Financial Report
2003-2004

THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

Rutgers, The State University of New Jersey

Governors and Trustees

DURING THE YEAR ENDED JUNE 30, 2004

Board of Governors

Board of Trustees

THE STATE UNIVERSITY OF NEW JERSEY
RUTGERS

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October 19, 2004

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, 2004. 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

KPMG

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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, 2004 and 2003, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

KPMG LLP

October 19, 2004

Rutgers, The State University of New Jersey

Management's Discussion and Analysis

JUNE 30, 2004 and 2003

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, 2004 and 2003, and its results of operations for the years then ended. Management has prepared the financial statements and related footnote disclosures along with this MD&A in accordance with generally accepted accounting principles as defined by the Governmental Accounting Standards Board for public colleges and universities. This MD&A should be read in conjunction with the audited financial statements and related footnotes of the University, which directly follow the MD&A.

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

The financial reporting entity of Rutgers includes its 29 degree granting schools, of which 16 offer graduate programs of study. These schools are located on three regional campuses in New Brunswick (Piscataway), Newark and Camden. The financial statements also include the financial activity of the Rutgers University Foundation, which administers the fundraising activities for the University.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets (current and noncurrent), liabilities (current and noncurrent) and net assets (the difference between total assets and total liabilities) of the University. Net assets is one indicator of the financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

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

Current liabilities include all liabilities that are payable within the next fiscal year. Deferred revenues, principally from summer programs, are also presented as current liabilities. Liabilities that are due to be paid beyond the next fiscal year are reported as noncurrent liabilities.

Net assets consist of three major categories. The first category, invested in capital assets, net of debt, represents the institution's equity in property, plant and equipment. The next category is restricted net assets, which is divided into two categories, non-expendable and expendable. Nonexpendable net assets are those resources that have been set aside and invested as required by the provider of the resources. These funds are not available for expenditures, but rather must be invested in perpetuity with the earnings on those investments to be used as specified by the external entity at the time the resources are received. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as specified by external entities. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose. Substantially all of the University's unrestricted net assets have been designated by the governing boards or management to support specific programs such as student activities, research projects, continuing education and summer programs, agricultural experiment station activities, junior year abroad programs, auxiliary enterprises and other self-supporting organized activities relating to educational departments as well as capital projects. Many of these designations result from the funds being earned through special purpose fees charged for the specific purposes. The University, therefore, has an obligation to its students to maintain these funds for the purposes that they were received.

A summarized comparison of the University's assets, liabilities and net assets at June 30, 2004 and 2003 is as follows (dollars in thousands):

	2004	2003	2002
Assets			
Current assets	$425,950	$356,803	$345,378
Noncurrent assets:			
Endowment, restricted and other noncurrent cash and investments	666,601	666,463	557,177
Capital assets, net	1,481,862	1,439,879	1,396,470
Other assets	53,277	42,204	34,830
Total assets	2,627,690	2,505,349	2,333,855

Liabilities			
Current liabilities	175,784	166,923	163,179
Noncurrent liabilities	572,332	543,291	483,369
Total liabilities	748,116	710,214	646,548
Net assets (assets less liabilities)			
Invested in capital assets, net of debt	1,001,582	970,139	927,679
Restricted - expendable	336,962	347,259	311,502
Restricted - nonexpendable	220,131	191,882	183,582
Unrestricted	320,899	285,855	264,544
Total net assets	$1,879,574	$1,795,135	$1,687,307

A review of the University's statement of net assets at June 30, 2004 reflects an increase in total assets of $122.3 million in 2004. 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.

In 2003, total assets increased by $171.5 million primarily due to an increase of $109.3 million in the University's noncurrent cash and investments. This increase was a result of additional Higher Education Capital Improvement Program bonds issued by the state in 2003 which provided $94.0 million and the proceeds from Series 2002B bonds issued by the University which provided $43.4 million. The proceeds of these bonds will be used to finance capital expenditures.

Total liabilities for the year 2004 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.

In 2003, total liabilities increased by $63.6 million. The primary cause for the increase was due to the issuance of Series 2002B bonds in the amount of $50.0 million and the issuance of additional Higher Education Capital Improvement bonds resulting in an additional $31.3 million liability to the University. These programs resulted in a total increase of $46.3 million to our outstanding debt obligation. This was offset by payments to our existing debt totaling $23.3 million. Deferred revenues also increased by $2.5 million as a result of an increase in the tuition rates on summer programs and an increase in the enrollments in those programs.

Net assets increased by $84.4 million in 2004 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 $35.0 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.

In 2003, net assets increased by $107.8 million primarily as a result of the $42.4 million increase in the University's invested in capital assets. This increase was a result of a number of Higher Education Capital Improvement Program (HECIP) projects, such as the renovations at the Wright-Rieman Chemistry Building, the Engineering Building, Lipman Hall, and the relocation of underground utilities. The University's restricted expendable net assets increased $35.7 million in 2003 primarily as a result of the grant portion of the Higher Education Capital Improvement Program received from the State restricted for use on deferred maintenance projects throughout the University.

