



ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

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KPMG LLP
Suite 402
301 Carnegie Center
Princeton, NJ 08540-6227

Independent Auditors' Report

The Board of Trustees
Rowan University:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Rowan University (the University), a component unit of the State of New Jersey, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Rowan University as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 13 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

October 25, 2012

ROWAN UNIVERSITY
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Management's Discussion and Analysis

June 30, 2012 and 2011

Introduction

This section of Rowan University's (the University) financial statements presents our discussion and analysis of the University's financial performance during the fiscal years that ended on June 30, 2012 and 2011, and comparative amounts for the year ended June 30, 2010. Since this discussion and analysis is designed to focus on current activities, it should be read in conjunction with the University's basic financial statements, which follows this section. Management has prepared the financial statements and the related footnote disclosures, along with the discussion and analysis.

College Overview

Rowan University is a selective, medium-sized public university located in Glassboro, New Jersey. It is recognized for its nationally ranked academic and athletic programs, talented professors and high-tech facilities. The University prides itself on being able to provide its more than 12,000 students an outstanding education at an exceptional value.

The University offers 57 undergraduate majors, including four undergraduate degree-completion programs, three dual bachelor's/master's degrees, more than 31 master's-level programs, 27 graduate-level certificate programs, three post-master's, three professional post-master's, two doctoral programs, including the M.D. degree from its medical school. Students can pursue their degrees at the main campus, its Camden campus, online or at several community colleges as well as the Cooper Medical School of Rowan University.

Rowan has been recognized by national organizations that evaluate colleges and universities. *U.S. News & World Report* ranked Rowan 19th among Best Regional Universities — North, third among the public institutions in the category. The Princeton Review named Rowan among 222 institutions in its "Best in the Northeast" section of its website feature "2013 Best Colleges: Region by Region" and included the Rohrer College of Business in its edition of the "Best 296 Business Schools." The Princeton Review also listed Rowan, which in the past has been recognized by the U.S. EPA as a "Top Green Power Purchaser" in its athletic conference, in its "Guide to 322 Green Colleges: 2012 Edition." The University has earned about a dozen awards for green initiatives since 2007.

The State of New Jersey (the State) recognizes the University as a public institution of higher education. The New Jersey Legislature appropriates funds annually to support the University. However, the University operates autonomously from the State.

Financial Statements

The University's basic financial statements include three financial statements: Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; and Statements of Cash Flows, which have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). These statements focus on its assets, liabilities, revenues, expenses, and cash flows on an entity-wide basis.

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Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Rowan University. The Statement of Net Assets presents end-of-the-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

Net assets are one indicator of the current financial condition of the University while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next category is restricted net assets, expendable. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

A summary of the University's assets, liabilities, and net assets as of June 30, 2012, 2011, and 2010 follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In thousands)		
Current assets	\$ 177,922	148,945	115,458
Capital assets	558,987	478,254	427,949
Other noncurrent assets	33,850	104,208	39,255
Total assets	<u>\$ 770,759</u>	<u>731,407</u>	<u>582,662</u>
Current liabilities	\$ 53,145	50,752	39,827
Noncurrent liabilities	518,297	499,257	370,093
Total liabilities	<u>\$ 571,442</u>	<u>550,009</u>	<u>409,920</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 68,557	67,025	71,335
Restricted expendable for:			
Renewal and replacement	—	650	650
Debt service	13,365	15,020	6,165
Debt service reserve	9,131	9,352	14,521
Medical School	15,600	15,609	15,600
Unrestricted	92,664	73,742	64,471
Total net assets	<u>\$ 199,317</u>	<u>181,398</u>	<u>172,742</u>

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Current assets consist of cash and cash equivalents, deposits held by bond trustees under bond agreements for current principal and interest payments, receivables and other current assets. Noncurrent assets consist of deposits held by bond trustees under bond agreements for capital activities, investments, deferred financing costs, and net capital assets. Current liabilities consist of accounts payable and accrued expenses, deferred revenue and the current portion of bonds payable, other long-term debt and capital lease obligations. Noncurrent liabilities consist primarily of compensated absences, deposits held in custody for others, bonds payable, other long-term debt, and capital lease obligations.

Fiscal Year 2012 Compared to 2011

The University's Statement of Net Assets at June 30, 2012 reflects an increase in total assets of \$39.4 million. Current assets increased \$29.0 million from \$148.9 million at June 30, 2011 to \$177.9 million at June 30, 2012. This increase is primarily a result of increases in cash and cash equivalents of \$24.4 million as well as an increase in grant receivables of \$4.1 million. Major components of the cash increase include an \$8.2 million developer contribution from the refinancing of capital leases, receipts of payments of \$3.8 million for capital grants, an increase in cash generated by our self-funded programs and auxiliary enterprises of \$3.1 million, an additional \$1.3 million in the State appropriation as well as positive cash flow from other University general operations.

Capital assets and other noncurrent assets increased \$10.4 million in the year ended June 30, 2012. The primary cause for this was an increase of \$80.7 million in net capital assets mainly due to the recording of capital leases and construction in progress less a decrease of \$70.0 million in deposits held by bond trustees as funds were released to fund construction.

Total net assets increased by \$17.9 million at June 30, 2012 compared to June 30, 2011. Unrestricted net assets increased \$18.9 million. Several factors contributed to the increase, including but not limited to: an additional appropriation from the State; higher tuition and fee and room and board revenues; lower than projected salary expenditures due to vacant positions and the freezing of increases for AFT employees; utility savings and fiscal constraint regarding general expenses.

Fiscal Year 2011 Compared to 2010

The University's Statement of Net Assets at June 30, 2011 reflects an increase in total assets of \$148.7 million. Current assets increased \$33.4 million from \$115.5 million at June 30, 2010 to \$148.9 million at June 30, 2011. This increase is primarily a result of increases in cash and cash equivalents of \$26.1 million as well as an increase in deposits held by bond trustees, current portion, of \$10.5 million. Major components of the cash increase include the reimbursement of a prior year land purchase for the Medical School in the amount of \$6.2 million from the new Medical School Bond construction fund, an increase in cash generated by our self-funded programs of \$7.3 million (attributed to the CGCE program) and an increase in cash generated by our auxiliary services operations of \$3.6 million. The remainder can be attributed to positive cash flow in general University operations and grants as well as some reimbursements for prior year capital expenditures from the Series 2006 G and Series 2008 B bond construction funds.

Capital assets and other noncurrent assets increased \$115.3 million in the year ended June 30, 2011. The primary cause for this was an increase of \$69.6 million in deposits held by bond trustees, noncurrent portion, and an

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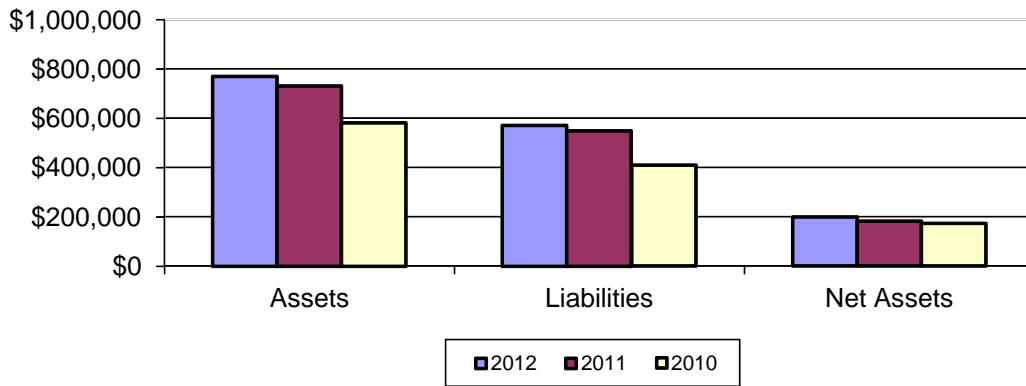
Management's Discussion and Analysis

June 30, 2012 and 2011

increase of \$50.3 million in net capital assets mainly due to the recording of capital leases. Deposits held by bond trustees increased due to the issuance of a Medical School construction bond.

Total net assets increased by \$8.7 million at June 30, 2011 compared to June 30, 2010. Invested in capital assets, net of related debt decreased \$4.3 million during the respective time period. Unrestricted net assets increased \$9.3 million. Restricted expendable net assets increased \$3.7 million due primarily to the increase in debt service. The increase in debt service can also be attributed to the issuance of the Medical School construction bond.

