RUTGERS
THE STATE UNIVERSITY OF NEW JERSEY

Financial Report
2016-2017

RUTGERS
THE STATE UNIVERSITY
OF NEW JERSEY

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Governors and Trustees

During the Year Ended June 30, 2017

Executive Vice President for Finance and Administration
and University Treasurer
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December 8, 2017

President Robert L. Barchi
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, 2017. The report contains the KPMG LLP Independent Auditors' Report on the University's financial statements. The financial information presented in this report is designed to assist the reader in comprehending the scope of the University's use of resources in meeting its primary missions of instruction, research, public service, and healthcare.

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

Respectfully submitted,

J. Michael Gower
Executive Vice President for Finance
and Administration, and University Treasurer

KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Rutgers, The State University of New Jersey (the University), a component unit of the State of New Jersey, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of University Physicians Associates of New Jersey, Inc. and Affiliate (UPA), which represent approximately 34%, 16%, and 44%, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UPA, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions.

KPMG

Summary of Opinions

Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The financial statements of University Physicians Associates of New Jersey, Inc. and Affiliate were prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. The amount by which this departure would affect the assets, net position, and revenues of the aggregate discretely presented component units has not been determined.

Qualified Opinion

In our opinion, based on our audit and the report of the other auditors, except for the effects of the matter described in the Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the University, as of June 30, 2017, and the changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the University as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules of employer contributions and schedules of proportionate share of the net pension liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Short Hills, New Jersey
December 8, 2017

Management's Discussion and Analysis (unaudited)

June 30, 2017

The following management's discussion and analysis (MD&A) provides a comprehensive overview of the financial position of Rutgers, The State University of New Jersey (the University or Rutgers) at June 30, 2017, and its changes in financial position for the fiscal year then ended, with fiscal year 2016 data presented for comparative purposes. Management has prepared the basic financial statements and related footnote disclosures along with this MD&A in accordance with generally accepted accounting principles as defined by the Governmental Accounting Standards Board for public colleges and universities. This MD&A should be read in conjunction with the audited financial statements and related footnotes of the University, which directly follow the MD&A.

In fiscal 2017, the financial reporting entity of Rutgers included 33 degree granting schools and colleges, offering more than 150 undergraduate majors, more than 200 graduate programs and degrees, with approximately 69,000 students enrolled. These schools are located at Rutgers University–New Brunswick, Rutgers University–Newark, and Rutgers University–Camden. Rutgers Biomedical and Health Sciences, a division within Rutgers, is an academic health care center providing medical education, clinical care and conducting research. The University also maintains educational services in many other communities throughout the State of New Jersey. The University operates research and institutional facilities on 6,073 acres in all 21 counties and 98 municipalities.

The University's financial report includes three basic financial statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, 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's business type activities as a whole rather than the accountability of funds.

The financial statements for the Rutgers University Foundation (the Foundation) and University Physicians Associates of New Jersey, Inc. and Affiliate (UPA) are presented discretely. 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. UPA supports Rutgers Biomedical and Health Sciences through administrative assistance to clinical faculty of the New Jersey Medical School.

In October 2016, the University implemented the first phase of new enterprise resource planning (ERP) systems. The key components of this phase included state-of-the-art cloud-based real-time systems for procure-to-pay (i.e., purchasing and accounts payable), general ledger, and project ledger systems. In connection with this implementation, the University adopted a new chart of accounts, and this implementation included a reevaluation of transaction classifications. As a result, reporting of financial data, in some cases, may not directly correspond to data as reported in prior years, particularly in functional classifications of expense. Accordingly, for fiscal year 2017, the financial statements and footnotes are in a single-year presentation as opposed to a comparative year format that has been used in previous years. In the Management Discussion and Analysis (MD&A) section of the University's fiscal year 2017 Annual Report, the University shows comparative data for fiscal years ended June 30, 2016 and 2017. In cases where these comparisons show significant year-over-year changes due to enhanced reporting with the new chart of accounts, the University has reclassified prior year amounts to conform with the current year presentation.

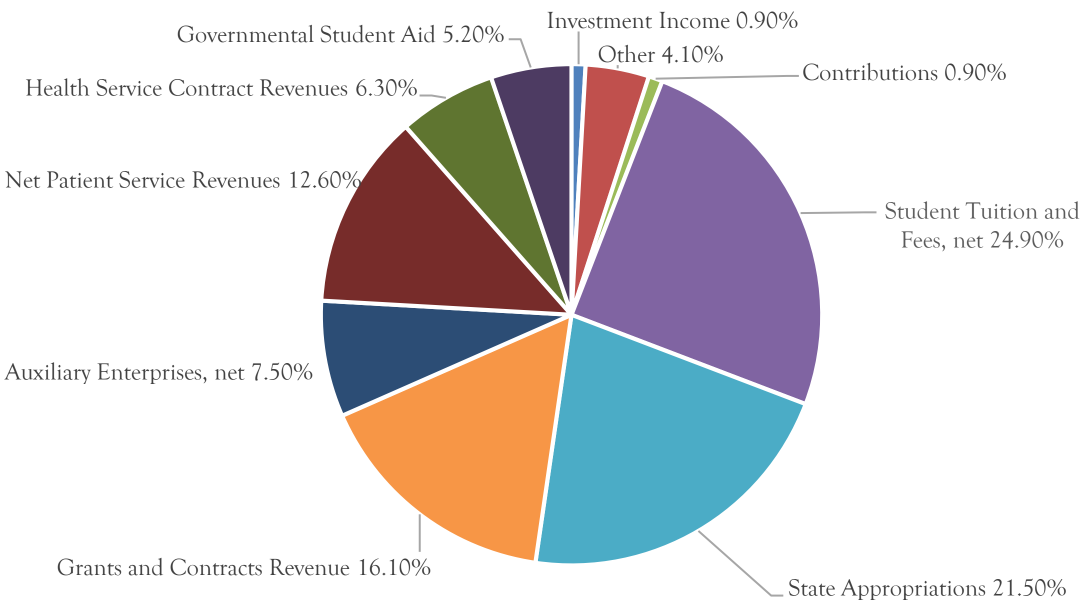
Financial Highlights

The University's financial condition at June 30, 2017, improved modestly with an increase in net position of $24.7 million. Total operating revenues increased by $97.0 million, or 3.8%, with increases of 0.6% in net student tuition and fees, 0.6% in auxiliary net revenues, 8.4% in net patient service revenues and 2.7% in other operating revenues partially offset by decreases of 2.0% in grant and contract revenue. A new category of revenues, health service contract revenues, has been added for fiscal year 2017 (see Note 5 – Net Patient Service Revenues and Health Service Contract Revenues). Operating expense increased by $225.2 million, or 6.3%, while net non-operating revenues increased by $82.2 million, or 8.6%, primarily as a result of an increase in fair value of investments.

Tuition revenue is a significant source of funding for the University. In fiscal 2017, the enrollment peak was 68,942 students compared to 67,556 students in fiscal 2016. Approved increases in tuition and fee rates of about 1.7% were offset by increases in scholarship allowances.

Annual appropriations from the State represent a vital part of the University's funding. In fiscal 2017, State appropriations, including operating aid and fringe benefits paid on-behalf of Rutgers by the State, increased as a result of higher pension and health care costs to $807.5 million, or 4.1% over fiscal 2016. State appropriations, as well as contributions, investment income, and governmental student aid, are shown as non-operating revenue.

As presented in the chart below, net student tuition and fees, state appropriations, grants and contracts revenue and net patient service revenues are the primary sources of revenue for the University.



Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (the difference between total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources) of the University. Current assets are classified as such if they are available to satisfy current liabilities, which are generally defined as being due within one year of the date of the statement of net position. Net position is one indicator of the financial condition of the University, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2017 and 2016 is as follows (dollars in thousands):

	2017	GASB 68 Adjustment	2017 Net of GASB 68	2016	GASB 68 Adjustment	2016 Net of GASB 68
Assets						
Current assets	$1,189,075	$ –	$1,189,075	$1,191,125	$ –	$1,191,125
Noncurrent assets						
Endowment, restricted and other noncurrent cash, and investments	1,287,235	–	1,287,235	1,319,456	–	1,319,456
Capital assets, net	3,575,173	–	3,575,173	3,439,243	–	3,439,243
Other assets	112,374	–	112,374	117,161	–	117,161
Total Assets	6,163,857	–	6,163,857	6,066,985	–	6,066,985
Deferred Outflows of Resources	583,172	(474,654)	108,518	379,367	(245,778)	133,589
Total Assets and Deferred Outflows of Resources	6,747,029	(474,654)	6,272,375	6,446,352	(245,778)	6,200,574
Liabilities						
Current liabilities	701,401	–	701,401	633,296	–	633,296
Noncurrent liabilities	3,988,425	(2,057,977)	1,930,448	3,752,206	(1,644,741)	2,107,465
Total Liabilities	4,689,826	(2,057,977)	2,631,849	4,385,502	(1,644,741)	2,740,761
Deferred Inflows of Resources	17,045	(17,045)	–	45,342	(45,342)	–
Net Position (Deficit)						
Net investment in capital assets	1,750,777	–	1,750,777	1,634,224	–	1,634,224
Restricted – nonexpendable	646,363	–	646,363	582,007	–	582,007
Restricted – expendable	459,394	–	459,394	471,944	–	471,944
Unrestricted	(816,376)	1,600,368	783,992	(672,667)	1,444,305	771,638
Total Net Position	$2,040,158	$1,600,368	$3,640,526	$2,015,508	$1,444,305	$3,459,813

Current Assets and Current Liabilities

Current assets include unrestricted and restricted cash and cash equivalents, investments that mature within one year, receivables, inventories, and other short-term assets. Noncurrent assets include unrestricted investments that mature in more than a year, cash and cash equivalents and investments that are restricted by donors or external parties as to their use, and capital assets. Receivables deemed to be collectible in more than a year are also included as noncurrent. Current assets decreased by $2.1 million from 2016 to 2017. This was primarily due to a decrease of $87.1 million in cash and cash equivalents, and short-term investments and an increase in accounts receivable of $86.2 million, both attributable largely to grant activity.

Deferred outflows of resources are the consumption of net position that is applicable to a future reporting period. In 2017, deferred outflows of resources increased $203.8 million primarily as a result of the adjustment for GASB 68 which is due to changes in the University's proportionate share of the net pension liability and the difference between assumptions and actual experience. Without this adjustment, deferred outflows of resources decreased $25.1 million in 2017 which is a result of the change in value of the swaps.

Current liabilities include all liabilities that are payable within the next fiscal year. Unearned revenues, principally from summer programs and grant revenue received in advance, are also presented as current liabilities. Liabilities that are due to be paid beyond the next fiscal year are reported as noncurrent liabilities.

Current liabilities increased $68.1 million from $633.3 in 2016 to $701.4 in 2017. This was primarily due to 2002 Series A bonds maturing within the next year, and the current underlying liquidity facility agreement for 2009 Series G bonds expiring within the next year. A replacement facility agreement has not been implemented as of the day of this report. The University's current assets cover current liabilities by a factor of 1.7 times in 2017 and 1.9 times in 2016, an indicator of good liquidity and the ability to bear short term demands on working capital. The University's current assets also cover approximately four months of its total operating expenses, excluding depreciation in 2017 and 2016.

Endowment and Other Investments

The primary financial objective of the investment management of the endowment is to preserve and enhance its real (inflation-adjusted) purchasing power while providing a relatively predictable, stable, and constant (in real terms) stream of earnings for current use. The long-term investment goal of the endowment is to attain a total return of at least 4.0% plus inflation net of fees and expenses. The investment objectives of the endowment are based upon a long-term investment horizon allowing interim fluctuations to be viewed in an appropriate perspective. Most of the University's endowment is maintained in the long-term investment pool managed by the University's Joint Investment Committee. The total annual return for the long-term investment pool was 12.7% and -0.5% in fiscal years 2017 and 2016, respectively. The average annual return over the 5-year period ending June 30, 2017 and 2016, was 8.3% and 5.7%, respectively.

The University distributes endowment earnings in a way that balances the annual support needed for operational purposes against the requirement to preserve the future purchasing power of the endowment. The endowment spending-rate policy is based on total return, not just cash earnings. The total distribution for the endowment was $40.5 million in fiscal 2017 and $38.1 million in fiscal 2016.

The University's endowments consist of permanent (true), term and quasi endowments. Permanent or true endowments are funds received from donors stipulating that the principal gift remain inviolate and be invested in perpetuity with the income generated from the investment to be expended for a specific purpose as designated by the donor. These permanent endowments increased $82.5 million to $664.5 million for fiscal 2017. Term endowments are those funds received from donors that function as endowments until a specified event occurs. The University's term endowments increased by $5.9 million to $53.4 million in fiscal 2017. Quasi endowments primarily consist of unrestricted funds that have been designated by the University for long-term investment purposes, and therefore, act as endowments. The University's restricted and unrestricted quasi endowments increased by $51.7 million in fiscal 2017 to $421.7 million.

From a net position perspective, earnings from the endowment, while expendable, are mostly restricted in use by the donors. It is important to note that of the University's endowment funds, only $266.2 million, or 23.4%, can be classified as unrestricted net position in 2017 and $230.7 million, or 23.1% in 2016. From this unrestricted endowment, a significant portion of the income is internally designated by the University for scholarships, fellowships, professorships, and research efforts.

Capital Assets and Debt Activities

The University Physical Master Plan, Rutgers 2030, envisions development at Rutgers over a 15 year time frame and is comprehensive in its scope taking into account buildings, the natural and constructed landscape, transportation and infrastructure. While our physical master plan provides guidance and vision for capital projects over the next 15 years, many projects are now under way that will dramatically improve the student experience on our campuses, support our strengths in arts and sciences, and grow critical disciplines. These projects have been made possible by the generosity of our private donors, by creative partnerships with the public sector, and by funds made available through the historic Building Our Future Bond Act approved by New Jersey voters in November 2012, as well as other state bond programs.

The Building Our Future Bond Act approved by the voters of the State in 2012 authorized the issuance of State general obligation bonds totaling $750.0 million to help increase academic capacity at New Jersey institutions of higher education. The University will receive a total of $173.9 million from this program. The University recorded $38.8 million in revenue from this program in 2017 and $45.7 million in revenue in 2016.

In addition to the Building Our Future Bond Act, the State has also authorized the issuance of bonds to fund several higher education initiatives. The Higher Education Facilities Trust Fund (HEFT) Act authorized the New Jersey Educational Facilities Authority (NJEFA) to issue bonds for institutions of higher education in New Jersey for the purpose of the construction, reconstruction, development, extension, and improvement of instructional, laboratory, communication, and research facilities. The University will receive $69.0 million from this program. In 2017, the University recorded $14.6 million in revenue from the HEFT program. In 2016, the University recorded $23.6 million from this program.

NJEFA also issued bonds under the Higher Education Capital Improvement Fund Act (HECIF) to provide funds to certain public and private institutions of higher education in the State for the purpose of paying the costs, or a portion of the costs, of certain capital improvements authorized in accordance with the Capital Improvement Fund Act. The University has been awarded a total of $112.3 million from this program. In 2017, the University recorded $21.0 million, and $32.5 million in revenue from these bonds in 2016.

The University will also receive funds under the Technology Infrastructure Fund Act which created the Higher Education Technology Infrastructure Fund (HETI). HETI funds are required to be used to develop technology infrastructure within and among New Jersey's institutions of higher education in order to provide access effectively and efficiently to information, educational opportunities, and workforce training, and to enhance the connectivity of higher education institutions to libraries and elementary and secondary schools. Rutgers will receive a total of $3.3 million for several technology projects. The University recorded $0.1 million, and $0.5 million in revenue from this program in 2017 and 2016, respectively.

Finally, the State authorized NJEFA to issue bonds for the Higher Education Equipment Leasing Fund program under the Higher Education Equipment Leasing Fund Act (ELF). This act authorizes NJEFA to issue bonds to finance the purchase of any property consisting of, or relating to, scientific, engineering, technical, computer, communications, and instructional equipment for lease to public and private institutions of higher education in the State. The University has been awarded $43.8 million from this bond issue for the purchase of this type of equipment. The University recorded $6.6 million, and $10.6 million in revenue from this program in 2017 and 2016, respectively.