Statement of Revenues, Expenses, and Changes in Net Assets

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

A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2004 and 2003 is as follows (dollars in thousands):

	2004	2003	2002
Operating revenues			
Student tuition and fees (net of scholarship allowance)	$338,445	$311,711	$273,842
Grants and contracts	328,347	308,209	287,246
Auxiliary enterprises	161,351	157,444	152,124
Other operating revenues	46,134	43,617	35,654
Total operating revenues	874,277	820,981	748,866
Operating expenses	1,319,923	1,248,265	1,181,313
Operating loss	(445,646)	(427,284)	(432,447)
Nonoperating revenues and expenses			
State appropriations (including fringe benefits paid directly by the state)	435,347	436,122	436,602
Gifts	36,941	25,139	35,067
Endowment and investment income	13,332	17,947	25,755
Unrealized and realized gain (loss) on marketable securities	45,403	8,553	(29,179)
Interest on capital asset related debt	(21,486)	(22,419)	(23,577)
Net other nonoperating revenues and (expenses)	4,030	(22,969)	1,107
Net nonoperating revenues and (expenses)	513,567	442,373	445,775
Income before other revenues, expenses, gains and losses	67,921	15,089	13,328
Other revenues, expenses, gains and losses	16,518	92,739	90,895
Increase in net assets	84,439	107,828	104,223
Net assets at beginning of year	1,795,135	1,687,307	1,583,084
Net assets at end of year	$1,879,574	$1,795,135	$1,687,307

The University's net assets increased by $84.4 million in 2004. A major part of that increase resulted from an increase in market value of the University's investments of $45.4 million. Another $9.0 million of this increase was attributable to capital appropriations, grants and gifts that were used to construct, renovate or acquire capital assets. In addition, $7.5 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 $106.5 million of a total $136.3 million of student aid directly to student accounts. The remaining $29.8 million was paid to students and is reflected as scholarship and fellowship expense. Scholarship allowances allocated to tuition and fees amounted to $85.0 million. Another $21.5 million was allocated to residence fees, which are included in auxiliary revenues. Tuition and fees, net of scholarship allowances, increased $26.7 million in 2004. The increase resulted primarily from an increase in tuition rates that averaged 9.35% offset by an increase of 11.1% in the scholarship allowance for additional aid awarded to students. In 2003, tuition and fees net of scholarship allowances, increased $37.9 million. The increase in 2003 resulted from a 9.8% increase in tuition rates and a 2.3% increase in enrollment.

Grant and contract activity continues to grow with an increase of $20.1 million in 2004. Federal and State funds received as support for student aid are included as grant revenue. The University received an increase of $1.0 million in federal support and an increase of $0.2 million in state support for student aid in 2004. The federal support increased primarily as a result of an increase in the maximum amounts authorized under the Pell Grant Program as well as an increase in the number of awards that provided an additional $1.0 million to the University. The State support increased primarily due to an increase in Tuition Aid Grant awards this year.

In 2003, federal support for student aid increased $3.8 million and state support for student aid increased $1.4 million. As in 2004, federal support increased in 2003 primarily as a result of an increase in the maximum amounts authorized under the Pell Grant Program that provided an additional $3.9 million to the University. Also in 2003, state support increased primarily due to an increase in Tuition Aid Grant awards.

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 this year. 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. 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.

In 2003, Grant and contract revenue increased $21.0 million. The University received an increase of $3.8 million in federal support and $1.4 million in state support for student aid. The federal support increased primarily as a result of an increase in the maximum amounts authorized under the Pell Grant Program that provided an additional $3.9 million to the University. The State support increased primarily due to an increase in Tuition Aid Grant awards that year.

Federal grants for research increased by $17.1 million in 2003. This increase resulted primarily from several large grants received in 2003; in particular, the University's National Transit Institute received an increase of $4.0 million in their award from the Federal Transit Administration, $4.1 million was received from the National Science Foundation for the Macromolecular Structural Database project, and $2.4 million from the Healthcare Financing Administration for a National Technical Assistance Exchange.

In 2003, State support for research increased by $1.6 million. This increase was primarily attributed to an increase in grant activity from two State agencies. The State of New Jersey Department of Health and Senior Services grant revenue increased by $1.7 million and the State of New Jersey Department of Law increased by $1.4 million. These increases were offset by a decrease from the Commission on Higher Education of $1.9 million resulting from the discontinuation of the Capacity Building Funds Program.

Finally, non-governmental grants and contracts decreased by $2.9 million in 2003. Therefore, total grant and contract revenue from all three sources, federal, state and non-governmental, for research increased by $15.8 million in 2003. As a result of this increase in revenue, total expenses for research increased by $22.3 million.

Auxiliary revenue, net of scholarship allowances, increased this year by $3.9 million while expenditures increased by $9.0 million in 2004. 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, increasing utility costs, increased food costs due to an increased participation in the meal plans by students as well as rising food costs.

In 2003, Auxiliary revenue, net of scholarship allowances, increased $5.3 million while expenditures increased only $5.0 million. The increase in revenue resulted primarily from an increase in housing and dining rates.

Total state appropriations, including fringe benefits paid directly by the state, decreased $0.8 million in 2004. The appropriation by the state for University operations actually decreased $3.8 million. While the state had maintained the University's appropriation at the same level as fiscal 2003, a portion of the appropriation was to be used for expenditures associated with the implementation of the New Jersey Commission on Health, Science, Education and Training recommendation to create a single research university system. On December 12, 2003 these activities were suspended and the State retained any unspent funds allocated for this project. This decrease was offset by an increase in the state payments on behalf of the University for fringe benefits of $3.0 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 2003, state appropriations, including fringe benefits paid directly by the state, decreased $0.5 million. The appropriation by the state for University operations actually decreased $13.9 million as a result of the State's budget imbalance that year. This decrease was offset by an increase in the state payments on behalf of the University for fringe benefits of $13.4 million. As in 2004, 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 $2.9 million in 2004. 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.