**Summary of Statement of Net Assets
For the Years Ended June 30
(In thousands)**

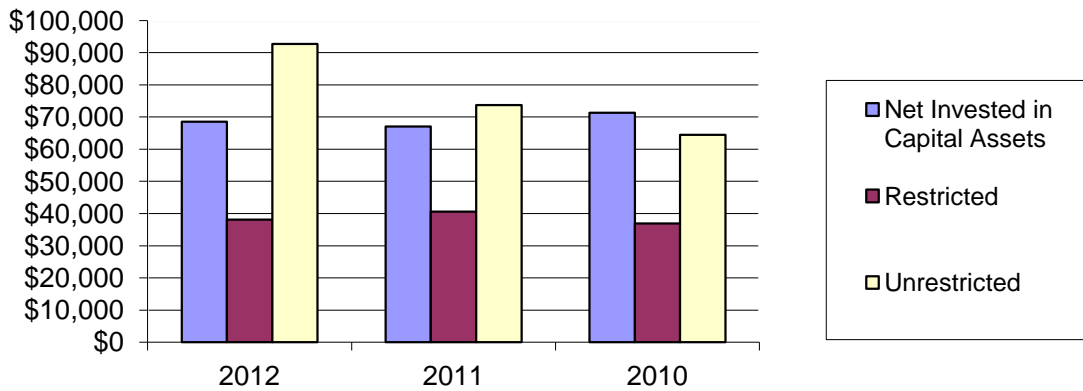


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June 30, 2012 and 2011

**Comparative Net Assets
As of June 30
(In thousands)**



Statement of Revenues, Expenses, and Changes in Net Assets

The year to year changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

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Management's Discussion and Analysis

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The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations. A summary of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2012, 2011, and 2010 follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		(In thousands)	
Operating revenues:			
Net student revenues	\$ 137,659	127,792	116,349
Grants	35,224	34,479	32,731
Other	9,746	7,359	4,454
Total operating revenues	<u>182,629</u>	<u>169,630</u>	<u>153,534</u>
Operating expenses	<u>235,485</u>	<u>227,916</u>	<u>201,371</u>
Operating loss	<u>(52,856)</u>	<u>(58,286)</u>	<u>(47,837)</u>
Nonoperating revenues (expenses):			
State appropriations	81,637	78,814	77,246
Gifts	6,661	8,169	7,957
Investment income	440	754	801
Interest on capital asset related debt	(27,923)	(21,266)	(15,221)
Other nonoperating revenues (expenses), net	1,287	(820)	1,309
Net nonoperating revenues	<u>62,102</u>	<u>65,651</u>	<u>72,092</u>
Income before other revenues	9,246	7,365	24,255
Capital grants	<u>8,673</u>	<u>1,291</u>	<u>—</u>
Increase in net assets	17,919	8,656	24,255
Net assets – beginning of year	<u>181,398</u>	<u>172,742</u>	<u>148,487</u>
Net assets – end of year	<u>\$ 199,317</u>	<u>181,398</u>	<u>172,742</u>

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Fiscal Year 2012 Compared to 2011

The University's net assets increased \$17.9 million in fiscal year 2012. This net amount represents the total revenue available to the University of \$281.3 million compared to total expenses of \$263.4 million. The increase in net assets can predominately be attributed to the increase in unrestricted net assets of \$18.9 million. Unrestricted net assets increased due to an additional appropriation from the State, higher tuition and fee and auxiliary enterprises revenues, salary and utility savings and fiscal constraint regarding general expenses.

Fiscal Year 2011 Compared to 2010

The University's net assets increased by \$8.7 million in fiscal year 2011. This balance represents the total revenue available to the University of \$258.7 million compared to total expenses of \$250 million. The increase in net assets can predominately be attributed to the increase in unrestricted net assets of \$9.3 million. Unrestricted net assets increased due to operating surpluses by our auxiliary services, self-funded programs as well as general university operations.

Revenues

To fund its operations, the University receives revenues from a variety of sources including tuition and fees, grants and contracts, auxiliary services, State of New Jersey appropriations, investment income and gifts from the Rowan University Foundation. The University is continuing to seek additional funds from all possible sources to adequately fund operating activities.

	(Amounts in thousands)					
	2012		2011		2010	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
Operating revenues:						
Net student revenue	\$ 137,659	75.4%	\$ 127,792	75.3%	\$ 116,349	75.8%
Grants	35,224	19.3%	34,479	20.3%	32,731	21.3%
Other	9,746	5.3%	7,359	4.4%	4,454	2.9%
Total operating revenues	<u>\$ 182,629</u>	<u>100.0%</u>	<u>\$ 169,630</u>	<u>100.0%</u>	<u>\$ 153,534</u>	<u>100.0%</u>

Operating

Fiscal Year 2012 Compared to 2011

Operating revenues for fiscal year ended June 30, 2012 increased \$13.0 million over fiscal year 2011. The majority of this increase is due to the increase in net student revenue of \$9.9 million. Net student revenue increased due to higher tuition and fee and auxiliary enterprises revenues as a result of tuition and fee increases and increased enrollment. Also contributing to the total increase is a \$2.2 million increase in other operating revenues resulting from an increase of \$2.0 million in Cooper Health System support for the Medical School.

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Fiscal Year 2011 Compared to 2010

Operating revenues for the years ended June 30, 2011 and 2010 totaled \$169,630,125 and \$153,534,487, respectively. The sources of these revenues were student revenues, net of scholarships of \$127,791,960 and \$116,349,408, respectively, governmental grants of \$34,479,290 and \$32,730,887, respectively, and other revenue of \$7,358,875 and \$4,454,192, respectively. The increase in other revenue is a result of an increase in other operating revenue of \$3,872,200 offset by a decrease in self-funded programs revenue of \$967,517. Other operating revenue increased due to a \$4 million Cooper Hospital payment towards the Medical School operations.

Nonoperating Revenues (Net)

Fiscal Year 2012 Compared to 2011

Nonoperating revenues (net) for the years ended June 30, 2012 and 2011 totaled \$62.1 million and \$65.7 million, respectively, which is a \$3.6 million decrease. The primary sources of nonoperating revenues were State of New Jersey appropriations, which increased \$2.8 million as Rowan recorded \$81.6 million for fiscal year 2012 and \$78.8 million for fiscal year 2011, as well as Gifts from the Rowan University Foundation in the amount of \$6.7 million, which decreased \$1.5 million principally due to having received one-time gifts in the amount of \$.8 million in fiscal year 2011. State of New Jersey appropriations include the University base appropriation as well as appropriations for the medical school and the value of State paid fringe benefits. Interest on capital asset related debt increased from \$21.3 million at June 30, 2011 to \$27.9 million at June 30, 2012 primarily due to Rowan entering into a new capital lease for student apartments and the impact of a full year of interest payments on the Medical School bonds. Other nonoperating revenues (expenses), net were \$1,287,166 and (\$819,750), respectively for fiscal years 2012 and 2011. The increase is the result of an expense of \$1.0 million in fiscal year 2011 for the disposal of the Mansion Park apartments and a recovery of storm damage of \$0.9 million from FEMA in fiscal year 2012.

Capital grants increased in fiscal year 2012 by \$7.4 million due to the receipt of a full year of federal subsidies on the Medical School Build America Bonds as well as New Jersey Economic Development Authority grant revenue of \$6.3 million towards the construction of the medical school building.

Fiscal Year 2011 Compared to 2010

Nonoperating revenues (net) for the years ended June 30, 2011 and 2010 totaled \$65,650,715 and \$72,091,465, respectively. The primary sources of nonoperating revenues were State of New Jersey appropriations and fringe benefits of \$78,813,668 and \$77,246,277, respectively. The other components of nonoperating revenues were gifts from Rowan University Foundation of \$8,169,404 and \$7,956,848, respectively and investment income of \$753,509 and \$800,675, respectively. Interest on capital asset related debt increased from \$15,221,385 at June 30, 2010 to \$21,266,116 at June 30, 2011. Other nonoperating revenues (expenses), net were (\$819,750) and \$1,309,050, respectively. Interest on capital asset related debt increased due to interest payments made related to the Medical School bond. Nonoperating revenues (expenses) were impacted by a loss on disposal of assets of \$1 million in fiscal year 2011.

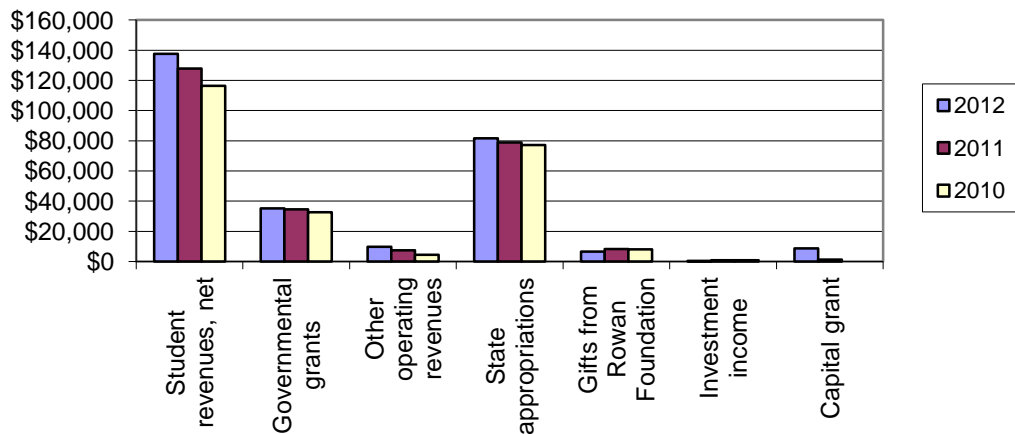
Capital grants increased \$1,291,334 due to a federal subsidy received on the Medical School Build America Bonds Series 2010A.