In 2008, the Board of Governors and the Board of Trustees of the University approved a commercial paper program. The commercial paper program is being used for the interim financing of capital projects and temporary funding of outstanding debt issues. On February 8, 2017, the Board of Governors approved a revised debt management policy to provide a strategic framework to manage debt in a manner that is consistent with the University's Strategic Plans, ensure access to capital markets and preserve and enhance the long-term financial health of the University.

In 2017, the University issued taxable commercial paper in the amount of $25.0 million to provide interim financing for certain capital projects. In 2016, the University issued 2016 Series M in the amount of $164.6 million and commercial paper in the amount of $3.0 million to refund Series 2003D and Series 2004 Certificates of Participation (COP).

The funds received from these State programs, University bonds and other funds received by the University have resulted in the $135.9 million increase in fiscal 2017 in net capital assets. 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 fiscal 2017 include:

- Construction of the first new academic building on College Avenue in more than 50 years. The Rutgers Academic Building is an approximately 175,000 square foot academic building for the Rutgers University School of Arts and Sciences consisting of approximately 2,500 seats of classroom space in the form of modern lecture halls as well as departmental office space.
- Renovation of 45,000 square feet of the former Hahne & Co. department store for the "Express Newark" program. The program will support cross-unit, cross-sector, cross-institutional publicly engaged scholarship collaborating with Newark artists, schools, and institutions. The renovated space will include portrait studios, print studios, galleries, and media laboratories.
- Renovation of 24,500 square feet of clinical teaching space for the School of Dental Medicine at the existing Oral Health Pavilion building. This project features 87 state-of-the-art clinical operatories that represent the environment in which students would ultimately practice.
- Renovation of 364,000 square feet of existing practice field space for the Marco Battaglia Football Practice Complex. The outdoor practice fields adjacent to High Point Solutions Stadium support the football team and men's and women's lacrosse programs. The complex includes all new, natural grass fields, new drainage and irrigation systems and a service building with restrooms.

Several major projects completed during fiscal 2016 include:

- Construction of an approximately 500 bed residence hall in New Brunswick for honors students including programming space, office space, common space, and other amenities to enhance undergraduate honors research work. The Honors College will create an environment for students to share space with faculty and deans in order to foster mentoring, cultural exchanges, and academic engagement.
- Construction of a 78,000 square foot facility for the Institute of Food, Nutrition and Health on the Cook Campus that will contain state-of-the-art laboratories, community clinics, a children's nutrition center and preschool as well as a dining facility offering health food options.
- Renovation of 305 Cooper Street, the Genet Taylor House, includes renovation of the existing 6,685 square feet as well as an addition to the building that will include stairs, elevator, and offices for the Department of English on the Camden Campus.

In addition, as of June 30, 2017 and 2016, the University had various projects under construction or in the design stage. Significant projects include:

- Construction of a new facility for the Department of Chemistry and Chemical Biology on the Busch Campus that will feature 145,000 square feet of flexible research space and classrooms designed to facilitate collaborative research and learning, providing a state-of-the-art facility to train the next generation of globally engaged scientists and support the needs of the chemical industry in New Jersey and beyond.
- Construction of a 57,000 square foot addition to the existing William Levine Hall Building for the School of Pharmacy which will house two 300-seat auditoriums, four 60-seat classrooms, four collaborative practice simulation laboratories, a community practice patient interaction simulation suite, small group study rooms, a centralized student commons as well as administrative pharmacy space.
- Construction of a 104,000 square foot new facility for the Richard Weeks Hall of Engineering which will feature an advanced infrastructure of classrooms, laboratories, and common space to facilitate key research and educational advancements.

Net Pension Liability

In June 2012, GASB issued Statement No. 68 *Accounting and Financial Reporting for Pensions* (GASB 68). This statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. The University participates in the Public Employees Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS), both defined benefit cost-sharing multiple-employer pension plans. GASB 68 requires that the proportionate share of the net pension liability be recognized by each participating employer in the plan. The net pension liability is the portion of the actuarial present value of projected benefit payments attributed to past periods of employee service net of the pension plan's fiduciary net position. A cost-sharing employer is also required to recognize its proportionate share of pension expense and report deferred outflows and deferred inflows of resources for its proportionate share. The changes in net pension liability adjusted for the deferred inflows and deferred outflows of resources result in pension expense. Prior to 2015, the University only recognized pension expense for these plans up to the amount contributed to the plan by the state as indicated within the fringe benefit rate provided by the state. Historically, the state has directly covered pension contributions on behalf of the University and has no current plans to change that. GASB 68 also required the recording of the deferred outflow of resources of $474.7 million and $245.8 million, a net pension liability of $2,058.0 million and $1,644.7 million and a deferred inflow of resources of $17.0 million and $45.3 million in 2017 and 2016, respectively.

The amounts recorded as a result of GASB 68 have been shown separately.

Net Position

Net Position represents the residual interest in the University's assets and deferred outflows of resources after the deduction of its liabilities and deferred inflows of resources. The change in net position measures whether the overall financial condition has improved or deteriorated during the year. Net position consists of four major categories; net investment in capital assets, restricted net position (nonexpendable and expendable), and unrestricted net position. Prior to the pension adjustment required by GASB 68, the University's net position increased by $180.7 million in 2017 and the fiscal year 2017 activity recorded was $51.7 million.

The first category, net investment in capital assets, represents the University's capital assets of land, buildings and equipment net of accumulated depreciation and net of outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. The increase of $116.6 million in fiscal 2017, resulted primarily from the various construction projects listed above.

The next category is restricted net position, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position are those resources that have been set aside and invested as required by the provider of the resources. These funds are not available for expenditures, but rather must be invested in perpetuity with the earnings on those investments to be used as specified by the external donor at the time the resources are received. The nonexpendable net position includes the permanent and term endowments mentioned previously under the Endowment and Other Investments section. The restricted nonexpendable net position increased by $64.4 million in fiscal 2017.

Expendable restricted net position is available for expenditure by the University but must be spent for purposes as specified by external donors. This category includes contributions received from donors and unspent income from endowed funds. There was a decrease of $12.6 million in fiscal 2017.

The final category is unrestricted net position. Unrestricted net position is available to the institution for any lawful purpose. Substantially all of the University's unrestricted net position has 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. Prior to the adjustments for GASB 68, there was an increase of $12.4 million in unrestricted net assets for 2017. The pension expense increased to $156.1 million in fiscal 2017, resulting in a deficit of unrestricted net position of $816.4 million.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the fiscal year. Activities are classified as either operating, non-operating, or other. Revenues received and expenses incurred as a result of the University providing goods and services to its customers are considered operating activities. Non-operating 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 revenues.

A summary of the University's revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016 is as follows (dollars in thousands).

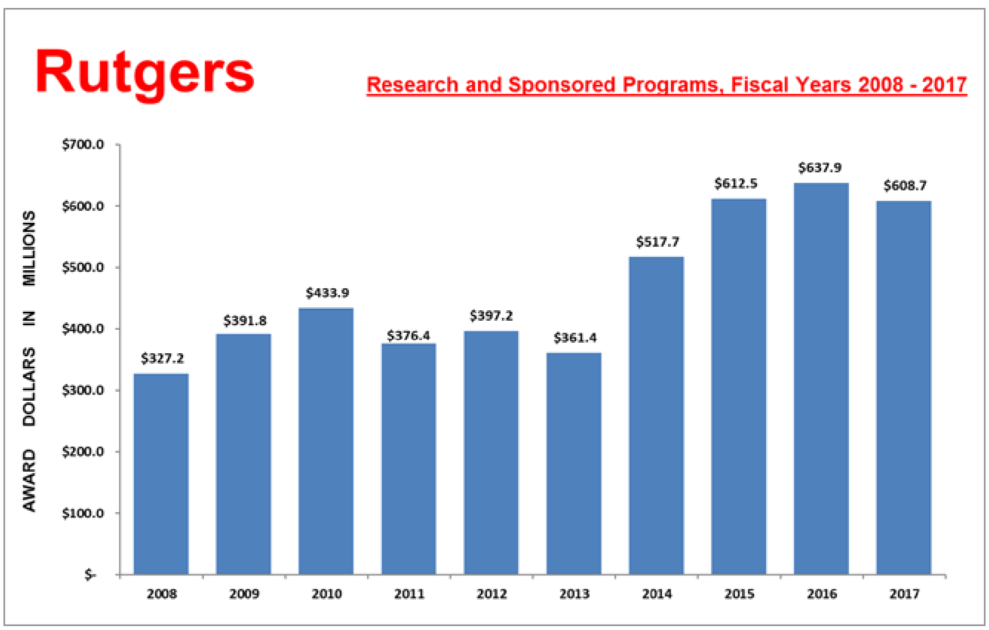
	2017	GASB 68 Adjustment	2017 net of GASB 68 Adjustment	2016	GASB 68 Adjustment	2016 net of GASB 68 Adjustment
Operating revenues						
Student tuition and fees (net of scholarship allowances)	$930,727	$ –	$930,727	$925,129	$ –	$925,129
Grants and contracts	602,696	–	602,696	614,986	–	614,986
Auxiliary enterprises (net of scholarship allowances)	282,384	–	282,384	280,618	–	280,618
Net patient service revenues	473,050	–	473,050	436,284	–	436,284
Health service contract revenues	238,117	_	238,117	176,929	_	176,929
Other operating revenues	148,886	–	148,886	144,946	–	144,946
Total operating revenues	2,675,860	–	2,675,860	2,578,892	–	2,578,892
Operating expenses	3,822,218	(156,063)	3,666,155	3,597,062	(95,834)	3,501,228
Operating loss	(1,146,358)	156,063	(990,295)	(1,018,170)	95,834	(922,336)
Non-operating revenues (expenses)						
State appropriations (including fringe benefits paid directly by the state)	807,511	–	807,511	775,666	–	775,666
Contributions	32,560	–	32,560	51,367	–	51,367
Endowment and investment income	34,349	–	34,349	23,539	–	23,539
Net increase/(decrease) in fair value of investments	118,046	–	118,046	(4,159)	–	(4,159)
Governmental student aid	193,547	–	193,547	188,625	–	188,625
Interest on capital asset related debt	(88,010)	–	(88,010)	(83,866)	–	(83,866)
Net other non-operating (expenses)/revenues	(56,052)	–	(56,052)	8,609	–	8,609
Net non-operating revenues	1,041,951	–	1,041,951	959,781	–	959,781
(Loss)/Income before other revenues	(104,407)	156,063	51,656	(58,389)	95,834	37,445
Other revenues	129,057	–	129,057	159,411	–	159,411
Increase in net position	24,650	156,063	180,713	101,022	95,834	196,856
Net position at beginning of year	2,015,508	1,444,305	3,459,813	1,914,486	1,348,471	3,262,957
Net position at end of year	$2,040,158	$1,600,368	$3,640,526	$2,015,508	$1,444,305	$3,459,813

Operating revenues represent 72.6% and 71.1% of total revenues in 2017 and 2016, respectively, excluding interest on capital asset related debt and net increase/ (decrease) in fair value of investments. Significant components of operating revenues include the following:

Student Tuition and Fees, net of scholarship allowances is the largest component of operating revenues. Tuition and fees are reflected net of scholarship allowances, which represent scholarships and fellowships applied to student accounts for tuition and residence fees. These scholarships and fellowships are funded through federal and state grant programs, gifts raised by the Foundation and University funds. The University provided $279.5 million of a total $350.1 million of student aid directly to student accounts. The remaining $70.6 million was paid to students and is reflected as grant aid to students expense. Scholarship allowances allocated to tuition and fees amounted to $234.6 million. Another $44.9 million was allocated to residence fees, which are included in auxiliary revenues. Tuition and fees, net of scholarship allowances, increased $5.6 million in 2017. The change resulted primarily from approved increases in tuition and fee rates of approximately 1.7% and an enrollment peak of 68,942 for 2017 (67,556 in 2016) offset by an increase in scholarship allowances.

Grants and Contracts includes revenues for sponsored programs from federal, state, and nongovernmental grants and contracts that normally provide for the recovery of direct and indirect costs, or expenses. In 2017 and 2016, awards for new research grants and sponsored programs totaled $608.7 million and $637.9 million, respectively, a decrease of 4.6%. Federal awards for research were $301.3 million and $335.5 million in 2017 and 2016, respectively, a 10.2% decrease. Awards received from the State of New Jersey for research and sponsored programs were $146.0 million and $148.9 million, respectively, a decrease of 1.9%. Awards from nongovernmental sources amounted to $161.4 million and $153.5 million in 2017 and 2016, respectively, an increase of 5.1%.

The following table summarizes the research awards received by the University over the last 10 years.



In fiscal 2017, *Federal Grants and Contracts* revenue amounted to $284.5 million or 47.2% of total grants and contracts revenue. This year the University was awarded grants from various federal agencies including:

- Dr. Jeffrey Carson of Robert Wood Johnson Medical School received a large clinical trials "Myocardial Ischemia and Transfusion" from the National Institutes of Health for $3.3 million in year one of a 5 year grant. The National Institute of Neurological Disorders and Stroke (NINDS) awarded to Jay Tischfield, founding director of Rutgers University Cell and DNA Repository, RUCDR Infinite Biologics, $1.2 million to manage the NINDS stem cell repository and provide a comprehensive range of stem cell related services to researches worldwide investigating diseases such as Parkinson's and ALS.

- Dr. Manish Parashar, director of the RDI2 institute received a National Science Foundation grant entitled "Virtual Data Collaboratory - A Regional Cyberinfrastructure for Collaborative Data Intensive Science" for $4.0 million over 4 years.

- Dr. Paul Larrousse of the Bloustein School received a grant for the "National transit institute" from the Federal Transit Administration for $5.0 million over 2 years.

In fiscal 2016, *Federal Grants and Contracts* revenue amounted to $301.7 million or 49.1% of total grants and contracts revenue. This year the University was awarded grants from various federal agencies including:

- The National Institute of Neurological Disorders and Stroke (NINDS) awarded to Jay Tischfield, founding director of Rutgers University Cell and DNA Repository, RUCDR Infinite Biologics, $1.2 million to manage the NINDS stem cell repository and provide a comprehensive range of stem cell related services to researches worldwide investigating diseases such as Parkinson's and ALS.

- The National Institute for Health (NIH) awarded David Perlin, professor in the Rutgers New Jersey Medical School, $5.3 million to support the Center for Excellence in Translational Research program to develop therapeutic countermeasures to high-threat bacterial agents.

- The NIH also awarded Joachim Kohn $1.2 million to support his project on an investigational new drug application (IND) for intravenous cP12 and pre-IND studies of intravenous topical cNP5 for limiting burn injury progression.

- Elisa Bandera at the Rutgers Cancer Institute of New Jersey for research into obesity, related comorbidities, and breast cancer outcomes in African Americans was awarded $1.1 million from NIH.

In fiscal 2017, *State and Municipal Grants and Contracts* revenue amounted to $139.2 million or 23.1% of total grants and contracts revenue. The following is the most significant grant received this year:

- General (ret.) Mark Graham of Rutgers University Behavioral Health Care (Piscataway) received an award for "Improving veteran healthcare (vets4warriors)" from the New Jersey Department of Health for $2.2 million.

In fiscal 2016, *State and Municipal Grants and Contracts* revenue amounted to $153.8 million or 25.0% of total grants and contracts revenue. The following are some of the grants received this year from various state agencies:

- The New Jersey Department of Children and Families awarded Judy Postmus, associate professor and director, Center on Violence Against Women and Children; Sara Munson, executive director, Institute for Families; and Cassandra Simmel, associate professor, School of Social Work, an award totaling $1.0 million. The project is titled, "Adoption Certification Program".

- The New Jersey Department of Transportation awarded Charles Brown, adjunct professor, Edward J. Bloustein School of Planning and Public Policy, and senior research specialist, Alan M. Voorhees Transportation Center, an award totaling $0.6 million. The project is titled "New Jersey Bicycle and Pedestrian Resource Center" and is to motivate, educate and empower citizens to create safer and more accessible walking and bicycling environments through innovative research, education, and sharing of resources.

Finally, in fiscal 2017, *Nongovernmental Grants and Contracts* revenue amounted to $179.0 million or 29.7% of total grants and contracts revenue. Some of the awards received this year included the following:

- Dr. Jak Chakhalian of the Department of Physics and Astronomy received a grant entitled "Moore Investigator in quantum Materials: Novel Topological and Mott Phases in Artificial Complex Materials" from The Gordon and Betty Moore Foundation in the amount of $1.7 million.