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

Expenditures for operation and maintenance of plant increased by $4.0 million in 2004. 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.

In 2003, expenditures for operation and maintenance of plant increased by $9.4 million. Insurance costs were responsible for much of this increase. Self insurance reserves were increased as a result of an increase in claims and the occurrence of several significant claims in 2003. In addition, insurance premiums increased by approximately 52.0% in 2003 as a result of the difficult insurance market.

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

In 2003, the University's endowment and investment income decreased by $7.8 million. This decrease was also the result of the continuing decline in interest rates, the maturity of several long term investments that were reinvested at significantly lower rates, and the movement into alternative investments.

In 2003, the University established a policy on the valuation of patents that only the actual cash received and the fair market value of any tangible property received in connection with the patent will be recorded. A value will only be assigned to the intellectual property if there are licenses in place that will generate a clear and convincing revenue stream of royalty income that will exceed the expenditures required to manage and market the technology. In that case, the patent will be valued at the present value of the estimated net revenues expected. A review of the existing patent recorded has determined that there are no clear and convincing revenues at this time, and therefore, the value was written down to reflect only the tangible assets received. This resulted in a write down of $25.5 million which appears as loss/disposal on capital assets in the Statement of Revenues, Expenses, and Changes in Net Assets during 2003. No similar write off occurred in 2004.

Other revenues, expenses, gains and losses declined this year 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 $42.0 million in 2004, as compared to $43.4 million in 2003. 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 2004 include:

- Expansion of the Hale Center to provide additional training and academic support facilities for the University's athletic programs.
- Several deferred maintenance projects to upgrade and improve existing facilities, such as the Wright-Rieman Laboratories, Mabel Smith Douglass Library, Nelson Biology Laboratories, and Olson Hall.
- Renovations of the Nielson Dining Hall on the Cook/Douglass 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, 2004, the University had various projects under construction or in the design stage. Significant projects include:

- A new facility to provide laboratory space for the Department of Genetics and the New Jersey Center for Biomaterials to be constructed on the Busch Campus. The project will also include a multi purpose atrium to provide a central meeting place for the Division of Life Sciences.
- A new facility on the Busch Campus for Biomedical Engineering. This facility will provide conference and classroom space, research laboratories, laboratory support facilities, teaching laboratories, faculty office and computer facilities.
- 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.
- The renovation and expansion of the existing Law building on the Camden campus.

In 2004, the University issued general obligation bonds, 2003 Series D, in the amount of $24.8 million. The proceeds of this debt issue will be used primarily for the deferred maintenance project throughout the University. In addition, under the terms of an agreement between the University and the Lower George Street University Redevelopment Associates, Certificates of Participation, Series 2004, were issued in the amount of $30.6 million. The proceeds from these Certificates will be used to acquire property and construct a facility that will serve as the headquarters for the University's Division of Public Safety, provide additional office space and a parking garage to support the University's educational functions. The University also issued general obligation refunding bonds, 2003 Series C, to refinance its general obligation bonds, Series 93-1, Series 93-A, and Series 93-B, and its revenue bonds, Series S and Series T.

Economic Outlook

As the State University of New Jersey, the appropriation from the State represents a vital part of University's funding. The continuing economic problems experienced by the State resulted in a reduction of the appropriation to the University for fiscal year 2004 of $3.8 million. The University addressed this shortfall through various means such as reduction of other costs, increases in tuition and fee charges, reallocation of University reserves, fundraising and the use of debt financing. The base state appropriation to the University for 2005 has increased by 1.0%. 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.

Current indications are that the state economy is improving. The unemployment rate in New Jersey has improved this year and continues to remain below the national average.

In April 2000, the Boards of the University endorsed a major capital campaign. The goal of this campaign was to raise $500.0 million by June 2004. The Foundation exceeded this goal and closed the campaign with a total of $615.3 million in cash and pledges.

On July 1, 2004 the University issued General Obligation Bonds, 2004 Series E in the amount of $86.7 million to finance the cost of construction of facilities on the New Brunswick, Newark and Camden campuses. These projects include a new student-housing facility on the Newark Campus, the expansion and renovation of the Camden Law School, reconstruction of the Administrative Services Building on the New Brunswick Campus, the construction of a new College of Nursing Building in New Brunswick that will include academic, administrative offices and teaching laboratories, and finally to complete the fit-out and equipping of the Public Safety Building currently under construction on the New Brunswick campus. Both Moody's and Standard & Poor's maintained their bond ratings for the University during their reviews of this new debt offering.