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**Revenue by Source
For the Years Ended June 30
(In thousands)**



Operating Expenses

Operating expenses are defined as expenses paid by an institution to acquire or produce goods and services used to carry out its mission, in return for operating revenues. For the years ended June 30, 2012, 2011, and 2010, the University incurred operating expenses totaling \$235.5 million, \$227.9 million, and \$201.4 million, respectively. The increase of \$7.6 million in operating expenses for fiscal year 2012, in comparison to fiscal year 2011, is a result of additional expenses attributed to providing services for the increased number of students as expenditures for student services and auxiliary services increased \$3.7 million. Also, depreciation and amortization expenses increased \$1.8 million primarily due to the addition of the new capital lease property and completion of construction projects, and expenses for the Medical school grew by \$1.7 million as operations increased. The increase of \$26.5 million in operating expenses for fiscal year 2011, in comparison to fiscal year 2010, is a result of additional expenses attributed to the Medical School operations as well as significant increases in salary expenses as a result of the state negotiated contract agreement.

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A summary of operating expenses for the years ended June 30, 2012, 2011, and 2010 follows:

	<u>2012</u>		<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(Amounts in thousands)		(Amounts in thousands)		(Amounts in thousands)	
Instruction	\$ 94,841	40.3%	\$ 95,847	42.1%	\$ 76,242	37.9%
Research	3,429	1.5	2,906	1.3	2,507	1.2
Public service	1,336	0.6	1,345	0.6	1,215	0.6
Academic support	19,171	8.1	18,929	8.3	17,184	8.5
Student services	18,202	7.7	17,355	7.6	15,766	7.8
Institutional support	27,326	11.6	25,685	11.3	25,304	12.6
Operation and maintenance of plant	22,069	9.4	21,260	9.3	21,945	10.9
Student aid	1,541	0.7	1,697	0.7	2,057	1.0
Auxiliary enterprises	20,854	8.9	18,017	7.9	17,210	8.5
Depreciation/amortization	26,716	11.3	24,875	10.9	21,942	10.9
Total operating expenses	<u>\$ 235,485</u>	<u>100.0%</u>	<u>\$ 227,916</u>	<u>100.0%</u>	<u>\$ 201,372</u>	<u>100.0%</u>

Capital Assets and Debt Activities

The University continues to manage its financial resources so as to ensure adequate financial flexibility to access the capital markets as needed. The University maintains debt ratings from Standard and Poor's and Moody's Investors Service of A+ and A2, respectively.

Total capital additions were \$107.1 million, \$72.2 million, and \$75.0 million, for the years ended June 30, 2012, 2011, and 2010, respectively. The major activities were the construction of the medical school building, and the completion of deferred maintenance projects. In addition, capital additions increased in fiscal years 2012 and 2011 due to the University's capital lease agreements for student apartments and the bookstore. A summary of the University's capital additions for the years ended June 30, 2012, 2011, and 2010 is shown below:

Capital Additions

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 15,167	2,615,221	6,256,825
Art collections	—	750,000	—
Construction in progress (net of transfers out)	62,802,464	17,475,009	608,897
Land improvements	331,432	3,112,200	3,845,357
Buildings (less disposals)	40,175,080	46,436,341	61,734,791
Equipment	3,741,254	1,852,029	2,520,369
Total additions	<u>\$ 107,065,397</u>	<u>72,240,800</u>	<u>74,966,239</u>

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As of June 30, 2012, 2011, and 2010, the University had \$68.6 million, \$67.0 million, and \$71.3 million, respectively, invested in capital assets, net of related debt. Outstanding bonds as of June 30, 2012 were \$411.1 million, compared to \$424.4 million and \$322.1 million as of June 30, 2011 and June 30, 2010 respectively. A summary of the University's outstanding bonds for the years ended June 30, 2012, 2011, and 2010 is shown below:

	Bonds Payable	2012	2011	2010
Series 1983 D Revenue Bonds, due serially to 2013	\$	355,000	525,000	690,000
Series 2000 B Revenue Bonds, due serially to 2010		—	—	1,210,000
Series 2001 B Revenue Bonds, due serially to 2011		—	210,000	210,000
Series 2001 C Revenue Refunding Bonds, due serially to 2026		—	—	38,850,000
Series 2002 K Revenue Bonds, due serially to 2012		340,000	665,000	665,000
Series 2003 I Revenue Bonds, due serially to 2013		3,815,000	5,585,000	6,880,000
Series 2004 C Revenue Bonds, due serially to 2014		6,655,000	8,680,000	8,680,000
Series 2005 D Revenue Refunding Bonds, due serially to 2030		49,280,000	50,960,000	51,360,000
Series 2006 G Revenue Bonds, due serially to 2031		65,090,000	66,530,000	67,915,000
Series 2007 B Revenue Refunding Bonds, due serially to 2034		118,650,000	119,500,000	119,500,000
Series 2008 B Revenue Refunding Bonds, due serially to 2027		35,205,000	35,205,000	35,205,000
Series 2010 A Build America Bonds, due serially to 2035		93,885,000	93,885,000	—
Series 2010 B due serially to 2016		14,365,000	19,280,000	—
Series 2011 C Revenue Refunding Bonds, due serially to 2025		30,045,000	30,045,000	—
		417,685,000	431,070,000	331,165,000
(Less) plus:				
Deferred loss on bond refinancing		(8,088,821)	(8,507,697)	(8,702,022)
Bond premium (discount)		1,478,607	1,809,953	(404,079)
	\$	411,074,786	424,372,256	322,058,899

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Economic Outlook

State of New Jersey appropriations remain a vital source of funding for the University and the current budgetary issues with the State may have a negative impact on future funding. Although the University's unrestricted general operations appropriation from the State of New Jersey increased from fiscal year 2011 to fiscal year 2012 the University continues to experience uncertainty in its future level of state support. With increasing costs, particularly resulting from contractual obligations with faculty and staff and debt service, the University faces critical funding issues. Additionally, the University's desire to increase institutionally funded scholarships, continue building its academic program excellence and improve its capital assets will also impact on the University's financial outlook. The University will continue to meet the goals of its mission by monitoring operating costs and seeking additional revenue sources. The University will continue to monitor the situation and maintain a close watch over resources so as to provide the University with the ability to react to potential budgetary challenges that may occur.

Through the process of continuing strategic planning and self-assessment, the University is committed in its efforts to continue to enrich the lives of those in the campus community and surrounding region.

ROWAN UNIVERSITY
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Statement of Net Assets
June 30, 2012

Assets	Rowan University	Rowan University Foundation	South Jersey Technology Park at Rowan University	Total
Current assets:				
Cash and cash equivalents (notes 2 and 12)	\$ 124,966,451	2,778,704	1,195,317	128,940,472
Restricted cash and cash equivalents (notes 2 and 12)	15,600,000	1,050,372	—	16,650,372
Receivables:				
Students, less allowance of \$1,064,000	2,090,781	—	—	2,090,781
Restricted contributions, net	—	753,771	—	753,771
Grants	7,165,018	—	—	7,165,018
State of New Jersey	1,666,444	—	—	1,666,444
Interest and other	167,128	88,228	28,092	283,448
Total receivables	11,089,371	841,999	28,092	11,959,462
Restricted deposits held by bond trustees (note 3)	25,087,423	—	—	25,087,423
Other current assets	1,178,511	1,400	—	1,179,911
Total current assets	177,921,756	4,672,475	1,223,409	183,817,640
Noncurrent assets:				
Restricted deposits held by bond trustees (note 3)	28,330,852	—	—	28,330,852
Investments, at fair value (notes 2 and 12)	1,292,294	21,969,473	—	23,261,767
Restricted investments, at fair value (notes 2 and 12)	—	8,687,057	—	8,687,057
Restricted nonexpendable investments, at fair value (note 12)	—	110,285,093	—	110,285,093
Restricted contributions receivable, net	—	4,728,768	—	4,728,768
Deferred financing costs, net of accumulated amortization	4,226,672	—	161,268	4,387,940
Capital assets, net (notes 4 and 11)	558,987,025	—	11,969,027	570,956,052
Total noncurrent assets	592,836,843	145,670,391	12,130,295	750,637,529
Total assets	770,758,599	150,342,866	13,353,704	934,455,169
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses (note 7)	27,850,022	72,365	35,226	27,957,613
Deferred revenue	9,457,025	117,464	—	9,574,489
Annuities payable – current portion	—	71,783	—	71,783
Bonds payable – current portion (notes 8 and 10)	13,365,000	—	—	13,365,000
Other long-term debt – current portion (notes 9, 10 and 11)	499,989	—	—	499,989
Capital lease obligation - current portion (note 11)	1,972,990	—	165,809	2,138,799
Total current liabilities	53,145,026	261,612	201,035	53,607,673
Noncurrent liabilities (note 10):				
Student housing deposits	402,570	—	—	402,570
Compensated absences – noncurrent portion (note 10 and 11)	2,524,127	—	—	2,524,127
Other liabilities	255,739	—	—	255,739
Deposits held in custody for others	1,446,987	1,227,161	—	2,674,148
Annuities payable – noncurrent portion	—	424,962	—	424,962
Bonds payable – noncurrent portion (note 8)	397,709,786	—	—	397,709,786
Other long-term debt – noncurrent portion (note 9)	5,788,981	—	5,680,333	11,469,314
Capital lease obligation (note 11)	110,168,822	—	—	110,168,822
Total noncurrent liabilities	518,297,012	1,652,123	5,680,333	525,629,468
Total liabilities	571,442,038	1,913,735	5,881,368	579,237,141
Net Assets				
Invested in capital assets, net of related debt	68,556,785	—	6,122,885	74,679,670
Restricted:				
Nonexpendable (note 12)	—	110,285,093	—	110,285,093
Expendable:				
Debt service	13,365,000	—	—	13,365,000
Debt service reserve	9,131,225	—	—	9,131,225
Medical School	15,600,000	—	—	15,600,000
Inductotherm Scholarships	—	1,825,534	—	1,825,534
Other scholarships	—	3,157,824	—	3,157,824
College of Business	—	4,695,000	—	4,695,000
Other	—	4,927,401	—	4,927,401
Unrestricted (note 11)	92,663,551	23,538,279	1,349,451	117,551,281
Total net assets	\$ 199,316,561	148,429,131	7,472,336	355,218,028