- Dr. Veronique Dartois of the Public Health Research Institute at New Jersey Medical School received a grant entitled "A Dynamic Drug Delivery System (D3S) to Accelerate the Profiling of Early Discovery Compounds" from the Bill & Melinda Gates Foundation for $1.2 million in year one and up to $2.7 million for the life of the grant.

Finally, in fiscal 2016, *Nongovernmental Grants and Contracts* revenue amounted to $159.5 million or 25.9% of total grants and contracts revenue. Some of the awards received this year included the following:

- The Surdna Foundation awarded $0.5 million to principal investigator, Christopher Obropta, associate professor, Department of Environmental and Biological Services, and extension specialist in water resources, Rutgers Cooperative Extension, for a project titled, "New Technical Assistance Program for Combined Sewer Overflow Communities". The purpose of this project is to expand the statewide program that assists New Jersey communities in implementing green infrastructure solutions to storm-water challenges, targeting communities with combined sewer overflow systems.

- The Robert Wood Johnson Foundation awarded $0.8 million to principal investigator, Joel Cantor, distinguished professor, Department of Public Policy, and director, Center for State Health Policy, for a project titled "New Jersey Perspectives on Health and Well-Being Project". This funding will support development and implementation of polling under the New Jersey Perspectives on Health and Well-Being project.

Auxiliary Enterprises includes revenues from the University's housing, dining facilities and other student related services, as well as other business type activities such as the bookstore and the golf course that provide support to the University's primary missions of education, research, and public service. For 2017, total Auxiliary revenues were $327.3 million and $282.4 million net of scholarship allowances of $44.9 million. Housing and dining revenues totaled $222.8 million, or 68.1%, of total auxiliary revenues. Housing and dining rates both increased by 1.7% in 2017. As noted earlier in the MD&A, with reporting enhancements implemented in fiscal 2017, certain revenues previously reported as Auxiliary revenues are now classified in Student Tuition and Fees Revenue. These amounts primarily related to student health, residence life and recreation services. Auxiliary net revenues increased slightly from $280.6 million in 2016, an increase of $1.8 million or 0.6%. The increase is a result of increases in rates and enrollment, offset by an increase in scholarship allowances.

Net Patient Service Revenues include revenues related to patient care services, which are generated within RBHS behavioral healthcare, faculty practice operations, community healthcare centers, cancer and contract activities, under contractual arrangements with governmental payers and private insurers. Importantly, as noted earlier in the MD&A, with reporting enhancements implemented in fiscal 2017, certain revenues previously reported in Net Patient Services, most significantly Health Service Contract Revenues, are now classified in a new financial statement line item, Health Service Contract Revenues. In fiscal 2017, Net Patient Services revenue was $473.0 million compared to $436.3 million for fiscal 2016 an increase of $36.8 million, or 8.4%. This increase is due to strategic growth of patient service activities.

Health Service Contract Revenues include revenues from physician services provided under agreements with certain New Jersey hospitals, such as University Hospital of Newark, Cooper Hospital, RWJ Barnabas Health and others. It also includes reimbursements for graduate medical education residency programs provided by House Staff in connection with RWJ Medical School, New Jersey Medical School, and Rutgers School of Dental Medicine. In fiscal 2017, Health Service Contract revenue was $238.1 million including affiliate revenues of $130.1 million and House Staff revenues of $108.0 million. The total related revenues for fiscal 2016 were $176.9 million including affiliate revenues of $94.0 million and House Staff revenues of $82.9 million representing an increase of $61.2 million, or 34.6%. The increase in both of these areas is due to strategic growth of patient service activities.

State Appropriations includes both operating assistance and fringe benefits paid on-behalf of Rutgers by the State. Total operating assistance for the year was $435.2 million and $439.9 million in 2017 and 2016, respectively. Fringe benefits paid on-behalf of Rutgers by the State totaled $372.3 million and $335.7 million in fiscal 2017 and 2016, respectively. The fringe benefit appropriation increase of $36.6 million is primarily due to increasing pension and healthcare costs.

Governmental Student Aid is also a significant component of non-operating revenues. The University's students benefit from various federal programs, such as, Pell Grants and the Federal Supplemental Educational Opportunity Grants. In addition, the State provides aid through the Tuition Aid Grant (TAG) program and the Educational Opportunity Fund (EOF). The University received a total of $86.7 million in 2017 from federal programs or a 4.4% increase over the $83.0 million received in 2016. The University also received $106.8 million from the State in 2017 or an increase of 1.1% over the $105.6 million received in 2016.

Other Revenues consist of grants and gifts received by the University for capital projects, as well as additions to permanent endowments. The University received a total of $101.5 million in 2017 for capital grants and gifts compared with $124.7 million in 2016. The decrease from fiscal 2016 reflected the completion of building construction projects during fiscal 2017, including projects for Chemistry and Chemical Biology, The New Jersey Institute for Food, Nutrition, and Health (IFNH), and the Camden Nursing School. The University received $27.6 million in fiscal 2017 and $34.7 million in 2016 in gifts to add to our endowment as a result of the Foundation's activities.

Operating Expenses are reported by natural classification in the Statement of Revenue, Expenses, and Changes in Net Position and by functional classification in the notes to the financial statements (See Note 13). The following table summarizes the University's operating expenses by natural classification.

Operating Expenses by Natural Classification (dollars in thousands)

	2017	GASB 68 Adjustment	2017 net of GASB 68 Adjustment	2016	GASB 68 Adjustment	2016 net of GASB 68 Adjustment
Salaries and Wages	$2,000,064	$ –	$2,000,064	$1,907,729	$ –	$1,907,729
Fringe Benefits	778,438	(156,063)	622,375	632,569	(95,834)	536,735
Supplies and Services	788,344	–	788,344	838,059	–	838,059
Grant Aid to Students	70,590	–	70,590	67,451	–	67,451
Depreciation	184,782	–	184,782	151,254	–	151,254
Total Operating Expenses	$3,822,218	($156,063)	$3,666,155	$3,597,062	($95,834)	$3,501,228

The natural classification of expenses demonstrates that the major expenditure of the University in 2017 is salaries and wages accounting for more than 52.3% of total operating expenses with the GASB 68 adjustment (53.0% in 2016) and 54.6% without the GASB 68 adjustment in 2017 (54.5% in 2016). Negotiated and other staff salary and wage increases for both 2016 and 2017 were approximately 2.0%. Fringe benefits also increased markedly this year; primarily driven by increases in pension and health care costs including pension expenses resulting from changes required under GASB 68. Pension expense for the GASB 68 adjustment was $95.8 million in 2016 and increased by $60.3 million to $156.1 million in 2017.

Economic Factors that will affect the future

The University continues to maintain a solid financial position. Overall, the higher education industry is challenged by rising student charges and increasing student debt loads. In response, the University has moderated increases in student tuition and fees with a 1.85% increase for in-state and out-of-state students in 2018. The federal and state governments have limited resources and are challenged to maintain stable levels of financial assistance for the University. The University will continue to meet its funding challenges through savings from increased efficiency and reduced administrative costs, revenue from non-traditional education programs, public-private partnerships, clinical care enterprises, increased grants and contracts, greater philanthropy, and other sources.

The University plays a crucial role in the New Jersey economy. Our annual operating budget of $3.9 billion supports nearly 58,000 jobs statewide and generates $5.2 billion of economic activity in New Jersey. Rutgers also has built state-of-the-art academic facilities and pursued other capital projects over the past five years that have supported nearly 12,000 short-term construction-related jobs and generated an additional $1.2 billion in economic activity. From our faculty's innovative research come new patents, licenses and startup companies that further stimulate the New Jersey economy. And in providing outstanding patient care and conducting vital clinical trials of new treatments and therapies, we employ more than 1,300 health care professionals.

During the past year, the University embarked on a new plan to update the institution's Enterprise Resource Planning (ERP) systems. With the implementation in October 2016, the major areas of focus include: creating a new University chart of accounts, implementing a more responsive suite of online tools for financial reporting, budgeting and planning, expanding the use of a streamlined, paperless system for procurement, and finally, to support faculty research, a new implementation of products for sponsored projects, pre-award function, integrated financial management and general research administration.

The University continues to attract a high quality, diverse population of students. Growth in the size of the first-year classes has led to an overall enrollment increase of more than 1,300 students in the fall 2017 semester. The University maintains a state, national, and global reach by attracting competitive applicants from all 50 states and over 140 countries.

As a result of the various state bond programs and other financing sources, the University has numerous construction and renovation projects underway. New capital construction in progress includes the renovation of buildings in Newark to support the Express Newark Initiative and upgraded space for the Newark Biology, Chemistry and Neuroscience departments, a new Nursing and Science Building in Camden, additions to William Levine Hall at the Ernest Mario School of Pharmacy and construction of a Chemistry and Chemical Biology facility, which will be a new academic building in New Brunswick slated to be completed in the fall of 2017. These projects will provide additional space and resources for our growing institution.

STATEMENT OF NET POSITION
June 30, 2017
(dollars in thousands)

	Rutgers, The State University of New Jersey	Component Unit: Rutgers University Foundation	Component Unit: University Physician Associates of New Jersey, Inc., and Affiliates
	2017	2017	2017
ASSETS:			
Current Assets			
Cash and Cash Equivalents	$267,769	$1,389	$1,672
Cash and Cash Equivalents - Restricted	–	27,682	5,045
Short-Term Investments	453,246	–	58,514
Short-Term Investments - Restricted	–	5,853	–
Accounts Receivable, net	456,899	4,215	–
Contributions Receivable, net – Current Portion	–	35,250	–
Inventories	3,868	–	–
Prepaid Expenses and Other Assets	7,293	675	52
Total Current Assets	1,189,075	75,064	65,283
Noncurrent Assets			
Cash and Cash Equivalents	17,112	–	–
Cash and Cash Equivalents - Restricted	164,994	–	–
Long-Term Investments	264,511	2,090	–
Long-Term Investments - Restricted	840,618	7,155	–
Accounts Receivable, net	111,000	–	–
Contributions Receivable, net – Noncurrent Portion	–	39,271	–
Cash Surrender Value of Whole Life Insurance Policies	–	712	–
Other Noncurrent Assets	1,374	–	–
Capital Assets, net	3,575,173	–	56
Total Noncurrent Assets	4,974,782	49,228	56
TOTAL ASSETS	6,163,857	124,292	65,339
DEFERRED OUTFLOWS OF RESOURCES:			
Loss on Refunding	80,040	–	–
Pension Related	474,654	–	–
Interest Rate Swaps	28,478	–	–
TOTAL DEFERRED OUTFLOWS OF RESOURCES	583,172	–	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	6,747,029	124,292	65,339

(Continued)

STATEMENT OF NET POSITION
June 30, 2017
(dollars in thousands)

	Rutgers, The State University of New Jersey	Component Unit: Rutgers University Foundation	Component Unit: University Physician Associates of New Jersey, Inc., and Affiliates
	2017	2017	2017
LIABILITIES:			
Current Liabilities			
Accounts Payable and Accrued Expenses	377,995	2,739	27,132
Payable to Rutgers, The State University of New Jersey	–	–	16,296
Unearned Revenue	90,388	15	–
Payroll Withholdings	19,532	–	–
Other Payables	2,267	–	–
Annuities Payable – Current Portion	–	731	–
Commercial Paper	85,670	–	–
Long-Term Liabilities - Current Portion	125,549	–	–
Total Current Liabilities	701,401	3,485	43,428
Noncurrent Liabilities			
Accounts Payable and Accrued Expenses	46,292	470	–
Unearned Revenue	63,274	–	–
Derivative Instruments	28,478	–	–
Annuities Payable – Noncurrent Portion	–	5,940	–
Net Pension Liability	2,057,977	–	–
Long-Term Liabilities – Noncurrent Portion	1,792,404	–	–
Total Noncurrent Liabilities	3,988,425	6,410	–
TOTAL LIABILITIES	4,689,826	9,895	43,428
DEFERRED INFLOWS OF RESOURCES:			
Pension Related	17,045	–	–
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,706,871	9,895	43,428
NET POSITION (DEFICIT):			
Net Investment in Capital Assets	1,750,777	–	–
Restricted for			
Nonexpendable			
Instruction	274,227	1,999	–
Scholarships and Fellowships	282,349	3,719	–
Other	89,787	860	–
Expendable			
Instruction	166,238	9,901	–
Research	39,943	23,670	–
Scholarships and Fellowships	80,113	8,794	–
Loans	73,062	–	–
Capital Projects	35,972	36,469	–
Debt Service Reserve	13,563	–	–
Healthcare and Professional Services	11,397	–	–
Other	39,106	22,656	–
Unrestricted	(816,376)	6,329	21,911
TOTAL NET POSITION	$2,040,158	$114,397	$21,911

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017
(dollars in thousands)

		Component Unit	Component Unit
	Rutgers, The State University of New Jersey	Rutgers University Foundation	University Physician Associates of New Jersey, Inc., and Affiliates
	2017	2017	2017
OPERATING REVENUES:			
Student Tuition and Fees (net of scholarship allowances of $234,661 in 2017)	$930,727	$ –	$ –
Federal Grants & Contracts	284,458	–	–
State & Municipal Grants & Contracts	139,189	–	–
Nongovernmental Grants & Contracts	179,049	32,515	–
Auxiliary Enterprises (net of scholarship allowances of $44,867 in 2017)	282,384	–	–
Net Patient Service Revenues	473,050	–	121,571
Health Service Contract Revenues	238,117	–	–
Other Operating Revenues	148,886	5,504	196
Total Operating Revenues	2,675,860	38,019	121,767
OPERATING EXPENSES:			
Salaries and Wages	2,000,064	13,947	4,270
Fringe Benefits	778,438	5,536	682
Supplies and Services	788,344	10,406	117,914
Grant Aid to Students	70,590	–	–
Depreciation	184,782	–	46
Distributions to Rutgers, The State University of New Jersey	–	114,446	–
Distributions to Douglass Associate Alumnae	–	10	–
Total Operating Expenses	3,822,218	144,345	122,912
Operating Loss	(1,146,358)	(106,326)	(1,145)

(Continued)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017
(dollars in thousands)

		Component Unit	Component Unit
	Rutgers, The State University of New Jersey	**Rutgers University Foundation**	**University Physician Associates of New Jersey, Inc., and Affiliates**
	2017	**2017**	**2017**
NON-OPERATING REVENUES (EXPENSES):			
State Appropriations	435,175	–	–
State Paid Fringe Benefits	372,336	–	–
Administrative Fees and Support from Rutgers, The State University of New Jersey	–	24,387	–
Noncash Support from Rutgers, The State University of New Jersey	–	2,013	–
Federal Appropriations	6,371	–	–
Federal Student Aid	86,710	–	–
State Student Aid	106,837	–	–
Contributions	32,560	37,567	–
Endowment and Investment Income (net of investment management fees for the University of $3,385 in 2017)	34,349	381	1,146
Net Increase in Fair Value of Investments	118,046	303	1,863
Interest on Capital Asset Related Debt	(88,010)	–	–
Loss on Disposal of Capital Assets	(1,807)	–	–
Other Non-operating (Expenses)/Revenues	(60,616)	337	–
Total Net Non-operating Revenues	1,041,951	64,988	3,009
(Loss)/Income before Other Revenues	(104,407)	(41,338)	1,864
Capital Grants and Gifts	101,484	29,576	–
Additions to Permanent Endowments	27,573	27,914	–
Increase in Net Position	24,650	16,152	1,864
Net Position - Beginning of the Year	2,015,508	98,245	20,047
Net Position - End of the Year	$2,040,158	$114,397	$21,911

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017
(dollars in thousands)