Rutgers, The State University of New Jersey

STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

(dollars in thousands)

	2004	2003
ASSETS:		
Current Assets		
Cash and Cash Equivalents	$35,222	$27,416
Short-Term Investments	289,683	233,021
Accounts Receivable, net	67,794	61,200
Student Notes Receivable, net - Current Portion	7,369	7,340
Contribututions Receivable, net - Current Portion	15,071	12,830
Inventories	3,729	3,702
Prepaid Expenses and Deferred Charges	6,644	6,196
Construction Costs Reimbursable	438	5,098
Total Current Assets	425,950	356,803
Noncurrent Assets		
Cash and Cash Equivalents	89,204	170,784
Endowment Investments	397,987	359,879
Other Investments	179,410	135,800
Student Notes Receivable, net	30,548	30,074
Contributions Receivable, net	11,846	6,581
Bond Issuance Costs, net	10,883	5,549
Capital Assets, net	1,481,862	1,439,879
Total Noncurrent Assets	2,201,740	2,148,546
TOTAL ASSETS	2,627,690	2,505,349
LIABILITIES:		
Current Liabilities		
Accounts Payable and Accrued Expenses - Current Portion	98,898	98,697
Deferred Revenue	37,095	34,807
Payroll Withholdings	8,492	6,623
Other Payables	1,274	1,208
Annuities Payable - Current Portion	966	904
Long-Term Liabilities - Current Portion	29,059	24,684
Total Current Liabilities	175,784	166,923
Noncurrent Liabilities		
Accounts Payable and Accrued Expenses	12,088	6,800
Annuities Payable	6,396	5,668
Long-Term Liabilities	553,848	530,823
Total Noncurrent Liabilities	572,332	543,291
TOTAL LIABILITIES	748,116	710,214
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	1,001,582	970,139
Restricted for		
Nonexpendable		
Instruction	99,347	87,091
Scholarships and Fellowships	107,049	92,494
Libraries	6,537	5,819
Other	7,198	6,478
Expendable		
Instruction	55,875	45,102
Research	38,078	39,699
Scholarships and Fellowships	65,542	53,109
Libraries	9,216	8,639
Loans	38,577	38,316
Capital Projects	42,857	69,650
Debt Service Reserve	12,122	24,175
Renewal and Replacement Reserve	7,393	8,854
Other	67,302	59,715
Unrestricted	320,899	285,855
TOTAL NET ASSETS	$1,879,574	$1,795,135

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, 2004 and 2003

(dollars in thousands)

	2004	2003
OPERATING REVENUES		
Student Tuition and Fees (net of scholarship allowances of $84,999 in 2004 and $76,510 in 2003)	$338,445	$311,711
Federal Appropriations	6,799	6,918
Federal Grants & Contracts	196,665	167,293
State & Municipal Grants & Contracts	85,457	88,288
Nongovernmental Grants & Contracts	46,225	52,628
Auxiliary Enterprises (net of scholarship allowances of $21,540 in 2004 and $20,473 in 2003)	161,351	157,444
Other Operating Revenues	39,335	36,699
Total Operating Revenues	874,277	820,981
OPERATING EXPENSES		
Educational and General		
Instruction	439,715	425,434
Sponsored Research	149,754	133,327
Other Separately Budgeted Research	63,094	65,030
Other Sponsored Programs	66,288	66,411
Extension and Public Service	27,162	27,038
Libraries	34,486	33,816
Student Services	53,268	50,328
Operations and Maintenance of Plant	107,905	103,865
General Administration and Institutional	91,487	92,724
Scholarships and Fellowships	29,750	26,763
Depreciation	97,265	73,622
Auxiliary Enterprises	157,656	148,585
Other Operating Expenses	2,093	1,322
Total Operating Expenses	1,319,923	1,248,265
Operating Loss	(445,646)	(427,284)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	318,580	322,412
State Paid Fringe Benefits	116,767	113,710
Contributions	36,941	25,139
Endowment and Investment Income (net of investment management fees of $1,907 in 2004 and $2,069 in 2003)	13,332	17,947
Unrealized and Realized Gain on Marketable Securities	45,403	8,553
Interest on Capital Asset Related Debt	(21,486)	(22,419)
Loss on Disposal of Capital Assets	(833)	(26,401)
Other Nonoperating Revenues	4,863	3,432
Net Nonoperating Revenues	513,567	442,373
Income before Other Revenues and Expenses	67,921	15,089
Capital Appropriations	2,688	67,163
Capital Grants and Gifts	6,341	14,689
Additions to Permanent Endowments	7,489	10,887
Increase in Net Assets	84,439	107,828
Net Assets - Beginning of the Year	1,795,135	1,687,307
Net Assets - End of the Year	$1,879,574	$1,795,135

See accompanying notes to the financial statements.

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2004 and 2003
(dollars in thousands)