See accompanying notes to financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Statement of Net Assets
June 30, 2011

Assets	Rowan University	Rowan University Foundation	South Jersey Technology Park at Rowan University	Total
Current assets:				
Cash and cash equivalents (notes 2 and 12)	\$ 100,582,393	2,168,881	1,091,417	103,842,691
Restricted cash and cash equivalents (notes 2 and 12)	15,609,019	596,829		16,205,848
Receivables:				
Students, less allowance of \$762,000	1,989,591	—	—	1,989,591
Restricted contributions, net	—	648,380	—	648,380
Grants	3,023,247	—	—	3,023,247
State of New Jersey	1,752,328	—	—	1,752,328
Due from South Jersey Technology Park at Rowan University (note 13)	5,961	—	—	5,961
Interest and other	257,433	—	17,448	274,881
Total receivables	<u>7,028,560</u>	<u>648,380</u>	<u>17,448</u>	<u>7,694,388</u>
Restricted deposits held by bond trustees (note 3)	24,186,078	—	—	24,186,078
Other current assets	1,539,073	—	—	1,539,073
Total current assets	<u>148,945,123</u>	<u>3,414,090</u>	<u>1,108,865</u>	<u>153,468,078</u>
Noncurrent assets:				
Restricted deposits held by bond trustees (note 3)	98,237,294	—	—	98,237,294
Investments, at fair value (notes 2 and 12)	1,448,899	29,178,238	—	30,627,137
Restricted investments, at fair value (notes 2 and 12)	—	8,856,695	—	8,856,695
Restricted nonexpendable investments, at fair value (note 12)	—	109,559,372	—	109,559,372
Restricted contributions receivable, net	—	4,791,756	—	4,791,756
Deferred financing costs, net of accumulated amortization	4,522,130	—	168,190	4,690,320
Capital assets, net (notes 4 and 11)	478,253,922	—	12,336,462	490,590,384
Total noncurrent assets	<u>582,462,245</u>	<u>152,386,061</u>	<u>12,504,652</u>	<u>747,352,958</u>
Total assets	<u>731,407,368</u>	<u>155,800,151</u>	<u>13,613,517</u>	<u>900,821,036</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses (note 7)	27,952,378	58,398	33,362	28,044,138
Deferred revenue	7,312,746	45,541	—	7,358,287
Annuities payable – current portion	—	63,383	—	63,383
Due to Rowan University (note 13)	—	—	5,961	5,961
Bonds payable – current portion (notes 8 and 10)	15,020,000	—	—	15,020,000
Other long-term debt – current portion (notes 9, 10 and 11)	467,082	—	159,592	626,674
Total current liabilities	<u>50,752,206</u>	<u>167,322</u>	<u>198,915</u>	<u>51,118,443</u>
Noncurrent liabilities (note 10):				
Student housing deposits	436,900	—	—	436,900
Compensated absences – noncurrent portion (note 10 and 11)	2,484,514	40,000	—	2,524,514
Other liabilities	218,606	—	—	218,606
Deposits held in custody for others	1,258,542	1,263,972	—	2,522,514
Annuities payable – noncurrent portion	—	392,518	—	392,518
Bonds payable – noncurrent portion (note 8)	409,352,256	—	—	409,352,256
Other long-term debt – noncurrent portion (note 9)	6,289,146	—	5,846,061	12,135,207
Capital lease obligation (note 11)	79,217,217	—	—	79,217,217
Total noncurrent liabilities	<u>499,257,181</u>	<u>1,696,490</u>	<u>5,846,061</u>	<u>506,799,732</u>
Total liabilities	<u>550,009,387</u>	<u>1,863,812</u>	<u>6,044,976</u>	<u>557,918,175</u>
Net Assets				
Invested in capital assets, net of related debt	67,025,016	—	6,330,809	73,355,825
Restricted:				
Nonexpendable (note 12)	—	109,559,372	—	109,559,372
Expendable:				
Renewal and replacement	650,000	—	—	650,000
Debt service	15,020,000	—	—	15,020,000
Debt service reserve	9,352,200	—	—	9,352,200
Medical School	15,609,019	—	—	15,609,019
Inductotherm Scholarships	—	1,617,063	—	1,617,063
Other scholarships	—	3,881,067	—	3,881,067
College of Business	—	4,950,000	—	4,950,000
Other	—	3,944,088	—	3,944,088
Unrestricted (note 11)	<u>73,741,746</u>	<u>29,984,749</u>	<u>1,237,732</u>	<u>104,964,227</u>
Total net assets	<u>\$ 181,397,981</u>	<u>153,936,339</u>	<u>7,568,541</u>	<u>342,902,861</u>

See accompanying notes to financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2012

	<u>Rowan University</u>	<u>Rowan University Foundation</u>	<u>South Jersey Technology Park at Rowan University</u>	<u>Total</u>
Operating revenues:				
Net student revenues:				
Tuition and fees	\$ 131,500,760	—	—	131,500,760
Auxiliary enterprises	40,669,713	—	—	40,669,713
Less scholarship allowances	(34,511,427)	—	—	(34,511,427)
Net student revenues	137,659,046	—	—	137,659,046
Grants	35,223,700	—	—	35,223,700
Self-funded programs	3,185,551	—	—	3,185,551
Fundraising events	—	104,533	—	104,533
Contributions	—	2,971,614	—	2,971,614
Rental income (note 13)	—	—	862,197	862,197
Other operating revenues	6,560,321	—	2,640	6,562,961
Total operating revenues	182,628,618	3,076,147	864,837	186,569,602
Operating expenses:				
Instruction	94,840,747	—	—	94,840,747
Research	3,428,582	—	—	3,428,582
Public service	1,336,311	—	—	1,336,311
Academic support	19,170,866	—	—	19,170,866
Student services	18,201,691	—	—	18,201,691
Institutional support	27,326,407	174,308	260,709	27,761,424
Operation and maintenance of plant	22,069,675	—	121,737	22,191,412
Student aid	1,541,023	—	—	1,541,023
Auxiliary enterprises	20,853,853	—	—	20,853,853
Depreciation and amortization	26,716,112	—	374,357	27,090,469
Total operating expenses	235,485,267	174,308	756,803	236,416,378
Operating (loss) income	(52,856,649)	2,901,839	108,034	(49,846,776)
Nonoperating revenues (expenses):				
State of New Jersey appropriations	30,716,000	—	—	30,716,000
State of New Jersey appropriations - Medical School	18,407,000	—	—	18,407,000
State of New Jersey fringe benefits (note 5)	32,514,228	—	—	32,514,228
Student scholarships	—	(1,227,417)	—	(1,227,417)
Gifts from Rowan University Foundation (note 12)	6,660,716	(6,660,716)	—	—
Other grants	—	(12,537)	—	(12,537)
Investment income (loss)	439,617	(1,160,612)	3,459	(717,536)
Investment expenses	—	(17,391)	—	(17,391)
Interest on capital asset related debt	(27,922,882)	—	(207,698)	(28,130,580)
Other nonoperating revenues (expenses), net	1,287,166	(56,095)	—	1,231,071
Net nonoperating revenues (expenses)	62,101,845	(9,134,768)	(204,239)	52,762,838
Income (loss) before other revenues	9,245,196	(6,232,929)	(96,205)	2,916,062
Capital grants	8,673,384	—	—	8,673,384
Additions to permanent endowments	—	725,721	—	725,721
Increase (decrease) in net assets	17,918,580	(5,507,208)	(96,205)	12,315,167
Net assets as of beginning of year	181,397,981	153,936,339	7,568,541	342,902,861
Net assets as of end of year	\$ 199,316,561	148,429,131	7,472,336	355,218,028

See accompanying notes to financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2011