	Rutgers, The State University of New Jersey
	2017
Cash Flows from Operating Activities:	
Student Tuition and Fees	$925,660
Research Grants and Contracts	544,739
Services to Patients	473,732
Payments to Employees and for Benefits	(2,330,407)
Payments to Suppliers	(746,884)
Payments for Grant Aid to Students	(70,590)
Collection of Loans to Students and Employees	11,957
Loans to Students and Employees	(10,099)
Auxiliary Enterprises Receipts	280,849
Health Service Contract Receipts	228,959
Other Receipts	58,254
Net Cash Used by Operating Activities	(633,830)
Cash Flows from Noncapital Financing Activities:	
State Appropriations	434,777
Federal Appropriations	9,143
Contributions for other than Capital Purposes	32,560
Federal and State Student Aid	200,102
Contributions for Endowment Purposes	27,573
Net Cash Provided by Noncapital Financing Activities	704,155
Cash Flows from Financing Activities:	
Proceeds from Capital Debt and Leases	29,888
Capital Grants and Gifts Received	65,626
Purchases of Capital Assets and Construction in Progress	(288,774)
Principal Paid on Capital Debt and Leases	(57,999)
Interest Paid on Capital Debt and Leases	(92,743)
Net Cash Used by Financing Activities	(344,002)
Cash Flows from Investing Activities:	
Proceeds from Sales and Maturities of Investments	889,536
Investment Income	34,349
Purchase of Investments	(801,315)
Net Cash Provided by Investing Activities	122,570
Net Decrease in Cash and Cash Equivalents	(151,107)
Cash and Cash Equivalents - Beginning of the year	600,982
Cash and Cash Equivalents - End of the year	449,875

(Continued)

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017
(dollars in thousands)

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	**2017**
Operating Loss	(1,146,358)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
State Paid Fringe Benefits	372,336
Depreciation	184,782
Provision for Bad Debts	25,434
Changes in Assets and Liabilities:	
Receivables	(191,723)
Inventories	264
Prepaid Expenses and Other Assets	916
Accounts Payable and Accrued Expenses	(30,572)
Unearned Revenue	(2,632)
Payroll Withholdings	(2,302)
Other Payables	(38)
Net Pension Liability	156,063
Net Cash Used by Operating Activities	$(633,830)

Non-Cash Investing and Financing Activities	**2017**
Net increase in accrued capital assets	$16,496
Change in fair value of derivatives	19,955
Net increase in fair value of investments	118,046
Loss on defeasance of Higher Education CIF bonds	1,254

See accompanying notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

Rutgers, The State University of New Jersey (the University), one of the nation's nine colonial colleges, consists of 33 degree granting schools and colleges located at campuses in New Brunswick and adjacent areas, Newark, and Camden, and maintains educational services in many other communities throughout the State of New Jersey (the State). The University is the State University of New Jersey and the Land Grant College of the State of New Jersey. The University was created as a body corporate and politic with the title "The Trustees of Queens College in New Jersey" by royal charter granted by King George III, on November 10, 1766. In 1945, an act of the State Legislature designated Rutgers as the State University of New Jersey to be utilized as an instrumentality of the State for providing public higher education and thereby increasing the efficiency of its public school system. The University's title was changed to "Rutgers, The State University" and its charter was amended and supplemented by an act of the Legislature of the State in 1956 (the Rutgers Law).

Effective July 1, 2013, the New Jersey Medical and Health Sciences Education Restructuring Act (the Act), (Chapter 45, P.L. 2012), went into effect. The Act integrated the Cancer Institute of New Jersey and all units of the University of Medicine and Dentistry of New Jersey (UMDNJ), except University Hospital (UH) in Newark and the School of Osteopathic Medicine (SOM) in Stratford, into Rutgers. The UMDNJ schools and units transferred to Rutgers and joined the existing Rutgers School of Nursing, Rutgers Ernest Mario School of Pharmacy and the Rutgers Institute of Health, Health Care Policy and Aging Research to form the Rutgers Biomedical and Health Sciences (RBHS) division.

Basis of Accounting

The basic financial statements of the University have been prepared on the accrual basis of accounting, using the economic resources measurement focus, and in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University reports as a special purpose government engaged only in business type activities as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB Statement No. 35 *Basic Financial Statements – and Management's Discussion and Analysis – Public Colleges and Universities.* Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

GASB Statement No. 34 requires that the financial statements be presented on a comprehensive entity-wide basis, reporting the University as an economic unit.

Reporting Entity

The University's financial statements and notes thereto include the financial statements of the Rutgers University Foundation (the Foundation) and the University Physician Association of New Jersey, Inc., and Affiliate (UPA). Rutgers Health Group, Inc. (RHG), is a new unit and its operation commenced on July 1, 2017 (see Note 20).

The Foundation is a legally separate, not-for-profit organization, which exists solely for the benefit of the University and was formed to aid the University to obtain private funds and other resources to meet the needs and achieve the goals of the University for which adequate funds may not be available from other sources. To fulfill this mission, the Foundation solicits and receives gifts and pledges from private sources including individuals, corporations, and foundations. All of the financial data for the Foundation is from their audited financial statements, reported in accordance with generally accepted accounting principles promulgated by GASB. The Foundation is discretely presented in the University's financial report as it would be misleading to exclude it and they exist for the direct benefit of the University, its students, and faculty. Copies of the Foundation's financial statements can be obtained by writing to the Foundation at Rutgers University Foundation, Liberty Plaza, 335 George Street, Floor 2, New Brunswick, NJ 08901.

UPA, a not-for-profit organization, was incorporated on August 16, 1984. Located in Newark, New Jersey, its primary purpose was to support UMDNJ through administrative assistance to clinical faculty of the New Jersey Medical School (NJMS). An agreement between UPA and UMDNJ (the Affiliation Agreement) established activities to be performed by UPA in support of UMDNJ. During 1992, UPA established the Doctors' Center Management Corporation (DCMC) to manage the Doctors Office Center. DCMC is considered an affiliate of UPA and is included in the UPA financial statements.

Pursuant to the Act, UMDNJ ceased to exist and NJMS was incorporated within the University. Also, effective July 1, 2013, the Affiliation Agreement between UPA and UMDNJ was amended to state that, as of that date, the parties to the Affiliation Agreement are the University and UPA, the effect of which is that Rutgers succeeds to UMDNJ's obligations under the agreement. The Affiliation Agreement was further amended so that the term now extends through July 1, 2020.

UPA became a component unit of the University due to the integration under the Act and meets the criteria to be reported as a discretely presented component unit of the University since there is a financial benefit and as it would be misleading to exclude UPA as a result of the nature and significance of their relationship. UPA's combined financial statements were prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Separate financial statements for UPA can be obtained by writing to the Executive Director/ Chief Executive Officer, University Physician Associates of New Jersey, Inc., 30 Bergen Street, ASMC 12, Room 1205, Newark, New Jersey 07107.

Under GASB Statement No. 61, *The Financial Reporting Omnibus*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 34, 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

Current cash and cash equivalents, which are both unrestricted and restricted in nature, consist of cash on hand, and all highly liquid investments with an original maturity of three months or less except for those managed as a component of the University's investment portfolio which are included in non-current restricted cash. The University reclassifies net overdrafts from Cash and Cash Equivalents to Accounts Payable and Accrued Liabilities. For 2017, this account totaled $33.8 million. Noncurrent unrestricted cash and cash equivalents consist of funds that are not externally restricted and are mostly comprised of long-term insurance claim reserves. Noncurrent restricted cash and cash equivalents are externally restricted to maintain sinking or reserve funds, purchase or construct capital or other noncurrent assets or collateral requirements for interest rate swaps, or are related to endowed funds.

Investments

Investments are recorded in the statement of net position at fair value, amortized cost and net asset value depending on asset type. Please refer to Note 3 – Cash and Cash Equivalents and Investments for further details about investments at fair value and net asset value. Commercial paper are held at amortized cost. Investments with a maturity greater than one year and investments externally restricted for endowment purposes, to maintain sinking or reserve funds, and to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the statement of net position. The year-to-year change in the fair value of investments is reported in the statement of revenues, expenses, and changes in net position as net increase (decrease) in fair value of investments.

Funds Held in Trust

Funds held in trust by others or not in the possession of, nor under the control of, the University are not included in the University's accompanying financial statements because they do not meet eligibility requirements for recognition. The market value of such funds aggregated approximately $65.6 million at June 30, 2017. Income derived from such irrevocable trust funds held by others, aggregating approximately $2.1 million in 2017, is reported in the accompanying financial statements as non-operating revenue.

Prior to July 1, 2013, the New Jersey Health Foundation (NJHF) operated to support medical, dental and other healthcare education and research of UMDNJ and for other scientific, charitable, literary and educational purposes. As a result of the integration of UMDNJ, except for UH and SOM, into the University, the fundraising function for the resulting RBHS division was assumed by the Foundation on July 1, 2013. NJHF is not considered a component unit within the University. However, NJHF holds permanently restricted net assets for RBHS that consist of endowment contributions from donors with income to be used for specific or general purposes, as well as temporarily restricted net assets for RBHS subject to donor imposed stipulations that will be met by actions of NJHF or by the passage of time.

Inventories

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

Capital Assets

Capital assets consist of land, buildings, land improvements, equipment, and 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 equipment is calculated using the straight-line method over the assets' estimated useful lives, ranging from 5 to 50 years. Beginning in 2017, the components of certain buildings (i.e., those with a cost in excess of $15 million and that have greater than 30% of assignable square footage allocated to organized research) are depreciated over the estimated useful life of those components. The useful life of those building components range from 10 to 50 years and this change resulted in approximately $36 million of depreciation expense in 2017. Library books totaling approximately 6.3 million volumes in 2017 have not been capitalized. The capitalization threshold is $5,000 and above. Works of art or historical treasures that are held for public exhibition, education, or research in furtherance of public service are capitalized at the acquisition value of the item at the time of acquisition.

Unearned Revenue

Unearned revenue includes summer session activity for July and August which will be recognized as revenue in the following fiscal year. It also includes cash received from grant and contract sponsors which has not yet been earned under the terms of the agreement. In addition, capital State grants, including the Capital Improvement Fund (CIF), Equipment Leasing Fund (ELF), the Higher Education Technology Infrastructure (HETI), and the Higher Education Facilities Trust (HEFT), for which all eligibility requirements for revenue recognition have not been met, are included as noncurrent unearned revenue.

Net Position (Deficit)

Net position is the difference between the University's assets and deferred outflows of resources, and its liabilities and deferred inflows of resources. These resources are classified for accounting and reporting purposes into four categories as follows:

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

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

Unrestricted net position (deficit) represents 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, net patient service revenue, 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 position is available.

Revenue Recognition

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

Grants and contracts revenue is comprised mainly of funds received from grants from federal, State of New Jersey and municipal, and other nongovernmental sources and is recognized when all eligibility requirements for revenue recognition are met, which is generally the period in which the related expenses are incurred.

Net patient service revenues are generated from patient care services and include the University's behavioral healthcare, cancer and contract activities and the operations of faculty practice plans. Net patient service revenues are recorded in the period in which the services are provided and are reported at estimated net realizable amounts from patients, third party payers and others. Amounts recorded are net of allowances to give recognition to differences between charges and reimbursement rates from third party payers. Reimbursement from third party payers varies, depending upon the type and level of care provided. Certain net revenues received are subject to audit and retroactive adjustments for which amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Health service contract revenues include revenues related to health service contract activities and are recorded in the period in which the services are provided. This includes contractual billings for physician services under affiliate agreements with certain New Jersey hospitals and physician services for house staff, which is principally comprised of reimbursements for salaries and fringe benefits, paid by the University for physician services provided through graduate medical education residency programs.

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

Contributions are recognized as revenues when all eligibility requirements are met, which is generally 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 statement of revenues, expenses, and changes in net position 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, (3) most federal, state, and municipal, and other nongovernmental grants and contracts, and (4) net patient services. Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as operating appropriations from the State, student aid, endowment and investment income and contributions. Interest on capital asset related debt is reported as a non-operating expense.

Grant Aid to Students

Grant aid to students 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 non-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 received $78.1 million during the year ended June 30, 2017, from the Federal Pell Grant program, and $98.4 million during the year ended June 30, 2017, from Tuition Aid Grants, from the State of New Jersey, the largest state student aid program.

The University distributes loans to students under the Federal Direct 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, 2017, the University disbursed $392.0 million under the Federal Direct Loan Program. Direct student loans receivable are not included in the University's statement of net position since they are repayable directly to the U.S. Department of Education.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Accounting Pronouncements Applicable to the University, Issued but Not Yet Effective

In June 2015, the GASB issued Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the basic financial statements, in addition to requiring more extensive disclosures and required supplementary information. GASB 75 will be effective for periods beginning after June 15, 2017, which is fiscal year 2018. The University is evaluating the impact of this new statement.

The University adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). This statement was issued to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement and that a government recognizes revenue when the resources become applicable to the reporting period. GASB 81 will be effective for reporting periods beginning after December 15, 2016, which is fiscal year 2018, and should be applied retroactively. The University is evaluating the impact of this new statement.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). This statement requires a government entity to recognize an asset retirement obligation when the liability is incurred and reasonably estimable. The government entity would measure the obligation based on its best estimate of the current value of outlays expected to be incurred. This GASB Statement is effective for financial reporting periods beginning after June 15, 2018, which is fiscal year 2019. The University is evaluating the impact of this new statement.

In March 2017, the GASB issued Statement No. 85, *Omnibus* (GASB 85). This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits). The requirements of this statement are effective for reporting periods beginning after June 15, 2017, which is fiscal year 2018. The University is evaluating the impact of this new statement.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the University's fiscal year beginning July 1, 2017. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with resources other than the proceeds of the refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this Statement revises existing standards for prepaid insurance associated with extinguished debt. The University is evaluating the impact of this new statement.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for the University's fiscal year beginning July 1, 2020. This Statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single-approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. The University is evaluating the impact of this new statement.

NOTE 2 – ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The University adopted GASB Statement *No. 80, Blending Requirements for Certain Component Units* – An Amendment of GASB Statement No. 14 (GASB 80). This statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units and amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB 39. GASB 80 was effective for reporting periods beginning in fiscal 2017. There was no impact to the University's financial statements.

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The University's cash and cash equivalents consist of the following at June 30, 2017:

	2017
Money Market Funds	$254,412
Cash and Deposits	195,463
Total Cash and Cash Equivalents	$449,875

The University's net cash and cash equivalents balance at June 30, 2017, includes a cash book balance of $195.5 million. The actual amount of cash on deposit in the University's bank accounts at June 30, 2017, was $208.7 million. Of this amount, $1.3 million was insured by the Federal Deposit Insurance Corporation at June 30, 2017. At June 30, 2017, $135.3 million was collateralized, and cash and cash equivalents in excess of these balances were uncollateralized.

Investments

The Board of Governors and the Board of Trustees, through the Joint Committee on Investments, exercise authority over the investment of the University's Long-Term Investment Pool. Professional investment managers manage the investment of funds in accordance with the Investment Policy as established by the Joint Committee on Investments, approved by the Board of Governors with the consent of the Board of Trustees. Additionally, professional investment staff and a consultant monitors and reports on the Long-Term Investment Pool and the individual investment managers. Under the terms of the University's bond indentures, bond proceeds and debt service funds may be invested and reinvested only in obligations which will by their terms mature on or before the date funds are needed for expenditure or withdrawal.

The primary financial objective of the investment management of the University's Long-Term Investment Pool is to preserve and enhance the Long-Term Investment Pool's real purchasing power while providing a relatively constant stream of earnings for current use. The long-term investment goal of the endowment is to attain a total return of at least 4.0% plus inflation, fees, and costs. In 2017, the University's annual spending policy was amended to an amount not to exceed 4.0% of a trailing 13-quarter average of the Long-Term Investment Pool's market values.

The University's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of net position.

The University's investments consist of the following at June 30, 2017 (dollars in thousands):

	2017
Common Stock	$145,400
Government Agencies	3
Government Bonds	68,493
Certificates of Deposit (CD's)	1,978
Corporate Bonds	2,457
Mutual Funds – Equity Securities	511,944
Mutual Funds – Fixed Income Securities	357,164
Fixed Income Fund	29,651
Hedge Fund	202,088
Private Equity	121,290
Real Estate	54,073
Real Assets	59,508
Other	4,326
Total	$1,558,375

The Hedge Fund description includes: Credit, Long/Short Equity, Global Macro, Multi-Strategy Hedge Funds and Other. In addition, the Private Equity description includes Venture Capital.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date

Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly

Level 3 – unobservable inputs for an asset or liability

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following is a description of the valuation methodologies used for instruments measured at fair value:

All or a portion of the following categories were classified in Level 1 of the hierarchy as they are valued using prices quoted in active markets: Common Stock, Mutual Funds – Equity Securities, Mutual Funds – Fixed Income Securities and Certificates of Deposit.