	2004	2003
Cash Flows from Operating Activities		
Student Tuition and Fees	$382,677	$351,776
Research Grants and Contracts	331,496	313,179
Federal Appropriations	6,980	4,663
Payments to Employees and for Benefits	(662,871)	(660,044)
Payments to Suppliers	(343,568)	(319,462)
Payments for Utilities	(52,566)	(46,062)
Payments for Scholarships and Fellowships	(77,305)	(49,216)
Collection of Loans to Students and Employees	8,805	9,326
Auxiliary Enterprise Receipts:		
Housing	69,337	65,243
Dining	39,022	38,600
Athletics	8,437	9,486
Parking	5,766	5,591
Other	19,103	17,782
Other Receipts	34,454	25,590
Net Cash Used by Operating Activities	(230,233)	(233,548)
Cash Flows from Noncapital Financing Activities		
State Appropriations	317,351	322,066
Contributions for other than Capital Purposes	40,382	27,914
Contributions for Endowment Purposes	8,408	12,565
Federal Direct Loan Program Receipts	144,887	131,868
Federal Direct Loan Program Disbursements	(144,887)	(131,868)
NJ Class Loan Program Receipts	14,234	10,576
NJ Class Loan Program Disbursements	(14,234)	(10,576)
Net Cash Provided by Noncapital Financing Activities	366,141	362,545
Cash Flows from Financing Activities		
Proceeds from Capital Debt and Leases	191,740	81,502
Capital Appropriations	6,142	64,331
Capital Grants and Gifts Received	1,910	3,644
Purchases of Capital Assets and Construction	(135,753)	(145,344)
Principal Paid on Capital Debt and Leases	(26,228)	(22,774)
Interest Paid on Capital Debt and Leases	(24,713)	(24,039)
Debt Defeasance	(146,804)	
Bond Issuance Costs	(2,438)	(707)
Other Receipts	2,480	1,841
Net Cash Used by Financing Activities	(133,664)	(41,546)
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	4,020,631	4,411,780
Investment Income	15,668	19,249
Purchases of Investments	(4,112,317)	(4,428,588)
Net Cash Provided (Used) by Investing Activities	(76,018)	2,441
Net Increase (Decrease) in Cash and Cash Equivalents	(73,774)	89,892
Cash and Cash Equivalents - Beginning of the Year	198,200	108,308
Cash and Cash Equivalents - End of the Year	$124,426	$198,200

Continued on next page.

Rutgers, The State University of New Jersey

STATEMENTS OF CASH FLOWS (cont'd)

For the Years Ended June 30, 2004 and 2003

(dollars in thousands)

	2004	2003
Reconciliation of operating loss to net cash used by operating activities:		
Operating Loss	($445,646)	($427,284)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
State Paid Fringe Benefits	116,767	113,710
Depreciation	97,265	73,622
Payment in Lieu of Taxes	700	700
Adjustment of Actuarial Liability for Annuities Payable	791	86
Changes in Assets and Liabilities:		
Receivables, net	(7,274)	(2,916)
Inventories	(27)	313
Prepaid Expenses and Deferred Charges	(529)	(437)
Accounts Payable and Accrued Expenses	3,033	6,607
Deferred Revenue	2,288	2,482
Payroll Withholdings	1,869	(335)
Other Payables	530	(96)
Net Cash Used by Operating Activities	($230,233)	($233,548)

See accompanying notes to the financial statements.

JUNE 30, 2004 and 2003

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.

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 $68.0 million at June 30, 2004 ($62.7 million in 2003). Income derived from such irrevocable trust funds held by others, aggregating approximately $1.8 million in 2004 and $3.4 million in 2003, 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 5.0 million (4.9 million in 2003) 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, 2004, the University disbursed $144.9 million ($131.5 million in 2003) 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

Cash

The cash and cash equivalents balance at June 30, 2004 includes a cash book balance of $19.9 million ($3.1 million in 2003). The actual amount of cash on deposit in the University's bank accounts at June 30, 2004 was $34.5 million ($24.4 million in 2003). Of this amount, $0.7 million ($0.6 million in 2003) was insured by the Federal Deposit Insurance Corporation at June 30, 2004, $18.8 million ($21.9 million in 2003) was collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes at June 30, 2004, and $15.0 million ($1.9 million in 2003) was uninsured and uncollateralized at June 30, 2004.

Cash Equivalents and Investments

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

The University's investments at June 30, 2004 and 2003 are categorized by custodial credit risk in the table below. Credit risk pertains to custodial risk, which is the risk that the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. Custodial credit risk should not be confused with market risk, which is the risk that the market value of a security may decline. There are three categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

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

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

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

Investments by custodial credit risk at June 30, 2004 are as follows (dollars in thousands):

	Category 1 Insured or Registered	Category 2 Uninsured or Unregistered in University's Name	Category 3 Uninsured or Unregistered not in University's Name	Non-Categorized	Total
Cash Equivalents:					
Money Market Funds	$15,389	$5,834	$63,640		$84,863
Repurchase Agreements		19,596			19,596
Total Cash Equivalents	$15,389	$25,430	$63,640		$104,459
Investments:					
Commercial Paper	$57,881	$172,081			$229,962
US Government Direct Securities	22,922	55,958			78,880
US Government Agency Securities	14,316	150,582	$87,070		251,968
Mutual Funds				$2,286	2,286
US Corporate Debt Securities	1,542	6,814			8,356
Foreign Corporate Debt Securities	515	17			532
US Corporate Equities	133,843	9,620	72,948		216,411
Foreign Corporate Equities	56,819				56,819
Asset-backed Securities	75	3,319			3,394
Real Estate		441	18,031		18,472
Total Investments	$287,913	$398,832	$178,049	$2,286	$867,080
Total Cash Equivalents and Investments					$971,539

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

	Category 1 Insured or Registered	Category 2 Uninsured or Unregistered in University's Name	Category 3 Uninsured or Unregistered not in University's Name	Non-Categorized	Total
Cash Equivalents:					
Money Market Funds	$6,140	$40,545	$125,013		$171,698
Repurchase Agreements		23,453			23,453
Total Cash Equivalents	$6,140	$63,998	$125,013		$195,151
Investments:					
Commercial Paper	$58,678	$125,935			$184,613
US Government Direct Securities	59,272	55,818	$17,105		132,195
US Government Agency Securities	25,222	95,883			121,105
Mutual Funds				$713	713
US Corporate Debt Securities	34,292	10,698			44,990
Foreign Corporate Debt Securities	4,414				4,414
US Corporate Equities	124,538	8,991	53,916		187,445
Foreign Corporate Equities	38,504				38,504
Asset-backed Securities	1,295	33			1,328
Real Estate		490	12,903		13,393
Total Investments	$346,215	$297,848	$83,924	$713	$728,700
Total Cash Equivalents and Investments					$923,851

Alternative Investments

As part of its investment strategy, the University has committed to invest a total of $54.0 million in eight commingled funds. As of June 30, 2004, the University has remaining commitments of approximately $51.0 million to the fund groups.

