under certain circumstances. Beginning on May 1, 2005, the counterparty may terminate the swap on each day that the average of the BMA index for the immediately 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, 2005, 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, 2005, 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**
2006	$6,800	$2,000	$1,379	$10,179
2007	7,000	1,849	1,274	10,123
2008	3,500	1,694	1,167	6,361
2009	3,700	1,616	1,114	6,430
2010	3,800	1,534	1,057	6,391
2011-2015	32,300	6,223	4,289	42,812
2016-2018	33,000	1,483	1,022	35,505
Total	$90,100	$16,399	$11,302	$117,801

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 2005, $0.3 million has been expensed leaving $3.9 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, 2005 are as follows (dollars in thousands):

Year	Principal	Interest	Total
2006	$20,010	$21,436	$41,446
2007	20,995	20,575	41,570
2008	22,655	19,671	42,326
2009	23,640	18,771	42,411
2010	24,765	17,623	42,388
2011-2015	132,130	69,878	202,008
2016-2020	99,545	41,029	140,574
2021-2025	44,810	25,554	70,364
2026-2030	46,095	14,145	60,240
2031-2034	31,485	3,962	35,447
Total	$466,130	$252,644	$718,774

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, 2005, this liability was $1.2 million ($1.6 million in 2004).

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, 2005, the University had a capital lease obligation of $53.3 million ($54.1 million in 2004).

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, 2005, the University had a capital lease obligation of $3.4 million for equipment purchased under the terms of this agreement ($4.1 million in 2004).

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, 2005, the University had a capital lease obligation of $22.8 million ($24.9 million in 2004).

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, 2005, this liability was $41.8 million ($43.3 million in 2004). 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, 2005, the estimated present value of the Hospital sublease over the full lease term, including renewal periods, amounted to $7.4 million ($7.7 million in 2004). 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, 2005, the outstanding balance of this obligation was $15.3 million.

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, 2005, the University had a capital lease obligation of $30.6 million ($30.6 million in 2004).

Future lease payments (receipts) applicable to the aforementioned capital leases at June 30, 2005 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
2006	$464	$3,598	$940	$2,040	$33	$3,659	($652)	$806	$1,866	$12,754
2007	461	4,486	939	2,040	33	3,667	(653)	821	1,863	13,657
2008	461	4,488	939	2,040	32	3,660	(652)	835	1,865	13,668
2009		4,488	939	2,040	32	3,663	(652)	874	1,862	13,246
2010		4,488		2,040	32	3,665	(653)	861	1,861	12,294
2011-2015		22,452		10,199	162	18,325	(3,262)	4,702	9,305	61,883
2016-2020		22,451		2,039	33	18,322	(3,261)	5,331	9,290	54,205
2021-2025		16,673				10,991	(1,959)	4,882	9,268	39,855
2026-2030									9,239	9,239
2031-2035									9,196	9,196
2036-2039									5,496	5,496
Total Lease Payments	1,386	83,124	3,757	22,438	357	65,952	(11,744)	19,112	61,111	245,493
Less Amount Representing Interest	151	29,871	351			24,120	(4,317)	3,837	30,476	84,489
Present Value of Lease Payments	$1,235	$53,253	$3,406	$22,438	$357	$41,832	($7,427)	$15,275	$30,635	$161,004

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, 2005, the aggregate capitalized lease obligation associated with these agreements, which excludes future interest payments, is approximately $5.4 million ($6.8 million in 2004). 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, 2005, 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 $277.0 million. Anticipated sources of funding for these projects are summarized as follows (dollars in thousands):

	Total Project Funding		
	Received at June 30, 2005	Additional Funding Required at June 30, 2005	Estimated Total Cost
Borrowing	$168,075		$168,075
State Bond Issues and Capital Appropriations	34,667	$11,000	45,667
Gifts and Other Sources	52,782	10,502	63,284
Total	$255,524	$21,502	$277,026

The University leases certain space used in general operations. Rental expense was approximately $2.9 million in 2005 ($2.8 million in 2004). The leases are non-cancelable and have been classified as operating leases which are expected to expire through 2035. Minimum annual rental commitments approximate the following (dollar in thousands):

Year	Amount
2006	$2,978
2007	1,672
2008	1,367
2009	1,067
2010	1,040
2011-2015	4,227
2016-2020	305
2021-2025	305
2026-2030	258
2031-2035	48
Total	$13,267

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 2005 aggregated $31.5 million ($29.2 and $28.7 million in 2004 and 2003, respectively) of which $4.1 million ($3.3 and $3.6 million in 2004 and 2003, 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, 2005 was $150.4 million ($145.9 million in 2004).

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 2005 and 3.0% in fiscal year 2004. 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, 2005 was $396.0 million ($368.4 million in 2004).

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 2005. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code.

Other Retirement Plans

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

Post-Retirement Health Care Benefits

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

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

Deferred Compensation Plan

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

NOTE 11 - COMPENSATED ABSENCES

The University 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 $29.3 million at June 30, 2005 ($27.2 million in 2004). The liability is calculated based upon employees' accrued vacation time as of the Statements of Net Assets date. The University also recorded a liability for the Early Retirement Incentive (ERI) program which was offered to regular full time employees who are eligible for the State Health Benefits Program and meet certain eligibility criteria based upon age and years of service. The amount recorded was $0.1 million at June 30, 2005 ($0.1 million in 2004). The liabilities above were 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 $8.7 million at June 30, 2005 ($6.3 million in 2004) 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.

Rutgers, The State University of New Jersey
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President

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Executive Vice President for Academic Affairs

Karen Kavanagh, M.S.
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