All or a portion of the following categories were classified in Level 2 of the hierarchy as they are valued using prices based on bid evaluations or quoted prices on an inactive market: Mutual Funds – Equity Securities, Corporate Bonds, Mutual Funds – Fixed Income Securities, Government Agencies, and Government Bonds.

Level 3 assets within the Real Asset category include real asset limited partnership interests where the investments are valued based on unobservable inputs such as analysis on current oil & gas reserves, future production estimates and NYMEX futures prices. Included in the Other category is a captive, pooled insurance vehicle for which the University has a long-term commitment and whose shares are not readily available, and valued based upon the University's paid-in capital to the vehicle as well as its share of retained earnings from underwriting profits.

The University's interests in alternative investment funds are generally reported at the net asset value or its equivalent (NAV) reported by the fund managers and assessed as reasonable by the University, which is used as a practical expedient to estimate the fair value of the University's interest therein. Investments measured at NAV are not categorized in the fair value hierarchy.

The following tables summarize the University's investments by strategy type as of June 30, 2017 (dollars in thousands):

	2017			
		Investments Measured at Fair Value		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Common Stock	$145,400	$145,400	$ –	$ –
Government Agencies	3	–	3	–
Government Bonds	68,493	–	68,493	–
Certificates of Deposit (CD's)	1,978	1,978	–	–
Corporate Bonds	2,457	–	2,457	–
Mutual Funds – Equity Securities	511,944	226,701	285,243	–
Mutual Funds – Fixed Income Securities	357,164	72,519	284,645	–
Real Assets	6,888	–	–	6,888
Other	4,326	–	–	4,326
Subtotal	$1,098,653	$446,598	$640,841	$11,214

Investment Type	**Net Asset Value**
Private Equity	$85,271
Real Estate	54,073
Real Assets	52,620
Venture Capital	36,019
Fixed Income Fund	29,651
Credit Hedge Funds	47,880
Long/Short Equity Hedge Funds	52,830
Global Macro Hedge Funds	14,813
Multi-Strategy Hedge Funds	86,284
Other Hedge Funds	281
Subtotal	459,722
Total	$1,558,375

Investments Measured at Net Asset Value

In addition to traditional stocks and fixed-income securities, the University also holds alternative investment funds including hedge fund, private equity, venture capital, real estate and real asset strategies. Alternative investments are typically subject to restrictions that limit the University's ability to withdraw capital after such investment and, most often in hedge funds, limit the amount that may be withdrawn as of a given redemption date. The redemption terms of the University's investments in hedge fund strategies funds vary greatly (as described below). Generally, the University has no discretion to withdraw its investments in private equity, venture capital, real estate, and real asset funds; distributions are made when sales of assets are made within the funds.

The University is obligated in most alternative strategies to fund investment opportunities as they arise up to specified commitment levels over a period of several years. These commitments have fixed expiration dates and other termination clauses. The following table represents the unfunded commitments, redemption frequency and redemption notice period for investments measured at NAV as of June 30, 2017 (dollars in thousands):

Investment Type	2017 Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Equity	$ 105,944	Illiquid	N/A
Real Estate	19,937	Illiquid	N/A
Real Assets	41,190	Illiquid	N/A
Venture Capital	17,196	Illiquid	N/A
Fixed Income Fund	6,787	Illiquid	N/A
Credit Hedge Funds	N/A	Quarterly, Annually	45 - 90 days
Long/Short Equity Hedge Funds	N/A	Monthly, Quarterly, Annually	45 - 60 days
Global Macro Hedge Funds	N/A	Quarterly	90 days
Multi-Strategy Hedge Funds	N/A	Quarterly, Semi-Annually, Annually, Rolling Two-years	60 - 90 days
Total	$ 191,054		

Because of the inherent uncertainties of valuation, these net asset values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

Management's estimate of the lives of the funds could vary significantly depending on the investment decisions of the external fund managers, changes in the University's portfolio, and other circumstances. Furthermore, the University's obligation to fund the commitments noted above may be waived by the fund manager for a variety of reasons including market conditions and/or changes in investment strategy.

The University does have various sources of internal liquidity at its disposal, including cash and cash equivalents, which are available to fund the required commitments.

Strategy Descriptions

Private Equity – Funds that typically invest in private companies or engage in buyouts of public companies with the intent of improving their portfolio companies by investing in their growth as well as implementing operational and financial best practices. These strategies are implemented through illiquid vehicles and cannot be redeemed. The investment periods of these funds typically range from 2 – 5 years with full terms of 10 – 12 years. Capital is distributed back as the fund's investments are liquidated over that time period.

Real Estate – This strategy includes funds that invest in the equity or debt of real estate assets or businesses related to the real estate industry. These strategies are implemented through illiquid vehicles and cannot be redeemed. The investment periods of these funds typically range from 2 – 5 years with full terms of 10 – 12 years. Capital is distributed back as the fund's investments are liquidated over that time period.

Real Assets – This strategy includes funds that invest in businesses or physical commodities in a wide variety of asset classes including but not limited to - energy, infrastructure, metals and mining, and other commodity-related industries. These strategies are implemented through illiquid vehicles and cannot be redeemed. The investment periods of these funds typically range from 2 – 5 years with full terms of 10 – 12 years. Capital is distributed back as the fund's investments are liquidated over that time period.

Fixed Income Fund – Include funds that invest throughput capital structure. Typical investments may include senior secured, unsecured, subordinated or mezzanine loans, corporate credit, non-performing loans, and various other credit investments. One strategy is implemented through an illiquid vehicle and cannot be redeemed. The remaining term of the investment is 4 - 6 years, including extensions.

Venture Capital – Funds that invest in early, mid, and late stage high growth companies, which are typically at the forefront of innovation in their specific fields. These are typically higher risk/reward opportunities in the fields of technology and medicine of which the companies will generally have negative cash flow at the start. These strategies are implemented through illiquid vehicles and cannot be redeemed. The investment periods of these funds typically range from 2 – 5 years with full terms of 10 – 12 years. Capital is distributed back as the fund's investments are liquidated over that time period.

Credit Hedge Funds – Strategies that typically invest both long and short in high yield and high-grade bonds, structured products, and distressed debt strategies that take advantage of corporate securities in default, under bankruptcy protection, in distress, or in liquidation. Two of the current investments within the portfolio have redemption restriction mechanisms whereas once a redemption is submitted the investor can only receive 25% of its capital per quarter.

Long/Short Equity Hedge Funds – Strategies that typically invest in long and short positions primarily in publicly traded equities. Within this portfolio there is one position that currently has a redemption restriction until April 1, 2018 and will revert to quarterly liquidity once that restriction has passed.

Global Macro Hedge Funds – Strategies which base its exposures on economic and political views and outcomes from around the world and in many markets. Funds of this nature can invest in a wide variety of securities such as equity, fixed income, currencies, commodities, and futures markets.

Multi-Strategy Hedge Funds – Multi-strategy hedge funds consist of variety of investment strategies such as equity long/short, convertible bond arbitrage, credit, merger and statistical arbitrage, event driven, etc. in order to lower and diversify risk as well as reduce volatility.

Other Hedge Funds – Legacy hedge fund positions which have been redeemed from but continue to be liquidated.

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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The operating funds of the University are managed against the expected cash requirements of these funds. The University projects its cash requirements and arranges investment maturities accordingly. Special attention is given to the interest rate environment in times of economic growth or downturns. The table below reflects the operation of this process. Endowment funds have a much longer outlook and are invested by professional managers against an index as provided in the University's investment guidelines. For the University, the following table summarizes the maturities of investments that are subject to interest rate risk at June 30, 2017 (dollars in thousands):

	2017				
		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government Bonds	$68,493	$45,187	$20,840	$998	$1,468
U.S. Government Agencies	3	–	–	3	–
Corporate Bonds	2,457	–	1,069	762	626
Certificate of Deposits	1,978	416	1,517	45	–
Mutual Funds – Fixed Income Securities	357,164	357,164	–	–	–
Total	$430,095	$402,767	$23,426	$1,808	$2,094

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's Investment Policy states that individual bonds shall be rated with an investment grade by at least two of the three rating agencies (Moody's, Fitch, and Standard & Poor's (S&P)). The average credit quality of the Core Fixed Income Fund shall be maintained at AA (by S&P or equivalent rating by Moody's or Fitch) or higher. The prospect of credit risk or risk of permanent loss shall be avoided in the Fixed Income Fund. Issues of state or municipal agencies shall not be purchased except in unusual circumstances. A fixed income manager may invest in foreign securities up to a limit of 20% of the portfolio. At June 30, 2017, the University's cash and cash equivalent and investment quality ratings as rated by Standard & Poor's were as follows (dollars in thousands):

Investment Type	Quality Rating	2017
U.S. Government Agencies and Bonds	AA+	$68,496
Certificate of Deposit	AAA	1,978
Corporate Bonds	AAA	525
Corporate Bonds	A+	625
Corporate Bonds	A	1,307
Mutual Funds – Fixed Income Securities	Not Rated	357,164
Money Market Funds	AAA	254,412
Total		$684,507

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. Custodial credit risk should not be confused with market risk, which is the risk that the market value of a security may decline. The University's investment securities are exposed to custodial credit risk if the securities are uninsured and unregistered and held by the counterparty, or by its trust department or agent but not in the University's name. Money market funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At June 30, 2017, the University's investment securities were not subject to custodial credit risk.

Investments - Endowment Funds

Most of the endowment funds assets are invested in the Long-Term Investment Pool. Each individual fund subscribes to or disposes of units in the pools on the basis of the per-unit market value at the beginning of the three-month period within which the transaction takes place. At June 30, 2017, the fair value of the Long-Term Investment Pool was $1,106.1 million. In addition, the aggregate endowment market value of funds separately invested was $33.5 million at June 30, 2017. The investment appreciation was $121.7 million at June 30, 2017. These amounts are included in restricted nonexpendable, restricted expendable and unrestricted net position.

The University employs a spending policy, which provides for annual spending at a stated rate determined by the Joint Investment Committee of the Board of Governors and the Board of Trustees. Income earned above the stated rate is reinvested and added to the endowment principal, while any shortfall is covered by capital appreciation. The University complies with the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) P.L. 2009, Chapter 64, adopted by New Jersey. This law speaks to the management and use of funds held by charitable institutions.

NOTE 4 – ACCOUNTS RECEIVABLE 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, 2017 (dollars in thousands):

	Accounts Receivable	Allowance	Net 2017
Government Grants and Other Sponsored Programs Receivable	$180,419	$4,690	$175,729
Construction Related Receivable	58,491	–	58,491
Student Notes Receivable	72,951	5,933	67,018
Patient Accounts Receivable	64,152	15,268	48,884
Federal and State Governments Receivable	72,905	–	72,905
Student Accounts Receivable	43,561	6,832	36,729
Health Service Contract Receivable	90,662	10,309	80,353
Other Receivable	30,667	2,877	27,790
Total	$613,808	$45,909	$567,899

The allowances for doubtful accounts and notes are based upon management's best estimate of uncollectible accounts and notes at June 30, 2017, considering type, age, collection history and other appropriate factors.

NOTE 5 – NET PATIENT SERVICE REVENUES AND HEALTH SERVICE CONTRACT REVENUES

Net patient service revenues include revenues related to patient care services, which are generated within RBHS behavioral healthcare, community healthcare centers, cancer and contract activities and the operations of faculty practice plans.

University Behavioral Health Care (UBHC) provides care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services and the Department of Human Services without charge or at amounts less than their established rates. UBHC and other units maintain records to identify and monitor the level of charity care they provide, which includes the amount of gross charges foregone for services and supplies furnished. Patient care revenues from these units totaled $85.1 million in 2017.

Net patient service revenues are comprised of the following at June 30, 2017 (dollars in thousands):

	2017
Gross Charges	$786,806
Deductions from Gross Charges	
Contractual and Other Allowances	(290,342)
Provision for Bad Debts	(23,414)
Net Patient Service Revenues	$473,050

Health Service Contract include revenues related to health service contract activities. This includes providing physician services under affiliate agreements with certain New Jersey hospitals (such as University Hospital of Newark, Cooper Hospital, RWJ Barnabas Health and others). It also includes physician services for house staff, which is comprised of reimbursements for graduate medical education residency programs in connection with RWJ Medical School, New Jersey Medical School and Rutgers School of Dental Medicine. Health Service Contract Revenues totaled $238.1 million, which included reimbursement for House Staff salaries, fringe benefits and insurance of $108.0 million and billings under other contractual arrangements of $130.1 million.

NOTE 6 – CAPITAL ASSETS

The detail of capital assets activity for the year ended June 30, 2017 is as follows (dollars in thousands):

	July 1, 2016	Additions	Retirements/ Capitalization	June 30, 2017
Capital Assets Not Being Depreciated:				
Land	$77,926	$ –	$724	$77,202
Capitalized Art Collections	60,606	709	–	61,315
Construction in Progress	401,159	284,144	283,375	401,928
Total	539,691	284,853	284,099	540,445
Capital Assets Being Depreciated:				
Land Improvements	357,994	29,719	78	387,635
Buildings	4,318,451	251,638	514	4,569,575
Equipment	950,143	38,311	207,163	781,291
Total	5,626,588	319,668	207,755	5,738,501
Less Accumulated Depreciation:				
Land Improvements	268,439	14,324	–	282,763
Buildings	1,686,361	132,462	130	1,818,693
Equipment	772,236	37,996	207,915	602,317
Total	2,727,036	184,782	208,045	2,703,773
Net Capital Assets Being Depreciated	2,899,552	134,886	(290)	3,034,728
Total Capital Assets, net	$3,439,243	$419,739	$283,809	$3,575,173

During 2017, the University capitalized interest expense of $3.7 million in construction in progress in the accompanying statement of net position.

NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2017 (dollars in thousands):

	2017
Vendors	$166,223
Accrued Salaries and Benefits	83,064
Compensated Absences	72,587
Workers Compensation	34,931
Interest Payable	11,481
Retainage	11,463
Other Accrued Expenses	44,538
Total Accounts Payable and Accrued Expenses	$424,287

NOTE 8 – NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2017, is as follows (dollars in thousands):

	July 1, 2016	Additions	Reductions	June 30, 2017	Current Portion
Accounts Payable and Accrued Expenses	$439,788	$50,158	$65,659	$424,287	$377,995
Net Pension Liabilities	1,644,741	605,819	192,583	2,057,977	–
Unearned Revenue	193,466	105,057	144,861	153,662	90,388
Long-Term Liabilities	1,969,327	44,604	95,978	1,917,953	125,549
Total Noncurrent Liabilities	$4,247,322	$805,638	$499,081	$4,553,879	$593,932

NOTE 9 – COMMERCIAL PAPER

The University has a combined taxable and tax-exempt commercial paper program that provides for interim or short-term financing of various capital projects, equipment, refundings and for other lawful purposes. The Board approved a maximum outstanding at any time of $500.0 million, provided the maximum principal amount will not exceed the amount secured by a Liquidity Facility. The current Liquidity Facility is provided by Wells Fargo Bank, N.A. (the Liquidity Provider) up to $200.0 million, through a Standby Commercial Paper Purchase Agreement, that terminates on April 10, 2018. The University has covenanted with the Liquidity Provider to maintain a Liquidity Ratio of 0.50 to 1.00 in fiscal year 2017. The University was in compliance with the covenant at June 30, 2017.