Investments - Endowment Funds

The majority of endowment funds assets are combined into two separate investment pools. Each individual fund subscribes to or disposes of units in the pools on the basis of the per-unit market value at the beginning of the three-month period within which the transaction takes place. At June 30, 2004, the pooled cash, receivables and investments had a total market value of $351.1 million ($305.4 million in 2003). In addition, the aggregate market value of endowment funds, cash, receivables and investments separately invested was $59.0 million at June 30, 2004 ($55.6 million in 2003). The investment appreciation was $40.7 million at June 30, 2004 (appreciation of $10.1 million in 2003). These amounts are included in restricted nonexpendable, restricted expendable and unrestricted net assets.

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

NOTE 3 - RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are shown net of the allowance for doubtful accounts and are comprised of the following at June 30, 2004 and 2003 (dollars in thousands):

	Accounts Receivable	Allowance	Net 2004	Net 2003
Government Grants Receivable and Other Sponsored Programs	$48,046	$430	$47,616	$43,160
Student Accounts Receivable	3,599	1,399	2,200	2,793
Other	18,579	601	17,978	15,247
Total	$70,224	$2,430	$67,794	$61,200

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, 2004 ($3.8 million in 2003).

The allowances for doubtful accounts and notes are based upon management's best estimate of uncollectible accounts and notes at June 30, 2004 and 2003, 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
2005	$16,068
2006-2009	11,853
	27,921
Less allowance for uncollectible receivables	(1,004)
	$26,917

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 $22.7 million at June 30, 2004 ($11.4 million in 2003) 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, 2004 and 2003 is as follows (dollars in thousands):

	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 Statements of Net Assets.

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

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

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2004 and 2003 (dollars in thousands):

	2004	2003
Vendors	$30,895	$31,598
Compensated Absences	33,654	32,613
Accrued Salaries and Benefits	22,701	16,686
Retainage	5,890	4,561
Workers Compensation	8,963	10,203
Interest Payable	3,570	3,420
Other Accrued Expenses	5,313	6,416
Total	$110,986	$105,497

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2004 and 2003 is as follows (dollars in thousands):

	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

	Balance 2002	Additions	Reductions	Balance 2003	Current Portion
Accounts Payable and Accrued Expenses	$103,870	$1,627		$105,497	$98,697
Annuities Payable	6,486	86		6,572	904
Long-Term Liabilities	498,283	81,957	$24,733	555,507	24,684
Total	$608,639	$83,670	$24,733	$667,576	$124,285

NOTE 8 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2004 and 2003 is as follows (dollars in thousands):

	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

	Balance 2002	Additions	Retirements	Balance 2003	Current Portion
General Obligation Bonds Payable	$296,491	$50,171	$12,341	$334,321	$12,642
Revenue Bonds Payable	83,240	42	5,580	77,702	5,818
Lease Obligations	116,925	31,744	6,760	141,909	6,168
Notes Payable	1,627		52	1,575	56
Total Long-Term Liabilities	$498,283	$81,957	$24,733	$555,507	$24,684

OTHER OBLIGATIONS OF THE UNIVERSITY

Notes Payable

Notes payable at June 30, 2004 and 2003 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, 2004 or 2003.

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, between the University and the City of Camden. The University received payment from the City of Camden on November 3, 2003 related to the Green Acres Program. 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, 2004, the outstanding amount due on the loans was $0.9 million.

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 has entered into a Limited Minimum Revenue Guaranty, dated January 22, 2004, pursuant to which the University has 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, 2004 and 2003 is as follows (dollars in thousands):

	Date Of Series	Original Amount	Outstanding June 30, 2004	Outstanding June 30, 2003
Revenue Refunding Bonds:				
Series S, 5.11% effective, due serially to May 1, 2014	Apr. 15, 1993	$35,170		$17,030
Series T, 5.34% effective, due serially to May 1, 2016	Apr. 15, 1993	36,270		25,430
Series U, 4.89% effective, due serially to May 1, 2021	Dec. 1, 1997	40,015	$ 30,560	32,115
Total Revenue Refunding Bonds		111,455	30,560	74,575
Revenue Bonds:				
Series E, 3.75%, due serially to May 1, 2016	May 1, 1967	1,200	520	555
Series F, 3.00%, due serially to May 1, 2016	Nov. 1, 1967	2,350	940	1,000
Series H, 5.90% effective, due serially to May 1, 2007	Nov. 1, 1970	8,300	1,655	2,140
Total Revenue Bonds		11,850	3,115	3,695
General Obligation Refunding Bonds:				
1992 Series A, 6.51% effective, due serially to May 1, 2007 and term bonds due May 1, 2013 and 2018	Feb. 1, 1992	94,370	26,605	26,605
1993 Series 1, 5.32% effective, due serially to May 1, 2015	Apr. 15, 1993	10,275		6,910
1993 Series A, 5.12% effective, due serially to May 1, 2014 and term bonds due May 1, 2014 and 2019	Oct. 1, 1993	81,600		59,860
2002 Series A, 3.96% effective, due serially to May 1, 2018	Feb. 1, 2002	110,000	96,700	103,000
2003 Series C, 3.41% effective, due serially to May 1, 2019	July 15, 2003	111,320	102,150	
Total General Obligation Refunding Bonds		407,565	225,455	196,375
General Obligation Bonds:				
1993 Series B, 5.37% effective, due serially to May 1, 2012 and term bonds due May 1, 2016	Apr. 15, 1993	28,020		20,560
1997 Series A, 5.34% effective, due serially to May 1, 2017 and term bonds due May 1, 2002 and 2027	June 1, 1997	25,385	22,320	22,820
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	45,470	46,450
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	49,130	50,000
2003 Series D, 3.74% effective, due serially to May 1, 2019	Dec. 1, 2003	24,805	23,525	
Total General Obligation Bonds		178,210	140,445	139,830
Total Bonds		$709,080	$ 399,575	$414,475