	<u>Rowan University</u>	<u>Rowan University Foundation</u>	<u>South Jersey Technology Park at Rowan University</u>	<u>Total</u>
Operating revenues:				
Net student revenues:				
Tuition and fees	\$ 124,776,150	—	—	124,776,150
Auxiliary enterprises	36,561,408	—	—	36,561,408
Less scholarship allowances	(33,545,598)	—	—	(33,545,598)
Net student revenues	127,791,960	—	—	127,791,960
Grants	34,479,290	—	—	34,479,290
Self-funded programs	3,001,366	—	—	3,001,366
Fund-raising events	—	98,736	—	98,736
Contributions	—	2,867,112	—	2,867,112
Rental income (note 13)	—	—	800,365	800,365
Other operating revenues	4,357,509	—	8,492	4,366,001
Total operating revenues	169,630,125	2,965,848	808,857	173,404,830
Operating expenses:				
Instruction	95,846,650	—	—	95,846,650
Research	2,906,494	—	—	2,906,494
Public service	1,345,089	—	—	1,345,089
Academic support	18,929,121	—	—	18,929,121
Student services	17,354,795	—	—	17,354,795
Institutional support	25,684,572	152,115	162,460	25,999,147
Operation and maintenance of plant	21,260,437	—	148,432	21,408,869
Student aid	1,696,542	—	—	1,696,542
Auxiliary enterprises	18,017,006	—	—	18,017,006
Depreciation and amortization	24,875,211	—	368,555	25,243,766
Total operating expenses	227,915,917	152,115	679,447	228,747,479
Operating (loss) income	(58,285,792)	2,813,733	129,410	(55,342,649)
Nonoperating revenues (expenses):				
State of New Jersey appropriations	29,440,000	—	—	29,440,000
State of New Jersey appropriations - Medical School	18,407,000	—	—	18,407,000
State of New Jersey fringe benefits (note 5)	30,966,668	—	—	30,966,668
Student scholarships	—	(1,120,299)	—	(1,120,299)
Gifts from Rowan University Foundation (note 12)	8,169,404	(8,169,404)	—	—
Other grants	—	(9,074)	—	(9,074)
Investment income	753,509	26,394,728	8,187	27,156,424
Investment expenses	—	(87,321)	—	(87,321)
Interest on capital asset related debt	(21,266,116)	—	(222,630)	(21,488,746)
Other nonoperating expenses, net	(819,750)	(66,150)	—	(885,900)
Net nonoperating revenues (expenses)	65,650,715	16,942,480	(214,443)	82,378,752
Income (loss) before other revenues	7,364,923	19,756,213	(85,033)	27,036,103
Capital grants	1,291,334	—	—	1,291,334
Additions to permanent endowments	—	874,311	—	874,311
Increase (decrease) in net assets	8,656,257	20,630,524	(85,033)	29,201,748
Net assets as of beginning of year	172,741,724	133,305,815	7,653,574	313,701,113
Net assets as of end of year	\$ 181,397,981	153,936,339	7,568,541	342,902,861

See accompanying notes to financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)
Statements of Cash Flows
(Business-Type Activities – Rowan University only)
Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Student revenues	\$ 137,255,856	126,818,673
Government grants	33,560,931	38,545,182
Payments to suppliers	(57,465,064)	(59,474,827)
Payments for employee salaries and benefits	(118,382,339)	(113,406,123)
Self-funded programs and other receipts	9,812,159	7,462,201
Net cash provided (used) by operating activities	4,781,543	(54,894)
Cash flows from noncapital financing activities:		
State of New Jersey appropriations	49,123,000	47,847,000
Gifts	6,660,716	7,353,560
Net cash provided by noncapital financing activities	55,783,716	55,200,560
Cash flows from capital and related financing activities:		
Drawdown of deposits held by bond trustees	7,497,860	24,235,851
Bond proceeds	—	146,154,392
Proceeds from capital lease refinancing	8,150,000	—
Deposits to Construction Fund	—	(112,700,000)
Capital grants	6,194,382	1,291,334
Defeasement of debt	—	(38,446,573)
Bond issuance costs	—	(1,924,735)
Purchases of capital assets	(15,812,385)	(17,968,060)
Principal paid on capital debt	(14,827,662)	(12,904,574)
Interest paid on capital debt	(27,889,974)	(23,642,543)
Net cash used by capital and related financing activities	(36,687,779)	(35,904,908)
Cash flows from investing activities:		
Interest on investments	497,559	829,689
Repayment of SJTP loan	—	6,000,000
Net cash provided by investing activities	497,559	6,829,689
Net increase in cash and cash equivalents	24,375,039	26,070,447
Cash and cash equivalents as of beginning of the year	116,191,412	90,120,965
Cash and cash equivalents as of end of the year	\$ 140,566,451	116,191,412
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (52,856,649)	(58,285,792)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
State paid fringe benefits	32,514,228	30,966,668
Depreciation and amortization expense	26,716,112	24,875,211
Changes in assets and liabilities:		
Receivables	(4,060,811)	3,197,517
Other current assets	360,562	(65,546)
Accounts payable and accrued expenses	(227,428)	2,216,985
Deferred revenue	2,144,281	(3,321,322)
Student housing deposits	(34,330)	339,910
Other liabilities	37,133	32,072
Deposits held in custody for others	188,445	(10,597)
Net cash provided (used) by operating activities	\$ 4,781,543	(54,894)
Noncash transaction:		
Non-cash gifts	\$ —	815,844
Capital assets acquired through capital lease obligation	33,900,000	37,400,000
State paid fringe benefits	32,514,228	30,966,668
Construction fund direct vendor payments	61,239,652	14,814,294

See accompanying notes to financial statements.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2012 and 2011

(1) Organization and Summary of Significant Accounting Policies

Organization

Rowan University (the University), formerly Rowan College of New Jersey, was founded in 1923 and effective July 1, 1967, came under the general policy control of the New Jersey Board of Higher Education. Under the Higher Education Act of 1966, the University and all the other New Jersey State colleges became multipurpose institutions with emphasis on the liberal arts and sciences and various professional areas including the science of education and the art of teaching. The operation and management of the University is vested in the University's board of trustees.

The University is recognized as a public institution by the State of New Jersey (the State). Under the law, the University is an instrumentality of the State of New Jersey with a high degree of autonomy. However, under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the University is considered a component unit of the State of New Jersey for financial reporting purposes. Accordingly, the financial statements of the University are included in the State's Comprehensive Annual Financial Report.

Summary of Significant Accounting Policies

Basis of Presentation

The accounting policies of the University conform to accounting principles generally accepted in the United States of America as applicable to public colleges and universities. The University reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued solely on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net asset categories.

- *Invested in capital assets, net of related debt:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted:*

Nonexpendable – Net assets subject to externally imposed stipulations that must be maintained permanently by the University.

Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to the stipulations or that expire by the passage of time.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2012 and 2011

- *Unrestricted:* Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the board of trustees.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

Measurement Focus and Basis of Accounting

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

Cash and Cash Equivalents

The University classifies as cash equivalents, funds that are in short-term, highly liquid investments, and are readily convertible to known amounts of cash.

The University maintains portions of its cash with two custodians, a bank and the State of New Jersey Cash Management Fund. Both are interest-bearing accounts from which the funds are available upon demand.

Investments

Investments are reflected at fair value, which is based on quoted market prices. Purchases and sales of investments are accounted for on the trade-date basis. Investment income is recorded on an accrual basis. Realized and unrealized gains and losses are reported in investment income.

Capital Assets

Capital assets include land, land improvements, buildings, and equipment. Such assets are recorded at historical cost. Land, land improvements and building improvements costing over \$5,000, as well as equipment with a unit cost over \$5,000 are capitalized. Donated capital assets, including artwork, are recorded at the estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add value to the asset are not capitalized. Major outlays for capital assets are capitalized as projects are constructed. Artwork is considered inexhaustible and is not depreciated. Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Useful lives</u>
Land improvements	20 years
Buildings	20 – 40 years
Equipment	3 – 20 years

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2012 and 2011

Deferred Financing Costs

The University capitalizes costs incurred in connection with its bonds payable and amortizes these costs over the life of the respective obligations.

Deposits Held in Custody for Others

The University holds cash and cash equivalents as custodian primarily for the Student Government Association.

Financial Dependency

One of the University's largest sources of revenue are appropriations from the State of New Jersey, which include state paid fringe benefits. The University is economically dependent on these appropriations to carry on its operations.

Student Tuition and Fees

Student tuition and fees are presented net of scholarships applied to student accounts, while other payments made directly to students are presented as student aid expenses and are recognized in the period incurred. Student tuition and fees collected in advance of the fiscal year are recorded as deferred revenue in the accompanying statements of net assets.

Grants and Contracts

All grants and contracts are recognized when all eligibility requirements for revenue recognition are met which is generally the period in which related expenses are incurred. Amounts received from grants and contracts for which eligibility requirements have not been met under the terms of the agreement, are recorded as deferred revenue in the accompanying statements of net assets.