Commercial paper activity as of June 30, 2017, is as follows (dollars in thousands):

	July 1, 2016	Additions	Retirements	June 30, 2017
Taxable	$35,995	$25,000	$2,170	$58,825
Tax-exempt	29,613	–	2,768	26,845
Total Short-Term Liabilities	$65,608	$25,000	$4,938	$85,670

NOTE 10 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017, is as follows (dollars in thousands):

	Maturity Date	Interest Rates	July 1, 2016	Additions	Retirements and Payments	June 30, 2017	Current Portion
Notes:							
U.S. Department of Education	2021	5.50%	$557	$ –	$112	$445	$118
City of Camden	2023	1.00%	296	–	53	243	54
New Jersey Department of Human Services	2018	0.00%	311	–	–	311	311
Bonds Payable:							
General Obligation Bonds:							
2002 Series A	2018	Variable Rate	22,400	–	11,000	11,400	11,400
2009 Series F	2039	2.00% - 5.00%	21,895	–	7,000	14,895	7,285
2009 Series G	2039	Variable Rate	68,680	–	1,880	66,800	66,800
2010 Series H	2040	3.776% - 5.665%	390,990	–	–	390,990	–
2010 Series I	2029	2.00% - 5.00%	25,730	–	1,310	24,420	1,355
2013 Series J	2036	1.00% - 5.00%	323,350	–	5,695	317,655	6,175
2013 Series K	2033	0.40% - 4.712%	116,810	–	5,585	111,225	5,720
2013 Series L	2043	1.00% - 5.00%	332,460	–	3,815	328,645	4,000
2016 Series M	2039	3.00% - 5.00%	164,610	–	–	164,610	–
Other Long-Term Obligations:							
New Jersey Educational Facilities Authority:							
Higher Education Capital Improvement Fund:							
Series 2002 A	2022	3.00% - 5.25%	264	–	–	264	–
Series 2005 A	2019	3.00% - 5.00%	17,245	–	17,245	–	–
Series 2006 A	2022	4.00% - 4.50%	21,029	–	21,029	–	–
Series 2014 A	2033	3.50% - 5.00%	29,161	–	1,059	28,102	1,102
Series 2016 A	2022	2.84%	–	39,528	4,838	34,690	5,388
Series 2016 B	2036	4.73%	–	4,888	–	4,888	104
Higher Education Equipment Leasing Fund, Series 2014 A	2023	5.00%	6,840	–	1,599	5,241	1,678
Capital Lease Obligations:							
Housing Authority of the City of New Brunswick	2020	3.00% - 5.00%	14,360	–	3,330	11,030	3,500
Robert Wood Johnson University Hospital Sublease	2020	3.00% - 5.00%	(2,532)	–	(587)	(1,945)	(617)
New Jersey Economic Development Authority:							
College Avenue Redevelopment Project	2046	4.00% - 5.00%	237,055	–	3,615	233,440	3,730
15 Washington Street Housing Project	2031	3.10%	56,575	–	2,500	54,075	2,580
University Hospital Space Leases:							
Ambulatory Care Center, 140 Bergen St.	2089	4.16%[1]	19,017	–	42	18,975	44
New Jersey Medical School, 150 Bergen St.	2089	4.16%[1]	16,154	–	36	16,118	38
Equipment Leases		Various	116	–	78	38	38
Loan Payable:							
New Brunswick Development Corporation:							
15 Washington Street Housing Project	2025	12.00%	2,012	188	–	2,200	–
			1,885,385	44,604	91,234	1,838,755	120,803
Unamortized Bond Discounts			(1,069)	–	(46)	(1,023)	(44)
Unamortized Bond Premiums			85,011	–	4,790	80,221	4,790
Total Long-Term Liabilities			$1,969,327	$44,604	$95,978	$1,917,953	$125,549

[1] Effective interest rate.

Bonds Payable

The University issues general obligation bonds to (i) provide financing of various capital projects, (ii) provide for the refinancing of certain outstanding commercial paper and (iii) provide for the current and/or advance refunding of all or a portion of certain outstanding bonds of the University. These bonds are payable from revenues and other legally available funds. The bonds are secured under the provisions of an Indenture of Trust dated February 1, 2002 by and between the University and U.S. Bank, N.A.

All bonds bear interest at fixed rates with the exception of 2002 Series A and 2009 Series G, which bear interest at variable rates. These bonds are secured by a Liquidity Facility through a Standby Bond Purchase Agreement. The current Liquidity Facility for the 2002 Series A and the 2009 Series G bonds are provided by TD Bank, N.A. until May 1, 2018 and by U.S. Bank, N.A. until May 4, 2018, respectively. As of June 30, 2017, no funds have been drawn against these agreements.

Debt service to maturity for all General Obligation Bonds, using variable rates as of June 30, 2017, and using the net interest rate swap payments as of June 30, 2017 (See Note 11 for additional information about derivatives), are as follows (dollars in thousands):

	Fixed Rate Bonds		Variable Rate Bonds		Interest Rate	
Year	Principal	Interest	Principal	Interest	Swaps, Net	Total
2018	$24,535	$66,662	$13,350	$427	$2,286	$107,260
2019	41,900	65,707	2,030	357	1,881	111,875
2020	37,570	63,938	2,110	345	1,821	105,784
2021	38,760	62,282	2,195	334	1,759	105,330
2022	42,990	60,517	2,280	322	1,694	107,803
2023-2027	237,520	270,963	12,820	1,411	7,410	530,124
2028-2032	312,370	204,453	15,605	1,029	5,385	538,842
2033-2037	258,170	128,133	19,055	563	2,949	408,870
2038-2042	290,110	63,662	8,755	73	380	362,980
2043	68,515	3,426	–	–	–	71,941
Total	$1,352,440	$989,743	$78,200	$4,861	$25,565	$2,450,809

Other Long-Term Obligations

Under the provisions of the State of New Jersey Higher Education Capital Improvement Fund Act (CIF) and the Higher Education Equipment Leasing Fund Act (ELF), the University has been allocated funds from bonds issued by the New Jersey Educational Facilities Authority to finance various capital expenditures. The University is obligated to pay amounts equal to one-third and one-fourth of the amount necessary to pay the principal and interest on the portion of the CIF and ELF bonds, respectively.

Principal and interest payments for other long-term obligations are as follows (dollars in thousands):

Year	Principal	Interest	Total
2018	$8,273	$2,663	$10,936
2019	8,843	2,359	11,202
2020	7,724	2,069	9,793
2021	7,950	1,821	9,771
2022	7,762	1,558	9,320
2023-2027	15,248	5,087	20,335
2028-2032	10,950	2,802	13,752
2033-2037	6,436	467	6,903
Total	$73,186	$18,826	$92,012

Capital Lease Obligations

- **Housing Authority of the City of New Brunswick**

Pursuant to the terms of the capital lease and agreement dated July 1, 1992 between the University and the Housing Authority of the City of New Brunswick (the Housing Authority), the Housing Authority issued bonds for the purpose of providing long-term financing for the construction of a student apartment complex, parking deck, health club facility and multi-unit retail center. The bonds will mature on July 1, 2020. 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. As discussed more fully below, a portion of this capital lease obligation is being funded under a sublease agreement.

- **Robert Wood Johnson University 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. At the end of the term, title to the Hospital's portion of the parking deck will be transferred to the Hospital.

New Jersey Economic Development Authority

- **College Avenue Redevelopment Project**

On September 12, 2013, the New Jersey Economic Development Authority (the Authority) issued $237.1 million of its General Obligation Lease Revenue Bonds, Series 2013. The proceeds of the bonds were loaned by the Authority to College Avenue Redevelopment Associates, LLC (the Company), whose sole and managing member is the New Brunswick Development Corporation (DEVCO), pursuant to a Loan Agreement dated September 1, 2013 to finance the construction of an academic building for the School of Arts and Sciences, a residence hall for honors students, a residence building, and a multistory parking structure and surface lot being undertaken and constructed by the Company on behalf of the University. The Company is leasing the entire Property to the University pursuant to the Master Lease Agreement dated September 1, 2013. At the end of the term, title to the academic building, the residence hall for honor students, the residence building and the multistory parking structure and surface lot will be transferred to the University.

- **15 Washington Street**

On May 30, 2014, the New Jersey Economic Development Authority (the Authority) issued $58.3 million of its Revenue Notes, Series 2014. The proceeds of the notes were loaned by the Authority to Washington Street University Housing Associates, LLC (the Landlord), whose sole and managing member is the New Brunswick Development Corporation (DEVCO), pursuant to a Loan Agreement dated May 30, 2014, to finance the renovation of the Residential Estate to provide housing for graduate and undergraduate students. The Landlord is leasing the Property to the University pursuant to the Master Lease Agreement dated May 30, 2014. At the end of the term, title to the residential estate and its improvements will be transferred to the University upon payment of the outstanding amounts due on the Authority's notes and on the Developer's equity contribution.

Ambulatory Care Center

On July 2, 2013, the University (subtenant) entered into a sublease agreement with University Hospital (sub landlord) to sublease the Ambulatory Care Center located at 140 Bergen Street, Newark, New Jersey. The present value of the sublease was calculated using a discount rate of 4.16%. The sublease expiration date is May 31, 2089 and the base rent is $0.8 million per year.

New Jersey Medical School – Hospital Building

On July 1, 2013, the University (subtenant) entered into a sublease agreement with University Hospital (sub landlord) to sublease a portion of the Hospital Building located at 150 Bergen Street, Newark, New Jersey. The present value of the sublease was calculated using a discount rate of 4.16%. The sublease expiration date is May 31, 2089 and the base rent is $0.7 million per year.

Principal and interest payments applicable to the capital lease obligations are as follows (dollars in thousands):

Year	Principal	Interest	Total
2018	$9,313	$15,208	$24,521
2019	9,717	14,793	24,510
2020	10,124	14,361	24,485
2021	7,282	13,907	21,189
2022	7,562	13,595	21,157
2023-2027	38,826	62,889	101,715
2028-2032	62,849	53,373	116,222
2033-2037	43,851	40,644	84,495
2038-2042	55,921	28,570	84,491
2043-2047	55,914	13,170	69,084
2048-2052	1,513	5,889	7,402
2053-2057	1,854	5,547	7,401
2058-2062	2,274	5,128	7,402
2063-2067	2,787	4,614	7,401
2068-2072	3,418	3,984	7,402
2073-2077	4,190	3,211	7,401
2078-2082	5,137	2,264	7,401
2083-2087	6,298	1,103	7,401
2088-2089	2,901	59	2,960
Total	$331,731	$302,309	$634,040

Miscellaneous Equipment Leases

The University has entered into certain lease-purchase agreements for equipment. The following represents the book value of the University's equipment capital leases at June 30, 2017 (dollars in thousands):

	2017
Cost	$1,303
Accumulated Depreciation	(1,189)
Net Book Value	$114

LEAP School Bond Financing Guaranty

In 2003, the Delaware River Port Authority issued $8.5 million of Charter School Project Bonds, Series 2003 (LEAP Academy University Charter School, Inc.) to finance the costs of the design, development, construction and equipping of the LEAP Academy University Charter School, which is adjacent to the Camden Campus. During fiscal year 2015, the New Jersey Economic Development Authority issued $10.0 million of Charter School Revenue Bonds, Series 2014 to refund, among others, in whole the Series 2003 Bonds. As part of the University's commitment to contributing to the community of the City of Camden, the University guarantees the payment of the principal and interest on the bonds through its maturity in 2028.

Defeased Bonds

The University has defeased various bonds with the proceeds of new debt or with University funds. The funds are deposited to an irrevocable escrow trust account for the payment of the principal, interest, and call premiums, if any, on the refunded bonds. The defeased bonds and the related trusts are not reflected in the accompanying financial statements. As of June 30, 2017, the University's defeased debt is as follows (dollars in thousands):

	Amount Defeased	Final Maturity/Call Date	Amount Outstanding at June 30, 2017
NJEFA Revenue Refunding Bonds, 2009 Series B	$214,885	6/1/2019	$179,256
General Obligation Bonds, 2009 Series F	$166,185	5/1/2019	166,185
Total	$381,070		$345,441

NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS

The University has entered into four separate pay-fixed, receive-variable interest rate swaps in order to protect against adverse changes in cash flows caused by variable prices, costs, rates, or terms that cause future prices to be uncertain. These swaps are valued using a market approach that considers benchmark interest rates and, therefore, are classified in Level 2 of the fair value hierarchy.

For the year ended June 30, 2017, the University had the following derivative instruments outstanding (dollars in thousands):

Swap #	Type	Objective	Notional Amount 2017	Effective Date	Termination Date	Terms	Counterparty Credit Rating (Moody's/S&P)	Fair Value 2017	Change in Fair Value from 2016
1	Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Obligation Bond	$11,400	2/4/2002	5/1/2018	Pay fixed 3.960%, receive SIFMA swap index	Aa3/A+	($288)	$774
2	Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Obligation Bond and General Obligation Commercial Paper	100,000	5/1/2008	11/1/2038	Pay fixed 4.080%, receive 100% of 3-Month LIBOR	Aa3/AA–	(26,223)	17,752
3	Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Obligation Bond	11,325	5/1/2007	5/1/2027	Pay fixed 3.824%, receive SIFMA swap index	Aa2/AA–	(1,792)	775
4	Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Obligation Commercial Paper	13,500	3/1/2012	11/1/2017	Pay fixed 5.127%, receive 100% of 1-Month LIBOR	Aa2/AA–	(175)	654
			$136,225					($28,478)	$19,955

Risk
The use of derivatives may introduce certain risks for the University, including the following:

Credit Risk:
As of June 30, 2017, the University was not exposed to credit risk with its swap counterparties because all of the swaps had negative fair values.

To mitigate credit risk, the University and the counterparties require the posting of collateral based on their respective credit rating. The amount of (i.e., value of) such collateral shall equal the market value of the swap in excess of the applicable collateral threshold based on the rating of such counterparty at such time. The table below shows when collateralization would be required or triggered.

Ratings by Moody's and S&P	Swap #1 Collateral Threshold	Swap #2, 3, 4 Collateral Threshold
Aaa/AAA	$30.0 million	Infinite
Aa3/AA–	$25.0 million	Infinite
A1/A+	Zero	$20.0 million
A2/A	Zero	$10.0 million
A3/A–	Zero	$10.0 million
Baa1/BBB+	Zero	$5.0 million
Baa2/BBB	Zero	$5.0 million
Baa3/BBB–	Zero	Zero
Below Baa3/BBB– or not rated	Zero	Zero

As of June 30, 2017, the University's credit ratings by Moody's and S&P was Aa3 and A+, respectively, and was required to post collateral for $0.3 million for Swap #1 and $6.2 million for Swap #2. In order to minimize the need for daily transfers, the University has posted $1.2 million and $9.6 million for Swap #1 and Swap #2, respectively, and is included in noncurrent cash and cash equivalents – restricted in the statement of net position.

Basis Risk:
There is a risk that the variable payment received on interest rate swaps will not match the variable payment on the bonds or commercial paper. This risk is known as basis risk. Swaps totaling to $136.2 million have basis risk because the interest rates on the bonds and commercial paper are reset periodically by the remarketing agent or commercial paper dealer and may not exactly match the variable receipt on the interest rate swaps, which are based on a percentage of either LIBOR or SIFMA indexes.

Rollover Risk:
The University is exposed to rollover risk on swaps only if the counterparty exercises its termination option, in which case the University will not realize the synthetic rate offered by the swaps on the underlying debt issues.

Termination Risk:
The University or any of the involved counterparties may terminate any of the swaps if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable rate debt issue would no longer carry a synthetic fixed interest rate. Also, if at termination a swap has a negative fair value, the University would be liable to the appropriate counterparty for a payment equal to the swap's fair value.

The counterparty for swap #1 has an optional termination provision in which they will have the right, but not the obligation to terminate the swap transaction in whole on each day that the daily weighted average of the Municipal Swap Index for any immediately preceding rolling consecutive 180-day period within the exercise period is more than 7.0% per annum. The exercise period began on November 1, 2004 and is up to, but excluding, the termination date of May 1, 2018. The date on which the counterparty for swap #1 exercises its right to terminate the transaction is defined as the optional termination date. If the counterparty for swap #1 exercises its right to terminate the transaction, the University shall pay two business days after the optional termination date the fixed amount for the period from and including the last fixed rate payer payment date to but excluding the optional termination date, and the counterparty for swap #1 will pay two business days after the optional termination date the floating amount for the period from and including the last floating rate payer payment date to but excluding the optional termination date. Upon payment and receipt of these amounts, neither party shall have any further payment obligations related to this transaction.