The General Obligation Bonds Payable includes premium on bonds, net of bond discounts, of $7.8 million at June 30, 2004 ($1.9 million in 2003, discount on bonds, net of bond premium) related to Series 1992 A, Series 1997 A, Series 1998 A, Series 2002 B, Series 2003 C and Series 2003 D.

The Revenue Refunding Bonds Payable are net of $152 thousand at June 30, 2004 ($568 thousand in 2003) of unamortized bond discounts related to Series U.

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

The General Obligation Refunding Bonds, 1992 and 1993 Series A, and General Obligation Bonds, 1993 Series B, 1997 and 1998 Series A, were issued under an open-ended Indenture of Trust, dated May 1, 1987, as supplemented; the General Obligation Refunding Bonds, 1993 Series 1, were issued under an Indenture of Trust, dated May 1, 1986, and the General Obligation Refunding Bonds, 2002 Series A, were issued under an Indenture of Trust, dated February 1, 2002. These bonds were issued to finance a portion of the cost of the renovation, construction and equipping of certain academic, research support and other facilities, as well as infrastructure development and land acquisitions of the University. Under the terms of the indentures, all bonds issued are direct and general obligations of the University and are in no way an obligation of the State of New Jersey.

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

Because interest rates have declined since execution of the swap, the swap had a negative fair value of $3.5 million at June 30, 2004 (negative $9.6 million in 2003). The swap's negative fair value may be countered by a reduction in total interest payments required under the floating-rate bonds, creating a lower synthetic rate. Because the coupons on the University's floating-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was provided by the counterparty and derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions.

At June 30, 2004 and June 30, 2003, the University was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA+ by Standard & Poor's at June 30, 2004 (AA- by Standard & Poor's in 2003).

The swap exposes the University to basis risk should the relationship between the floating rate and the BMA converge, changing the synthetic rate of the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.96% and the synthetic rate at June 30, 2004 of 3.89% (3.68% in 2003). If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. At June 30, 2004, the BMA rate was 1.06% (1.05% in 2003).

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.

Using rates as of June 30, 2004, 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**
2005	$6,600	$959	$2,802	$10,361
2006	6,800	894	2,611	10,305
2007	7,000	826	2,414	10,240
2008	3,500	757	2,211	6,468
2009	3,700	722	2,110	6,532
2010-2014	25,900	3,038	8,873	37,811
2015-2018	43,200	1,091	3,187	47,478
Total	$96,700	$8,287	$24,208	$129,195

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, will be used to (i) redeem the above mentioned bonds prior to maturity, in whole on July 31, 2003, at their appropriate respective principal amounts plus the applicable redemption premium, if any and interest, and (ii) to pay certain administrative, legal, financing and incidental expenses relating to the issuance of the 2003 Series C Bonds. 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, $3.5 million, is being deferred and amortized as interest expense through the year 2019 using the effective interest method. In 2004, $0.2 million has been expensed leaving $3.3 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.

Debt service payments to maturity at June 30, 2004 are as follows (dollars in thousands):

Year	Principal	Interest	Total
2005	$20,170	$18,122	$38,292
2006	19,835	17,396	37,231
2007	20,635	16,541	37,176
2008	20,915	15,648	36,563
2009	21,810	14,835	36,645
2010-2014	119,425	57,430	176,855
2015-2019	105,120	29,695	134,815
2020-2024	29,170	14,341	43,511
2025-2029	29,005	7,275	36,280
2030-2034	13,490	1,985	15,475
Total	$399,575	$193,268	$592,843

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, 2004, this liability was $1.6 million ($1.9 million in 2003).

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, 2004, the University had a capital lease obligation of $54.1 million ($54.9 million in 2003).

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, 2004, the University had a capital lease obligation of $4.1 million for equipment purchased under the terms of this agreement ($4.9 million in 2003).

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, 2004, the University had a capital lease obligation of $24.9 million ($26.9 million in 2003).

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, 2004, this liability was $43.3 million ($44.8 million in 2003). 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, 2004, the estimated present value of the Hospital sublease over the full lease term, including renewal periods, amounted to $7.7 million ($7.9 million in 2003). Payments required under the lease and agreement between the University and the Housing Authority are in no way conditional upon the receipt of payments from the Hospital under the sublease and agreement.