Classification of Revenue

The University's policy for defining operating activities in the statements of revenues, expenses, and changes in net assets are those that serve the University's principal purpose and generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Examples include (1) student tuition and fees, net of scholarship allowances, and (2) most Federal, State, and private grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions or do not result from the receipt or provision of goods and services, such as operating appropriations from the state, private gifts, and investment income. Interest expense is reported as a nonoperating expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

ROWAN UNIVERSITY
(A Component Unit of the State of New Jersey)

Notes to Financial Statements

June 30, 2012 and 2011

Tax Status

The University is exempt from Federal income taxes under Internal Revenue Code Section 115.

Reclassification

Certain prior year amounts have been reclassified to be consistent with current year presentation.

(2) Cash, Cash Equivalents, and Investments

The University has an investment policy, which establishes guidelines for permissible investments. Short-term investment options include, but are not limited to, the use of the New Jersey Cash Management Fund, and other investment vehicles (i.e. certificates of deposit, repurchase agreements, etc.) that are deemed appropriate and within the risk parameters as determined by the University Board of Trustees and the University Executive Staff.

The University's long-term investment options include, but are not limited to, the purchase of U.S. Treasury securities, U.S. Government obligations, and other investment vehicles (i.e. stock, corporate bonds, NJ Municipal obligations, etc.) that are deemed appropriate and within the risk parameters as determined by the University board of trustees and the University Executive Staff.

Cash, cash equivalents, and investments are carried in the financial statements at fair value and consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash	\$ 18,117,644	9,475,940
State of New Jersey Cash Management Fund	5,607,208	5,604,681
Money market accounts	<u>116,841,599</u>	<u>101,110,791</u>
Total cash and cash equivalents	<u>\$ 140,566,451</u>	<u>116,191,412</u>
Investments:		
U.S. Treasury notes	\$ 701,141	858,593
Equity securities	81,270	39,356
TIAA-CREF mutual fund	<u>509,883</u>	<u>550,950</u>
Total investments	<u>\$ 1,292,294</u>	<u>1,448,899</u>

The University's cash and cash equivalents, investments and deposits held by bond trustees are subject to various risks. Among these risks are custodial credit risk, credit risk and interest rate risk. Each one of these risks is discussed in more detail below.

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Cash and money market accounts were held at a depository and bank balances amounted to \$134,898,751 and \$112,116,829, as of June 30, 2012 and 2011 respectively. Of these amounts, \$250,000 was FDIC insured and the excess is collateralized pursuant to New Jersey Statute 52:18-16-1.

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The University participates in the State of New Jersey Cash Management Fund (NJCMF) wherein amounts also contributed by other State entities are combined in a large-scale investment program. The University deposits in the NJCMF were \$5,607,208 and \$5,604,681 and June 30, 2012 and 2011 respectively. These amounts are collateralized in accordance with Chapter 64 of Title 18A of New Jersey Statutes, but not in the University's name.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's). The University's investment policy requires that U.S. Agency bonds are rated Aaa/AAA by Moody's and the corporate bonds are rated Baa. The University's investment at TIAA-CREF and State of New Jersey Cash Management Fund are unrated. See table in note 3 for ratings of deposits held by bond trustees.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The University's investment policy does not specifically address limitations in the maturities of investments. The University's investments are due within one year.

(3) Restricted Deposits Held by Bond Trustees

Deposits held by bond trustees include restricted funds held by three Board approved trustees. Deposits held by trustees are carried in the financial statements at fair value and consist of cash and U.S. Treasury obligations. Deposits held by trustees include funds for construction, renewal and replacement, debt service reserve, and debt service.

	2012	2011
Construction funds	\$ 23,033,823	92,314,854
Renewal and replacement funds	—	652,738
Debt service reserve funds	5,297,029	5,269,702
Debt service funds	25,087,423	24,186,078
	53,418,275	122,423,372
Less current portion	25,087,423	24,186,078
Noncurrent deposits held by bond trustees	\$ 28,330,852	98,237,294

Deposits held by bond trustees were \$53,418,275 and \$122,423,372 as of June 30, 2012 and 2011, respectively. Of these amounts, \$2,227,546 and \$7,290,731 as of June 30, 2012 and 2011, respectively, were invested in fixed income holdings, with the remainder in unrated money market investments.

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The following tables summarize the maturities and agency ratings of the fixed income securities included in the University's deposits held by bond trustees as of June 30, 2012 and 2011:

<u>2012</u>	<u>Rating</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1–5 years</u>
U.S. Treasury bills and notes	AAA	\$ 2,227,546	2,227,546	—
		<u>\$ 2,227,546</u>	<u>2,227,546</u>	<u>—</u>
<u>2011</u>	<u>Rating</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1–5 years</u>
U.S. Treasury bills and notes	AAA	\$ 7,290,731	7,290,731	—
		<u>\$ 7,290,731</u>	<u>7,290,731</u>	<u>—</u>

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(4) Capital Assets

The detail of capital assets activity for the years ended June 30, 2012 and 2011 follows:

<u>2012</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions/ transfers</u>	<u>Ending balance</u>
Nondepreciable assets:				
Land	\$ 44,873,516	15,167	—	44,888,683
Artwork	750,000	—	—	750,000
Construction in progress	49,134,651	77,574,142	(14,771,678)	111,937,115
Total nondepreciable assets	<u>94,758,167</u>	<u>77,589,309</u>	<u>(14,771,678)</u>	<u>157,575,798</u>
Depreciable assets:				
Land improvements	34,080,885	331,432	—	34,412,317
Buildings	502,305,704	48,325,080	(8,150,000)	542,480,784
Equipment	28,047,659	3,741,254	—	31,788,913
Total depreciable assets	<u>564,434,248</u>	<u>52,397,766</u>	<u>(8,150,000)</u>	<u>608,682,014</u>
Less accumulated depreciation:				
Land improvements	11,713,282	1,590,687	—	13,303,969
Buildings	151,562,605	22,316,394	—	173,878,999
Equipment	17,662,606	2,425,213	—	20,087,819
Total accumulated depreciation	<u>180,938,493</u>	<u>26,332,294</u>	<u>—</u>	<u>207,270,787</u>
Total capital assets, net	<u>\$ 478,253,922</u>	<u>103,654,781</u>	<u>(22,921,678)</u>	<u>558,987,025</u>

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2011	Beginning balance	Additions	Deletions/ transfers	Ending balance
Nondepreciable assets:				
Land	\$ 42,258,295	2,615,221	—	44,873,516
Artwork	—	750,000	—	750,000
Construction in progress	31,659,642	34,204,795	(16,729,786)	49,134,651
Total nondepreciable assets	<u>73,917,937</u>	<u>37,570,016</u>	<u>(16,729,786)</u>	<u>94,758,167</u>
Depreciable assets:				
Land improvements	30,968,685	3,112,200	—	34,080,885
Buildings	455,869,363	49,852,365	(3,416,024)	502,305,704
Equipment	26,195,630	1,852,029	—	28,047,659
Total depreciable assets	<u>513,033,678</u>	<u>54,816,594</u>	<u>(3,416,024)</u>	<u>564,434,248</u>
Less accumulated depreciation:				
Land improvements	10,177,735	1,535,547	—	11,713,282
Buildings	133,546,587	20,431,364	(2,415,346)	151,562,605
Equipment	15,277,952	2,384,654	—	17,662,606
Total accumulated depreciation	<u>159,002,274</u>	<u>24,351,565</u>	<u>(2,415,346)</u>	<u>180,938,493</u>
Total capital assets, net	<u>\$ 427,949,341</u>	<u>68,035,045</u>	<u>(17,730,464)</u>	<u>478,253,922</u>

Depreciation expense for the years ended June 30, 2012 and 2011 was \$26,332,294 and \$24,351,565, respectively. During 2012 and 2011, the University has capitalized interest expense, net of related interest income of \$2,643,165 and \$4,022,107, respectively, in construction in progress in the accompanying statements of net assets. The estimated cost to complete capital projects included in construction in progress as of June 30, 2012 approximates \$64,027,000. Financing for these projects is approximately \$23,034,000 in bond proceeds and \$40,993,000 in University funds.

(5) State of New Jersey Fringe Benefits

The State of New Jersey, through separate appropriations, pays certain fringe benefits, principally pension costs, health benefits, and FICA taxes, on behalf of University employees and retirees. The costs of these benefits, \$32,514,228 and \$30,966,668, respectively, for fiscal years 2012 and 2011, were paid directly by the State of New Jersey on behalf of the University and are included in the accompanying financial statements as State of New Jersey fringe benefits revenue and as expenses.

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(6) Retirement Plans

Plan Descriptions

The University participates in several retirement plans covering its employees – Public Employees’ Retirement System (PERS), the Alternate Benefit Program (ABP), the Teachers’ Pension and Annuity Fund (TPAF), the Police and Fireman’s Retirement System (PFRS) and the Defined Contribution Retirement Program (DCRP). Generally all employees, except certain part-time employees, participate in one of these plans. Under these plans, participants make annual contributions, and the State, in accordance with State statutes, makes employer contributions on behalf of the University for these plans with the exception of the DCRP. Employer contributions to DCRP are paid by the University and are reflected in the accompanying financial statements as expenses. The University is charged for pension costs through a fringe benefit charge assessed by the State which is included with the State of New Jersey fringe benefits in the accompanying financial statements.