NOTE 12 – COMMITMENTS

At June 30, 2017, the estimated cost of capital projects under construction and/or in the design stage with approved sources of funding, aggregated approximately $912.5 million. The additional funding required at June 30, 2017 reflects amounts for completion and will be received over several years. Anticipated sources of funding for these projects are summarized as follows (dollars in thousands):

	Total Project Funding		
	Received at June 30, 2017	Additional Funding Required at June 30, 2017	Estimated Total Cost
Borrowing	$103,166	$229,304	$332,470
State	158,572	81,438	240,010
Gifts and Other Sources	212,459	127,556	340,015
Total	$474,197	$438,298	$912,495

The University leases certain space used in general operations. Rental expense was approximately $15.6 million in 2017. The leases are non-cancelable and have been classified as operating leases which are expected to expire through 2046. Minimum annual rental commitments approximate the following (dollars in thousands):

Fiscal Year	Amount
2018	$16,808
2019	15,766
2020	13,643
2021	11,172
2022	10,501
2023-2027	36,651
2028-2032	19,798
2033-2037	15,565
2038-2042	14,314
2043-2047	7,822
Total	$162,040

NOTE 13 – NATURAL EXPENSES BY FUNCTIONAL CLASSIFICATION

The University reports operating expenses by functional classification. Details of these expenses by natural classification at June 30, 2017, are as follows (dollars in thousands):

	2017
Instruction	$914,052
Sponsored Research	285,520
Other Separately Budgeted Research	150,666
Extension and Public Service	251,856
Academic Support	448,726
Student Services	133,840
Operation & Maintenance of Plant	237,835
General Administrative and Institutional	237,767
Scholarships and Fellowships	79,708
Depreciation	184,782
Patient Care Services	636,343
Auxiliary Enterprises	260,895
Other Operating Expenses	228
Total Operating Expenses	$3,822,218

NOTE 14 - EMPLOYEE BENEFITS

Retirement Plans

The University has primarily three retirement plans available to its employees, the State of New Jersey Public Employees Retirement System, State of New Jersey Police and Firemen's Retirement System, and the Alternate Benefit Program. Under these plans, participants make annual contributions, and the State of New Jersey makes employer contributions on behalf of the University for these Plans. Reimbursement is based upon a composite fringe benefit rate provided by the State for all State plans. The University is charged for contributions on behalf of employees through a fringe benefits charge assessed by the State which is included within the state paid fringe benefits in the accompanying statement of revenues, expenses, and changes in net position. Summary information regarding these plans is provided below.

Public Employees Retirement System (PERS)

Plan Description — The State of New Jersey Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR), which can be found at **state.nj.us/treasury/pensions/annrprts.shtml**.

Benefits — The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death, and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions — Covered University employees were required by PERS to contribute 7.34% of their annual compensation during fiscal year 2017. The PERS contribution rate will increase by 0.14% each year until the 7.5% contribution rate is reached by July 1, 2018. The State contributes the remaining amounts necessary to pay benefits when due. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. A contribution on behalf of the University is included within the State's contribution. The contribution requirements of the plan members and the University are established and may be amended by the State.

The State issues publicly available financial reports that include financial statements and required supplementary information for PERS. These reports may be obtained by writing to the State of New Jersey, Division of Pensions and Benefits, PO Box 295, Trenton, NJ 08625-0295.

Police and Firemen's Retirement System (PFRS)

Plan Description — The State of New Jersey Police and Firemen's Retirement System (PFRS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the

Division). For additional information about PFRS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at state.nj.us/treasury/pensions/annrpts.shtml.

Benefits — The vesting and benefit provisions are set by N.J.S.A. 43:16A. PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service.

The following represents the membership tiers for PFRS:

Tier	Definition
1	Members who were enrolled prior to May 22, 2010
2	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
3	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tiers 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

Contributions — The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. A contribution on behalf of the University is included within the State's contribution. The active member contribution rate is 10.0% of annual compensation during fiscal year 2017.

Net Pension Liability, Deferred Amounts Related to Pensions and Pension Expense

The University's respective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to PERS and PFRS are calculated by the State of New Jersey Division of Pension and Benefits. At June 30, 2017, the University reported a liability of $1,973.9 million and $84.1 million for PERS and PFRS, respectively, for its proportionate share of the respective PERS' and PFRS' net pension liabilities. The total pension liability used to calculate the net pension liability at June 30, 2017, was determined by an actuarial valuation as of July 1, 2015, and rolled forward to the measurement date of June 30, 2016, for both PERS and PFRS. The University's proportionate share of the respective net pension liabilities for the fiscal year was based on actual contributions to PERS and PFRS on behalf of the University relative to the total contributions of participating state-group employers for each plan for fiscal 2016, which was 6.7% and 1.8% for PERS and PFRS, respectively. The University's proportionate share of the respective net pension liabilities for the plan was 3.4% and 0.3% for PERS and PFRS, respectively.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the respective fiduciary net position of the PERS and PFRS and additions to/deductions from PERS' and PFRS' respective fiduciary net position have been determined on the same basis as they are reported by PERS and PFRS. Accordingly, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The June 30, 2016 measurement of the net pension liability for PERS and PFRS used the following actuarial assumptions:

	2016	
	PERS	PFRS
Inflation Rate	3.08%	3.08%
Salary Increases:		
2016 – 2026	1.65–4.15% based on age	2.10–8.98% based on age
Thereafter	2.65–5.15% based on age	3.10–9.98% based on age
Investment rate of return	7.65%	7.65%

Pre-retirement mortality rates for PERS were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

Pre-retirement mortality rates for PFRS were based on the RP-2000 Pre-Retirement tables projected thirteen years using Projection Scale BB and then projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for male service retirements and beneficiaries are based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for female service retirements and beneficiaries were based on the RP-2000 Combined Healthy Mortality Tables projected thirteen years using Projection Scale BB and then two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Disability mortality rates were based on special mortality tables used for the period after disability retirement.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2011, to June 30, 2014, for PERS and July 1, 2010, to June 30, 2013, for PFRS.

Long-Term Expected Rate of Return — The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' and PFRS' target asset allocation as of June 30, 2016 are summarized in the following table:

	2016	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex U.S.	5.00%	(0.25%)
REIT	5.25%	5.63%

Discount Rate — The discount rate used to measure the total pension liability for PERS was 3.98% as of June 30, 2016. The discount rate used to measure the total pension liability for PFRS was 5.55% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034 for PERS and 2050 for PFRS. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 for PERS and 2050 for PFRS, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Change in Assumptions — For the valuation used in the measurement of the net pension liability for PERS as of June 30, 2016, the discount rate decreased 0.92% to 3.98% and the long-term expected rate of return decreased 0.25% to 7.65%. The demographic assumptions were revised in accordance with the results of the July 1, 2011 – June 30, 2014 experience study (previously, the July 1, 2008 – June 30, 2011 experience study was utilized) and the mortality improvement scale incorporated the plan actuary's modified MP-2014 projection scale (previously, the mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables). Further, salary increases were assumed to increase between 1.65% and 4.15% (based on age) through fiscal years 2026 and 2.65% and 5.15 % (based on age) for each fiscal year thereafter (previously, salary increases were assumed to increase between 2.15% and 4.40% (based on age) through fiscal years 2021 and 3.15% and 5.40% (based on age) for each fiscal year thereafter).

For the valuation used in the measurement of the net pension liability for PFRS as of June 30, 2016, the discount rate decreased 0.24% to 5.55% and the long-term expected rate of return decreased 0.25% to 7.65%. The mortality improvement scale incorporated the plan actuary's modified 2014 projection scale (previously, the mortality rates for male service retirements were based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and one year using Projection Scale BB with adjustments for mortality improvements from the base year based on Projection Scale BB. Mortality rates for female service retirements were based on the RP-2000 Combined Healthy Mortality Tables projected fourteen years using Projection Scale BB with adjustments for mortality improvements from the base year of 2014 based on Projection Scale BB). Further, salary increases were assumed to increase between 2.10% and 8.98% (based on age) through fiscal year 2026 and 3.10% and 9.98% (based on age) for each fiscal year thereafter (previously, salary increases were assumed to increase between 2.60% and 9.48% (based on age) through fiscal years 2021 and 3.60% and 10.48% (based on age) for each fiscal year thereafter).

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate — The following presents the collective net pension liability of the University, measured as of June 30, 2016, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (dollars in thousands):

	2016		
	At 1% Decrease	**At Current Discount Rate**	**At 1% Increase**
PERS (2.98%, 3.98%, 4.98%, respectively)	$2,311,826	$1,973,868	$1,695,551
PFRS (4.55%, 5.55%, 6.55%, respectively)	100,207	84,109	71,023
Total	$2,412,033	$2,057,977	$1,766,574

Deferred Outflows of Resources and Deferred Inflows of Resources — The following presents a summary of the deferred outflows of resources and deferred inflows of resources reported at June 30, 2017 (dollars in thousands):

2017	PERS	PFRS	Total
Deferred Outflows of Resources			
Changes of Assumptions	$295,036	$6,550	$301,586
Changes in Proportionate Share	61,376	2,414	63,790
Difference Between Expected and Actual Experience	42,010	–	42,010
Difference Between Projected and Actual Earnings on Pension Plan Investments	32,611	2,624	35,235
Contributions Subsequent to Measurement Date	28,964	3,069	32,033
Total	$459,997	$14,657	$474,654
Deferred Inflows of Resources			
Changes in Proportionate Share	$11,132	$5,186	$16,318
Difference Between Expected and Actual Experience	–	727	727
Difference Between Projected and Actual Earnings on Pension Plan Investments	–	–	–
Total	$11,132	$5,913	$17,045

Included in deferred outflows of resources related to pensions is $32.0 million from contributions made on behalf of the University subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (dollars in thousands):

Years Ending June 30	PERS	PFRS	Total
2018	$96,890	$1,421	$98,311
2019	96,890	1,421	98,311
2020	107,147	1,813	108,960
2021	88,492	1,178	89,670
2022	30,482	(158)	30,324
Total	$419,901	$5,675	$425,576

Annual Pension Expense – The University's annual pension expense for PERS and PFRS for the year ended June 30, 2017, was approximately $185.4 million and $7.2 million, respectively.

Alternate Benefit Program (ABP)

Plan Description – ABP is an employer defined contribution State retirement plan established as an alternative to PERS. The payroll for employees covered by ABP for the year ended June 30, 2017 was $1,121.5 million.

Faculty, part-time lecturers, professional and administrative staff, and certain other salaried employees are eligible to participate in ABP. Employer 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 seven investment carriers available under the plan for fiscal year 2017. Additional voluntary contributions may be made on a tax-deferred basis, subject to limits within the Internal Revenue Code. Employer contributions for the year ended June 30, 2017, were $80.4 million. Employee contributions for the year ended June 30, 2017, were $54.6 million.

Effective July 1, 2010, Governor Christie signed Chapter 31, P.L. 2010 into law, which only allowed employer contributions to the Alternate Benefits Program (ABP) for salaries up to $141,000. In response to this state imposed limit, the University established the Alternate Benefits Program and Trust. Through this program, the University continues to make the full 8% employer ABP contributions for salaries in excess of $141,000, up to the Federal IRC Annual Compensation limit of $265,000.

Other Retirement Plans

The University has a small number of employees enrolled in two Federal retirement plans, the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). Both plans are defined benefit plans and cover the University's police and selected positions related to the University's Cook College/New Jersey Agricultural Experiment Station (CSRS or FERS). The University also has a small number of Rutgers University Foundation employees enrolled in a contributory retirement plan under arrangements with Teacher's Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), which provides for the purchase of annuities for the covered employees. The University also has a small number of employees enrolled in the Defined Contribution Retirement Program (DCRP). The DCRP was established under the provisions of Chapter 92, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010. The DCRP provides eligible members with a tax sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Employees who are ineligible for PERS and PFRS, because the hours of work are fewer than those required for PERS and PFRS membership, are eligible for enrollment in the DCRP provided the annual salary is $5,000 or higher. Employees enrolled in PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; and employees otherwise eligible to enroll in PERS on or after November 2, 2008, who do not earn the minimum annual salary (indexed annually) for PERS Membership but who earn a salary of at least $5,000 annually, are eligible to enroll in the DCRP. Eligible employees contribute 5.5% of base salary and the employer match is 3% of base salary. Participation in all of these plans is limited, and the associated amounts are not significant.

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.

Deferred Compensation Plan

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

Postemployment Benefits Other Than Pension

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

NOTE 15 - COMPENSATED ABSENCES

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

The University recorded a liability for accumulated vacation time in the amount of $56.4 million at June 30, 2017. The liability is calculated based upon employees' accrued vacation time as of the statement of net position date and is recorded in accounts payable and accrued expenses in the accompanying statement of net position.

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payout 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 $13.0 million at June 30, 2017, which is included in noncurrent accounts payable and accrued expenses in the accompanying statement of net position.

The University also recorded a liability for paid leave bank days in the amount of $3.1 million at June 30, 2017, which is included in noncurrent accounts payable and accrued expenses in the accompanying statement of net position. Employees began using these days on July 1, 2010, and may continue for the duration of employment with the University. Once these days are exhausted, the employee will not be eligible for any additional days.

NOTE 16 - RISK MANAGEMENT

In 1980, the University, jointly with 15 other higher education institutions, established Genesis Ltd. (Genesis), a Class 2 reinsurer under the Insurance Act of 1978 of Bermuda. Genesis, a Captive Reinsurance Company, was formed to reinsure general liability, professional liability, and automobile liability risks of its shareholders.

In 2004, the University and its 15 partners formed a Vermont Reciprocal Risk Retention Group, Pinnacle Consortium of Higher Education (Pinnacle), to enhance and support the insurance programs and provide fronting services for Genesis. The primary purpose of this second alternate risk funding company was to reduce costs, reduce collateral requirements for Genesis and provide the flexibility to conduct business in the U.S. The insurance policies have deductibles that vary by policy, the most significant of which provides for the payment of general liability claims.

Effective January 1, 2016, in order to eliminate certain redundancies and gain further operational efficiency, the Shareholders and Subscribers of Genesis and Pinnacle, respectively, consolidated the insurance operations into Pinnacle in a two-step process by: discontinuing Genesis in Bermuda, and, immediately merging it into Pinnacle, with Pinnacle remaining as the surviving entity. Pinnacle assumed all of Genesis' obligations as reinsurer of Pinnacle, and is holding all of the assets previously held by Genesis to support such obligations. Going forward, Pinnacle will retain all of the risk that previously was ceded to Genesis.

The University is self-insured for workers compensation and retains various deductibles for general liability, automobile liability, and all risk property insurance. The total liability at June 30, 2017, for these items is $33.6 million. The reserve balance recorded at June 30, 2017, is $38.5 million. Workers compensation reserves are discounted at 2%. The self-insurance reserve represents the estimated ultimate cost of settling claims and related expenses resulting from events that have occurred. The reserve includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported (IBNR).

The University participates in the State's Medical Malpractice Self-Insurance Fund (the Fund) which is used to pay malpractice claims and insurance premiums for the University. The contributions made during the current fiscal year by the University and its affiliate hospitals, UPA, Department of Corrections (DOC), and faculty practice plans are equal to the amount established in memoranda agreements between the Department of the Treasury and the University. If the contributions are insufficient to pay claims expenditures, the State's General Fund will be used to pay remaining claims.

Payment of claims from the Fund totaled $30.0 million in 2017. Contributions to the Fund from the State totaled $20.0 million in 2017, while contributions from RBHS affiliates, DOC, and faculty practice plans totaled $10.0 million in 2017.

The University has accrued expenses for deductibles and IBNR liabilities in the statement of net position. 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.

NOTE 17 - 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 18 - COMPONENT UNIT - RUTGERS UNIVERSITY FOUNDATION

Cash, Cash Equivalents, and Investments

The Foundation's cash and cash equivalents consist of the following as of June 30, 2017 (dollars in thousands):

	2017
Money Market Account	$619
Cash and Deposits	28,452
	$29,071

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

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

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following is a description of the valuation methodologies used for instruments measured at fair value:

U.S. Treasury Securities – The fair value of U.S. Treasury securities is the market value using quoted market prices.

Mortgage-backed Securities – The fair value of mortgage-backed securities is the market value using quoted market prices.

Preferred Stock – The fair value of preferred stock is the market value using quoted market prices (Level 1) and sensitivity analysis of the relationship between bond and equity values for preferred stock with observable inputs (Level 2) and unobservable inputs (Level 3).
Equity Securities – The fair value of equity securities is the market value based on quoted market prices.

Fixed Income Mutual Funds – The fair value of equity securities is the market value based on quoted market prices.