Development Authority

Pursuant to the terms of a lease and agreement dated September 1, 1993 between the University and the New Jersey Economic Development Authority (the "Development Authority"), the University transferred to the Development Authority title to certain land, upon which a facility was constructed to house the Visual Arts Department of the Mason Gross School of the Arts, the Edward J. Bloustein School of Planning and Public Policy and the Center for Urban Policy Research. On May 1, 1994, the Development Authority issued bonds in the aggregate amount of $17.6 million, maturing serially through July 1, 2024, at an effective interest rate of 6.138% per annum. The bonds were issued for the purpose of providing long-term financing for the construction of the aforementioned facility. Additional financing of approximately $20.0 million was also provided by grants from The Port Authority of New York and New Jersey and the State of New Jersey. In accordance with the lease and agreement, the University is required to pay an annual rental to the Development Authority over the life of the agreement in amounts necessary to retire the bonds, including interest, and reimburse the Development Authority for its administrative costs. Upon retirement of the bonds, title to the land and facility will revert to the University. Accordingly, the University has recorded a capitalized lease obligation for the debt financed portion of the project. At June 30, 2004, the outstanding balance of this obligation was $14.6 million ($15.0 million in 2003).

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, 2004, the University had a capital lease obligation of $30.6 million.

Future lease payments (receipts) applicable to the aforementioned capital leases at June 30, 2004 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
2005	$461	$3,598	$939	$2,040	$33	$3,664	($652)	$1,286	$1,449	$12,818
2006	464	3,598	940	2,040	33	3,659	(652)	1,282	1,866	13,230
2007	461	4,486	939	2,040	33	3,667	(653)	1,282	1,863	14,118
2008	461	4,488	939	2,040	32	3,660	(652)	1,281	1,865	14,114
2009		4,488	939	2,040	32	3,663	(652)	1,283	1,862	13,655
2010-2014		22,450		10,199	162	18,320	(3,262)	6,416	9,302	63,587
2015-2019		22,452		4,079	65	18,329	(3,262)	6,456	9,299	57,418
2020-2024		21,162				14,652	(2,611)	6,498	9,270	48,971
2025-2029									9,250	9,250
2030-2034									9,204	9,204
2035-2038									7,330	7,330
Total Lease Payments	1,847	86,722	4,696	24,478	390	69,614	(12,396)	25,784	62,560	263,695
Less Amount Representing Interest	247	32,608	540			26,283	(4,704)	11,139	31,925	98,038
Present Value of Lease Payments	$1,600	$54,114	$4,156	$24,478	$390	$43,331	($7,692)	$14,645	$30,635	$165,657

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, 2004, the aggregate capitalized lease obligation associated with these agreements, which excludes future interest payments, is approximately $6.8 million ($1.4 million in 2003). 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, 2004, 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 $280.8 million. Anticipated sources of funding for these projects are summarized as follows (dollars in thousands):

	Total Project Funding		
	Received at June 30, 2004	Additional Funding Required at June 30, 2004	Estimated Total Cost
Borrowing	$99,506	$83,600	$183,106
State Bond Issues and Capital Appropriations	34,210	1,747	35,957
Gifts and Other Sources	39,379	22,383	61,762
Total	$173,095	$107,730	$280,825

The University leases certain space used in general operations. Rental expense was approximately $2.8 million in 2004 ($2.9 million in 2003). The leases are non-cancelable and have been classified as operating leases which are expected to expire through 2034. Minimum annual rental commitments approximate the following (dollar in thousands):

Year	Amount
2005	$2,523
2006	2,352
2007	1,676
2008	1,379
2009	1,067
2010-2014	4,612
2015-2019	711
2020-2024	305
2025-2029	305
2030-2034	52
Total	$14,982

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 2004 aggregated $29.2 million ($28.7 and $27.8 million in 2003 and 2002, respectively) of which $3.3 million ($3.6 and $5.3 million in 2003 and 2002, 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, 2004 was $145.9 million ($144.0 million in 2003).

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

Contributions — Covered University employees were required by PERS to contribute 3.0% of their annual compensation during fiscal year 2004 and 2003. 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, 2004 was $368.4 million ($363.1 million in 2003).

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 2004. On April 1, 2004, the NJ Division of Pensions and Benefits discontinued MetLife and Lincoln National as state-authorized investment carriers and replaced them with Equitable and The Hartford. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code.

Other Retirement Plans

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

Post-Retirement Health Care Benefits

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

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

Deferred Compensation Plan

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

NOTE 11 - COMPENSATED ABSENCES

The University recorded a liability for accumulated vacation time in the amount of $27.2 million at June 30, 2004 ($26.7 million in 2003). 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, 2004 ($2.4 million in 2003). 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 $6.3 million at June 30, 2004 ($3.5 million in 2003) which is included in accounts payable and accrued expenses in the accompanying Statements of Net Assets.

NOTE 12 - RISK MANAGEMENT

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

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

NOTE 13 - CONTINGENCIES

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

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

NOTE 14 – SUBSEQUENT EVENTS

General Obligation Bonds, 2004 Series E

On July 1, 2004, the University issued General Obligation Refunding Bonds, 2004 Series E, in the aggregate amount of $86.7 million. 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 Projects 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.

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.
Executive Vice President for Administrative Affairs

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Senior Vice President and Chief Financial Officer

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

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