PERS was established under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full-time employees of the State of New Jersey or public agency provided the employee is not a member of another state-administered retirement system. PERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of New Jersey.

ABP presently makes contributions to six state approved investment carriers. ABP alternatives are administered by a separate board of trustees.

Certain faculty members of the University participate in the TPAF, which is a State of New Jersey cost sharing contributory defined benefit pension plan with a special funding situation. TPAF was established under the provisions of N.J.S.A. 18:66 to provide coverage to substantially all full-time public school teachers of the State of New Jersey.

PFRS is a defined benefit pension fund established in 1944. It is open to all police officers and firefighters appointed after June 1944. Chapter 204, P.L. 1989 changed eligibility criteria for membership in the PFRS which included State College employees (campus police). If a State police or fire title does not meet eligibility requirements then PERS membership is required.

DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit along with life insurance and disability coverage. DCRP enrollment eligibility criteria includes employees who: (1) earn below a minimum base salary, or (2) do not work a minimum number of hours per week, or (3) are enrolled in PERS and make in excess of the established “maximum contribution” limits. Participating eligibility, as well as contributory and noncontributory requirements are established by the State of New Jersey Retirement and Social Security Law.

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

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PERS Funding Policies

PERS members contribute at a uniform rate. The full normal employee contribution rate became 6.5% of annual compensation, effective July 1, 2011. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and non-contributory death benefits. The State of New Jersey contributes to PERS on behalf of the University. The contribution requirements of the plan members and the University are established and may be amended by the State of New Jersey.

Alternate Benefit Program (ABP) Information

ABP provides the choice of six investment carriers. The University assumes no liability for ABP members other than payment of contributions. ABP provides retirement and death benefits for or on behalf of those full-time professional employees and faculty members electing to participate in this optional retirement program. Participation eligibility as well as contributory and noncontributory requirements are established by the State of New Jersey Retirement and Social Security Law.

Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits vest after the completion of one year of service. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting. Participating University employees contribute 5% of salary and may contribute a voluntary additional contribution up to the maximum Federal statutory limit, on a pre-tax basis. Employer contributions are 8%. During the years ended June 30, 2012 and 2011, ABP investment carriers received employer and employee contributions as follows:

	<u>2012</u>	<u>2011</u>
Employer contributions	\$ 4,862,155	4,780,604
Employee contributions	7,047,226	7,078,826
Basis for contributions:		
Participating employee salaries	60,776,935	59,757,545

Employer contributions to ABP are paid by the State of New Jersey and are reflected in the accompanying financial statements as State of New Jersey fringe benefit revenue and as expenses.

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Defined Contribution Retirement Program (DCRP)

DCRP has one investment carrier, Prudential, which jointly administers the DCRP investments with the Division of Pensions and Benefits. The University assumes no liability for DCRP members other than payment of contributions. Benefits are determined by the amount of individual accumulations and the retirement option selected. All benefits vest immediately for employees who are enrolled in PERS or after one year for employees not in PERS. Individually owned annuity contracts that provide for full ownership of retirement and survivor benefits are purchased at the time of vesting.

Participating University employees contribute 5.5% of their eligible wages. Employer contributions are 3%. During the years ended June 30, 2012 and 2011, Prudential received employer and employee contributions as follows:

	<u>2012</u>	<u>2011</u>
Employer contributions	\$ 4,988	2,852
Employee contributions	9,144	5,228
Basis for contributions:		
Participating employee salaries	166,248	95,059

Post Employment Benefits Other than Pensions

The State of New Jersey is legally responsible for contributions to the other postemployment benefits plan that covers the employees of the University. The employees of the University are employees of the State of New Jersey, therefore the other postemployment benefit plans liability is reported by the State of New Jersey.

(7) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Vendors and other	\$ 8,487,114	8,659,572
Salaries and benefits	5,623,853	6,042,147
Due to State of New Jersey	147,298	88,527
Compensated absences - current portion	3,028,585	2,763,645
Accrued interest payable	10,563,172	10,398,487
Total accounts payable and accrued expenses	<u>\$ 27,850,022</u>	<u>27,952,378</u>

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(8) Bonds Payable

Capital assets are financed through revenue bonds of the New Jersey Educational Facilities Authority (NJEFA) and the Camden County Improvement Authority (CCIA). The following obligations to the Authority were outstanding as of June 30, 2012 and 2011:

	<u>Interest rate</u>	<u>2012</u>	<u>2011</u>
Series 1983 D Revenue Bonds, due serially to 2013	3.0%	\$ 355,000	525,000
Series 2001 B Revenue Bonds, due serially to 2011	4.25%	—	210,000
Series 2002 K Revenue Bonds, due serially to 2012	4.0%	340,000	665,000
Series 2003 I Revenue Bonds, due serially to 2013	3.0% – 5.0%	3,815,000	5,585,000
Series 2004 C Revenue Bonds, due serially to 2014	4.0% – 5.0%	6,655,000	8,680,000
Series 2005 D Revenue Refunding Bonds, due serially to 2030	3.25% – 5.25%	49,280,000	50,960,000
Series 2006 G Revenue Bonds, due serially to 2031	4.0% – 4.5%	65,090,000	66,530,000
Series 2007 B Revenue Refunding Bonds, due serially to 2034	3.0% – 5.5%	118,650,000	119,500,000
Series 2008 B Revenue Refunding Bonds, due serially to 2027	4.0% – 5.0%	35,205,000	35,205,000
Series 2010 A Build America Bonds, due serially to 2035	5.055% - 7.847%	93,885,000	93,885,000
Series 2010 B due serially to 2016	1.50% - 5.00%	14,365,000	19,280,000
Series 2011 C Revenue Refunding Bonds, due serially to 2025	3.0% - 5.0%	<u>30,045,000</u>	<u>30,045,000</u>
		417,685,000	431,070,000
(Less) plus:			
Deferred loss on bond refinancing		(8,088,821)	(8,507,697)
Bond premium		<u>1,478,607</u>	<u>1,809,953</u>
Total bonds payable		<u>\$ 411,074,786</u>	<u>424,372,256</u>

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Future annual debt service requirements approximate the following:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total amount</u>
Year ending June 30:			
2013	\$ 13,365,000	20,591,515	33,956,515
2014	14,170,000	20,018,490	34,188,490
2015	14,705,000	19,349,290	34,054,290
2016	15,385,000	18,610,140	33,995,140
2017	16,125,000	17,794,840	33,919,840
2018 – 2022	93,385,000	75,697,680	169,082,680
2023 – 2027	113,965,000	49,586,627	163,551,627
2028 – 2032	97,920,000	21,776,690	119,696,690
2033 – 2036	38,665,000	3,778,486	42,443,486
	<u>\$ 417,685,000</u>	<u>247,203,758</u>	<u>664,888,758</u>

Funds are on deposit with escrow agents to provide for the payment of principal, interest, and call premiums, when due, on Series 2002 K, Series 2003 I, and Series 2004 C Bonds. Accordingly, these bonds are not considered outstanding obligations of the University as of June 30, 2012 and 2011 and, therefore, are not reflected in the accompanying financial statements. The principal amounts of these bonds were approximately \$110,300,000 and \$161,530,000, respectively, as of June 30, 2012 and 2011.

(9) Other Long-Term Debt

Other long-term debt consists of the following:

- (A) The University leases a portion of a building in the City of Camden from Camden County College. In addition to the lease commitment, the University borrowed \$700,000 from the County of Camden in order to make a single payment to terminate a preexisting lease for space with another lessor. This loan, which bears interest at 6.23%, is to be repaid over a term of 21 years and 2 months ending November 30, 2012. As of June 30, 2012 and 2011, the outstanding obligations were \$24,070 and \$80,281, respectively.
- (B) The Higher Educational Capital Improvement Fund Act was established to finance capital improvements and related costs at public and private institutions of higher education within the State of New Jersey. Funding was provided from bonds issued by the New Jersey Educational Facilities Authority. The total University allocation for this program was \$23,887,250. The University is required to pay 1/3 of the debt service, including interest at rates ranging from 3.0 – 5.75%, on its allocation of the bond proceeds, plus administrative fees of the trustees and the Authority. The outstanding balances as of June 30, 2012 and 2011 were \$5,763,764 and \$6,093,944, respectively, with maturities through August 15, 2022.

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- (C) On August 14, 2001, the New Jersey Educational Facilities Authority issued bonds to finance the University's loan amount request pursuant to the Dormitory Safety Trust Fund Act (P.L. 2000, C56). The University's loan under this Act was \$1,780,720 and will be repaid in annual installments from January 15, 2002 through January 15, 2016. The outstanding balances as of June 30, 2012 and 2011 were \$501,136 and \$628,920, respectively. This loan was non-interest bearing; however, the University has discounted this obligation at 5% equal to \$540,027. The discount is shown as deferred financing costs in the accompanying financial statements and is being amortized over the life of the loan.