Real Estate – The fair value of real estate is the value based on the initial recognition of the assets when they are donated to the Foundation based on a qualified appraisal or similar real estate market value.

Privately Held Securities – The fair market value of privately held securities is the value based upon the initial recognition of the asset when donated to the Foundation. There are no observable markets for the assets.

Alternative investments – The fair value of alternative investments uses current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. The estimated fair value of these investments is based on the most recent valuation provided by external investment managers. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore differ from the value that would have been used had a ready market for such investments existed.

The Foundation's investments are summarized in the following table by their fair value hierarchy as of June 30, 2017 (dollars in thousands):

	2017			
	Investments by Fair Value Level			
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
U.S. Treasury Securities	$342	$342	$ –	$ –
Municipal Bonds	4	4	–	–
Mortgage-backed Securities	1	1	–	–
Preferred Stock	330	171	133	26
Fixed Income Mutual Funds	8,096	8,096	–	–
Equity Securities	5,560	5,560	–	–
Real Estate	233	–	233	–
Privately Held Securities	60	–	–	60
	14,626	$14,174	$366	$86
Investments measured at net asset value or its equivalent:				
Alternative investments	472			
Subtotal	472			
Total Investments	$15,098			

Custodial Credit Risk – The Foundation's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financials institution's trust department or agent, but not in the Foundation's name. The deposit risk is that, in the event of the failure of a depository financial institution, the Foundation will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Foundation's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Foundation and are held by either: the counterparty or the counterparty's trust department of agent, but not in the Foundation's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Foundation will not be able to recover the value of the investment of collateral securities that are in the possession of an outside party.

The custodial credit risk associated with the Foundation's cash and cash equivalents includes uncollateralized deposits, including any bank balance that is collateralized with securities held by pledging financial institutions, or by its trust department or agent, but not in the Foundation's name. As of June 30, 2017, the amount on deposit with the banks was $28.5 million. As of June 30, 2017, the Foundation had insured deposits up to the Federal Deposit Insurance Corporation (FDIC) coverage limits totaling $0.3 million. Cash and cash equivalents in excess of those balances are uncollateralized.

As of June 30, 2017, the Foundation's investments were either insured, registered, or held by the Foundation's agent in the Foundation's name, except for money market and mutual funds, which are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk – The Foundation limits the concentration of credit risk by placing a limit on the amount the investment managers may invest in any one issuer. No initial purchase of an equity or fixed income security in any one issuer should exceed 5% of the portion of the Foundation's assets under management by each investment manager. In addition, no single equity security should be greater than 10% of the market value of the Foundation's assets under management. As of June 30, 2017, there are no investments in any one issuer greater than 5% of total investments.

Credit Risk – GASB Statement No. 40 requires that disclosure be made as to the credit rating of all fixed income securities except obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. The Foundation's investment policy states that individual bonds shall be rated investment grade by at least two recognized or authorized rating agencies (Moody's and Standard & Poor's). The average credit quality of the fixed income securities must be maintained at a Class "BBB/Baa" or higher as rated by both standard services (Moody's and Standard & Poor's). Up to 10% of the investment manager's portfolio may be invested in securities rated "BBB/Baa" or lower as rated by both standard services (Moody's and Standard & Poor's). The dollar-weighted average rating of the fixed income portfolio for each manager of marketable bonds shall be "A/A" or better.

As of June 30, 2017, the Foundation's investment quality ratings as rated by Standard & Poor's were as follows (dollars in thousands):

Investment Type	Quality Rating	2017
Municipal Bonds	AAA	$4
U.S. Treasury Securities	AA+	342
Mortgage-backed Securities	AA+	1
Preferred Stock	A-	1
Preferred Stock	BBB	46
Preferred Stock	BBB–	53
Preferred Stock	BB+	26
Preferred Stock	BB	26
Preferred Stock	BB–	13
Preferred Stock	Not Rated	165
Fixed Income Mutual Funds	Not Rated	8,096
Total		$8,773

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation does not have a provision in the investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. While the general provisions of the investment strategy should be implemented with a long-term perspective, all holdings must be sufficiently liquid so as to allow liquidation of the entire portfolio on one month's notice. In addition, annuity pooled investments in the planned giving portion of the portfolio are governed by the New Jersey Prudent Investor Act. The required reserves for this pool are reviewed utilizing actuarial assumptions of the charitable gift annuity assets. The following table summarizes the maturities as of June 30, 2017 (dollars in thousands):

		2017			
		Investment Maturities (in years)			
Investment Type	Fair Value	Less than 1	1 — 5	6 — 10	More than 10
U.S. Treasury Securities	$342	$223	$113	$6	$ –
Mortgage-backed Securities	1	–	–	–	1
Municipal Bonds	4	–	–	4	–
Preferred Stock	330	154	103	27	46
Fixed Income Mutual Funds	8,096	–	3,695	4,401	–
Total	$8,773	$377	$3,911	$4,438	$47

Administrative Fees and Support from Rutgers, The State University of New Jersey

The Foundation's operations, including certain payroll taxes and benefits, the fair rental value of space occupied, and office furnishings used by the Foundation are supported extensively by the University for operating purposes. Funding sources for the years ended June 30, 2017, were as follows (dollars in thousands):

	2017
Administrative Fees and Support:	
Endowment Administrative Fee	$9,185
University Support	15,202
	$24,387
Noncash Support:	
Fair Rental Value of Space Occupied	$431
University-Paid Payroll Taxes and Benefits	1,582
	2,013
Total	$26,400

Assessment Fee Income

The Foundation charges an assessment fee on all new gifts and nongovernmental grants in order to further advancement efforts on behalf of Rutgers, The State University of New Jersey. As of June 30, 2017, assessment fees totaling $4.9 million were recorded.

Restricted Contributions Receivable

The anticipated receipt of contributions receivable as of June 30, 2017, is as follows (dollars in thousands):

	2017
Year Ending June 30:	
Within One Year	$39,206
Two to Five Years	41,091
	80,297
Less Allowance for Uncollectible Contributions Receivable	(5,775)
	$74,522

Contributions receivable related to permanent endowments and term endowments do not meet the eligibility requirements for recognition of GASB Statement No. 33 until received. These contributions receivable, which approximated $86.4 million as of June 30, 2017, have not been included in the accompanying financial statements.

University Receipts on Foundation Pledges

The Foundation records pledges receivables, and the associated gift income, for nonendowment related gifts and private grants based upon written commitments from these entities. From individual donors, the written support is primarily in the form of a fund agreement signed by both the donor(s) and the Foundation. Private grants obtained from private corporations and Foundations are recorded upon confirmation of the grant award to the University via correspondence from the private organization. Payments on these pledges are not all received at the Foundation, as some payments are made directly to the University. Any payments made directly to the University are captured in the Foundation's statement of revenues, expenses, and changes in net position as gift revenue as well as distributions to the University. The total of these payments to the University, as of June 30, 2017, was $19.5 million.

NOTE 19 – COMPONENT UNIT – UNIVERSITY PHYSICIAN ASSOCIATES OF NEW JERSEY, INC., AND AFFILIATE

The following information has been taken from UPA's audited financial statements, which were prepared in accordance with financial pronouncements of the Financial Accounting Standards Board.

The accompanying combined financial statements of UPA are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Investments and Assets Whose Use is Limited

Cash and Cash Equivalents – Restricted

This amount represents funds held in one depository account for the repayment of liabilities to the New Jersey Medical School Deans' Fund.

Assets limited as to use at June 30, 2017, is set forth in the following table (dollars in thousands):

	2017
Cash and Cash Equivalents – Restricted	$5,045
	$5,045

Investments

The composition of investments at June 30, 2017, is set forth in the following table (dollars in thousands):

	2017
Cash and Cash Equivalents	$1,503
Marketable Equity Securities	17,646
U.S. Government Securities	2,847
Bonds	36,518
Total Short-term Investments	$58,514

The fair value of UPA's financial assets that are measured on a recurring basis at June 30, 2017, are as follows (dollars in thousands):

Assets	Valuation Techniques[1]	Quoted Priced in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	2017 Total Fair Value
Marketable Equity Securities	M	$ 17,646	$ –	$ –	$ 17,646
U.S. Government Securities	M	–	2,847	–	2,847
Bonds	M	–	36,518	–	36,518
Total Assets		$ 17,646	$ 39,365	$ –	$ 57,011

[1] The three valuation techniques are market approach (M), cost approach (C), and income approach (I).

At June 30, 2017, there was approximately $1.5 million of cash and cash equivalents in investments within the statement of net position that are excluded from the charts above as they are not considered recurring fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of assets:

Marketable Equity Securities – Fair value estimates for publicly traded equity securities are based on quoted market prices and are classified as Level 1. UPA does not adjust the quoted price for such assets.

U.S. Government Securities and Bonds – The estimated fair values are based on other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of debt securities that do not trade on a regular basis in active markets of priced using a model-based valuation are classified as Level 2.

Transactions with Related Parties

The Board of Directors of UPA includes certain participating UPA physicians, the Dean of Rutgers New Jersey Medical School and the Senior Vice President for Finance and Administration of Rutgers University. Transactions between UPA, Rutgers University and UPA physicians are handled in accordance with the Affiliation Agreement.

Under the terms of the Affiliation Agreement between Rutgers University and UPA, all professional fees collected by UPA will be distributed in varying proportions to the following:

- UPA participating physicians – Faculty members who are required to or permitted to participate in the faculty practice plan. Included are full time, part time, and voluntary faculty.

- Rutgers New Jersey Medical School Department Funds – 7% of gross patient service on system and off system collections are paid into the Departmental Chairs Fund.

- Rutgers New Jersey Medical School Deans' Fund – 7% of gross patient service on system and off system collections are paid into the Deans' Fund.

- Participant Fund – These are funds voluntarily voted on by participants through their specific departments within Rutgers New Jersey Medical School, with varying amounts allocated for each participant.

- Rutgers University Medical Malpractice Fund – 3% of gross patient service on system and off system collections are paid into Rutgers University's self-insured pool for medical malpractice coverage per the affiliation agreement.

The payables to related parties as of June 30, 2017, are as follows (dollars in thousands):

	2017
Payable to Rutgers University Medical Malpractice Fund	$675
Payable to New Jersey Medical School Mandatory Department Account	5,018
Payable to New Jersey Medical School Deans' Fund	6,758
Payable to Voluntary Department Account	2,383
Payable to Voluntary Division Account	1,462
Payable to Voluntary Group Account	88
Payable to Voluntary Practice Group Account	27,044
Total Current Liabilities	$43,428

Lease Commitments

UPA originally leased 47,500 square feet of rental space located in the Doctor's Office Center in Newark, New Jersey from UMDNJ. UMDNJ and UPA entered into a lease dated May 7, 2001, with four subsequent addendums to extend the terms of the lease. The fourth addendum effective January 1, 2006 has extended to lease to December 31, 2006 under the same terms and conditions set forth in the May 7, 2001 lease, which is subject to renewal. Effective July 1, 2013, the lease agreement between UPA and UMDNJ was amended to state that, as of that date, the parties to the Lease Agreement are Rutgers University and UPA. Total rental expense in fiscal year 2017 was $0.5 million.

NOTE 20 – SUBSEQUENT EVENTS

Rutgers Health Group (RHG), a non-profit corporation, was incorporated on July 29, 2016 and was granted tax-exempt status on November 29, 2016. Operating as "Rutgers Health," RHG was organized as the University's integrated, inter-professional faculty practice for the University's health care practitioners to deliver high quality, cost-effective patient care at clinical locations supportive of the University's teaching and research missions; to participate in education and research exclusively in support of the charitable, scientific and educational purposes of the University; and to support the University's education and training of healthcare students, post-graduate students and professionals. By combining the University's clinical operations into a single entity, RHG furthers the development of University's clinically integrated operations through the integration and coordination of the clinical services of the University's health care practitioners. Although RHG is legally separate from the University, the University is the sole member of RHG, has various reserved powers with respect to RHG's operations, and appoints a majority of RHG's trustees.

RHG commenced operations on July 1, 2017. At this time, RHG has no employees. Pursuant to an affiliation agreement between RHG and the University, the health care professionals who provide RHG's patient care services serve as faculty and employees of the University, which is solely responsible for the administration of all compensation, salary, wages, and benefits payable to these individuals.

RUTGERS
THE STATE UNIVERSITY OF NEW JERSEY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedules of Employer Contributions*
For the Three Years Ended June 30, 2017
(dollars in thousands)

Public Employees' Retirement System (PERS)	2017	2016	2015
Contractually Required Contribution	$28,964	$25,859	$14,888
Contributions in relation to the Contractually Required Contribution	$28,964	$25,859	$14,888
Contribution Deficiency (Excess)	–	–	–
University Employee Covered Payroll (as of Fiscal Year End)	$294,177	$296,594	$294,526
Contributions as a percentage of Employee Covered Payroll	9.85%	8.72%	5.05%

Police and Firemen's Retirement System (PFRS)	2017	2016	2015
Contractually Required Contribution	$3,069	$1,512	$1,298
Contributions in relation to the Contractually Required Contribution	$3,069	1,512	1,298
Contribution Deficiency (Excess)	–	–	–
University Employee Covered Payroll (as of Fiscal Year End)	8,932	8,091	8,466
Contributions as a percentage of Employee Covered Payroll	34.36%	18.69%	15.33%

Schedules of Proportionate Share of the Net Pension Liability*
For the Three Years Ended June 30, **2017**
(dollars in thousands)

Public Employees' Retirement System (PERS)	2017	2016	2015
University Proportionate Share of the Net Pension Liability – State Group	6.72%	6.60%	6.42%
University Proportionate Share of the Net Pension Liability – Total Plan	3.35%	3.39%	3.33%
University Proportionate Share of the Net Pension Liability	$1,973,868	$1,566,143	$1,292,223
University Employee Covered-Payroll (for year ended as of measurement date)	$296,594	$294,526	$299,132
University Proportionate Share of the Net Pension Liability as a Percentage of the Employee Covered-Payroll	665.51%	531.75%	431.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	31.20%	38.21%	42.74%

Police and Firemen's Retirement System (PFRS)	2017	2016	2015
University Proportionate Share of the Net Pension Liability – State Group	1.79%	1.76%	1.76%
University Proportionate Share of the Net Pension Liability – Total Plan	0.33%	0.36%	0.36%
University Proportionate Share of the Net Pension Liability	$84,109	$78,598	$62,433
University Employee Covered-Payroll (for year ended as of measurement date)	$8,091	$8,466	$9,043
University Proportionate Share of the Net Pension Liability as a Percentage of the Employee Covered-Payroll	1039.55%	928.40%	690.40%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.55%	52.84%	58.86%

*Information provided for Required Supplementary Information will be provided for ten (10) years as the information becomes available in subsequent years.

University Administrative Officers

Robert L. Barchi, M.D., Ph.D.
President

Nancy E. Cantor, Ph.D.
Chancellor, Rutgers University–Newark

Dabasish Dutta, Ph.D.
Chancellor, Rutgers University–New Brunswick

Phoebe A. Haddon, J.D.
Chancellor, Rutgers University–Camden

Brian L. Strom, M.D., M.P.H.
Chancellor, Rutgers Biomedical and Health Sciences and Executive Vice President for Health Affairs

Antonio M. Calcado, M.P.A.
Executive Vice President for Strategic Planning and Operations and Chief Operating Officer

J. Michael Gower, M.B.A.
Executive Vice President for Finance and Administration and University Treasurer

Nevin E. Kessler, M.A.
President of the Rutgers University Foundation and Executive Vice President for Development and Alumni Relations

Vivian Fernández, M.B.A.
Senior Vice President for Human Resources and Organizational Effectiveness

Timothy J. Fournier, Ed.D., M.B.A.
Senior Vice President for Enterprise Risk Management, Ethics, and Compliance

John J. Hoffman, J.D.
Senior Vice President and General Counsel

Barbara A. Lee, Ph.D., J.D.
Senior Vice President for Academic Affairs

Peter J. McDonough, Jr., B.A.
Senior Vice President for External Affairs

Christopher J. Molloy, Ph.D.
Senior Vice President for Research and Economic Development

Michele L. Norin, M.Ed.
Senior Vice President and Chief Information Officer

Patrick E. Hobbs, J.D.
Director of Intercollegiate Athletics

Kimberlee M. Pastva, J.D.
Secretary of the University