Principal and interest payments for these three obligations approximate the following:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total amount</u>
Year ending June 30:			
2013	\$ 499,989	282,721	782,710
2014	494,400	264,120	758,520
2015	508,013	244,980	752,993
2016	527,417	224,928	752,345
2017	425,356	203,625	628,981
2018 – 2022	2,860,489	645,027	3,505,516
2023	973,306	19,146	992,452
	<u>\$ 6,288,970</u>	<u>1,884,547</u>	<u>8,173,517</u>

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(10) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended June 30, 2012 and 2011 was as follows:

<u>2012</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Student housing deposits	\$ 436,900	—	34,330	402,570	—
Compensated absences	5,248,159	3,107,861	2,803,308	5,552,712	3,028,585
Other liabilities	218,605	37,134	—	255,739	—
Deposits held in custody for others	1,258,542	4,997,215	4,808,770	1,446,987	—
Bonds payable	424,372,256	—	13,297,470	411,074,786	13,365,000
Other long-term debt	6,803,146	—	514,176	6,288,970	499,989
Capital lease obligation	79,170,299	33,900,000	928,487	112,141,812	1,972,990
Total noncurrent liabilities	<u>\$ 517,507,907</u>	<u>42,042,210</u>	<u>22,386,541</u>	<u>537,163,576</u>	<u>18,866,564</u>

<u>2011</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Student housing deposits	\$ 96,990	339,910	—	436,900	—
Compensated absences	4,747,935	3,030,567	2,530,343	5,248,159	2,763,645
Other liabilities	186,533	32,072	—	218,605	—
Deposits held in custody for others	1,269,139	3,999,546	4,010,143	1,258,542	—
Bonds payable	322,058,899	113,165,000	10,851,643	424,372,256	15,020,000
Other long-term debt	7,296,638	—	493,492	6,803,146	514,000
Capital lease obligation	43,101,380	37,400,000	1,331,081	79,170,299	(46,918)
Total noncurrent liabilities	<u>\$ 378,757,514</u>	<u>157,967,095</u>	<u>19,216,702</u>	<u>517,507,907</u>	<u>18,250,727</u>

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(11) Commitments and Contingencies

Operating Leases

The University leases certain space and equipment used in general operations. Rental expense was approximately \$469,000 and \$422,000 during fiscal years 2012 and 2011, respectively. The leases are noncancelable and have been classified as operating leases, which are expected to expire through 2016. Minimum annual rental commitments approximate the following:

	Amount
Year ending June 30:	
2013	\$ 311,000
2014	176,000
2015	26,000
2016	24,000

Capital Lease Obligation

In 2008, the University entered into a lease agreement with SORA Housing LLC (SORA). SORA constructed two four story student housing facilities with a total of 242 units, consisting of 884 total beds, on a leasehold interest in land that was conveyed to SORA by the Borough of Glassboro. SORA agreed to lease the land, the facilities and the facilities equipment together with the fixtures, improvements and equipment to the University. Rental payments are due in semi-annual installments on September 1 and February 1, each year. The University has a capital lease payable as of June 30, 2012 and 2011 in the amount of \$68,503,194 and \$68,441,095, respectively.

In 2008, the University entered into a lease agreement with SORA RETAIL LLC (SORA). SORA constructed an approximately thirty six thousand square foot two story building for use as a university bookstore and other uses compatible with a university bookstore. The bookstore, which also contains a coffee shop, is being sub-leased to Barnes & Noble College Booksellers, Inc. Rental payments are due in monthly installments. The University has a capital lease payable as of June 30, 2012 and 2011 in the amount of \$10,714,023 and \$10,729,204, respectively.

In 2011, the University entered into a lease agreement with SORA A-1 Housing Urban Renewal Entity, LLC (SORA). SORA constructed a mixed-use building on land it owns in Glassboro, New Jersey. The building consists of a five-story, mid-rise apartment building with ground floor retail. Within this building, on the second through fifth floor, SORA constructed apartment units, classrooms, offices and other administrative spaces. The administrative space, in addition to classrooms and offices, includes lounges, study rooms, recreational rooms together with all common elements, including elevators, laundry facilities, recreational and fitness facilities and other amenities. The University's lease pertains to the apartment units and administrative areas only. The apartment units are being occupied by University honor students and consist of 280 beds. The facility became ready for occupancy for the Fall 2011 semester. No rent was due to SORA from the University until the units become ready for occupancy. Beginning in fiscal year 2012,

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rental payments are due in semi-annual installments for thirty years. The University has a capital lease payable as of June 30, 2012 and 2011 in the amount of \$32,924,595 and \$0, respectively.

In 2012, the University entered into a Master Lease Agreement to restructure the three leases above into a single lease. The Master Lease will be for a thirty year term thru 2042. The University has the option to purchase all, but not less than all, of the Premises at any time during the Term of the Lease in accordance with terms listed in the Agreement. If no election to purchase the Premises occurs during the term, upon the payment in full of all rent and other charges due under the Lease, the Premises shall be conveyed to the University at the conclusion of the term without additional consideration. The University received a landlord contribution of \$8,150,000 to help defray the costs of implementation of the property to its intended use.

In April 2012, the University entered into a lease agreement with Nexus Holdings, LLC (Nexus). Nexus is constructing a multi-level parking garage consisting of approximately 1,200 parking spaces. The construction started in July 2012 and is estimated to be completed for the Fall 2013 semester. The University's lease pertains to the use of 900 parking spaces as well as the use of all common areas of the parking garage. The term of the lease shall be for a period of thirty (30) years starting on the date when the facility becomes ready for occupancy. No rent will be due until the facility is ready for occupancy. At the completion of the lease term, the University will have the option of extending the lease for an additional four (4) terms of ten (10) years each. The University will have the option to purchase 900 spaces in the garage at fair market value at any time within the first five (5) years after the expiration of the initial term of the lease.

In April 2012, the University entered into a second lease agreement with Nexus to construct a five-story retail, classroom and office building. The construction started in July 2012 and is estimated to be completed for the Fall 2013 semester. The University's lease pertains to the second through fifth floors, which will contain classrooms and office space, as well as the central lobby of the building and the lobby and stairwells connecting the building to an adjacent parking garage. The first floor of the building will be for retail operations. The term of the lease will be for a period of twenty (20) years starting on the date when the facility becomes ready for occupancy (Commencement date). No rent will be due until the facility becomes ready for occupancy. The University will have the option to purchase the leased portion of the property, at the end of the term, for \$1.00 consideration.

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Future minimum lease payments under the capital lease are as follows:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total amount</u>
Year ending June 30:			
2013	1,972,990	6,445,897	8,418,887
2014	(1,728,303)	10,472,121	8,743,818
2015	(1,668,049)	10,635,507	8,967,458
2016	(1,566,501)	10,792,191	9,225,690
2017	(1,447,917)	10,938,951	9,491,034
2018 – 2022	(4,798,705)	56,427,035	51,628,330
2023 – 2027	1,763,558	57,510,566	59,274,124
2028 – 2032	13,858,284	54,445,194	68,303,478
2033 – 2037	36,330,380	43,650,492	79,980,872
2038 – 2042	69,426,075	19,002,689	88,428,764
	<u>\$ 112,141,812</u>	<u>280,320,643</u>	<u>392,462,455</u>

Compensated Absences

The University recorded a liability for accumulated vacation time in the amount of approximately \$3,029,000 and \$2,764,000 as of June 30, 2012 and 2011, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of net assets. The liability is calculated based upon employees' accrued vacation leave as of the statements of net assets date.

Payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from University service prior to retirement are not entitled to payments for accumulated sick leave balances. Accordingly, the University recorded a liability for accumulated sick leave balances in the amount of approximately \$2,005,000 and \$1,926,000 as of June 30, 2012 and 2011, respectively, which is included in compensated absences in the accompanying statements of net assets.

During fiscal year 2010, bargaining unit employees were required to take seven unpaid furlough days. Three of these days were banked for either future use or pay out upon separation. A liability for the accumulated leave bank in the amount of approximately \$519,000 and \$558,000 as of June 30, 2012 and 2011, respectively, is recorded in compensated absences in the accompanying statements of net assets.

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Unrestricted Net Assets

Net assets are required to be classified for accounting and reporting purposes into one of four net asset categories according to externally imposed restrictions. Unrestricted net assets, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations. They may, however, be subject to internal designations for specific purposes by action of the University management or the University Board of Trustees. Listed below is a detail of unrestricted net assets as of June 30, 2012 and 2011:

	2012	2011
Designated:		
University operating reserve	\$ 7,949,065	6,708,947
Self-supporting programs	8,178,646	7,251,547
Capital reserve for academic buildings and auxiliary enterprises	9,523,216	18,585,719
Board designated reserve for capital projects	22,587,114	—
Board designated reserve for Medical School	19,600,220	19,600,220
Reserve for debt service	24,825,290	21,595,313
Total unrestricted net assets	\$ 92,663,551	73,741,746

Risk Management

The University is exposed to various risks of loss. The University purchased and funds property and casualty insurances through a joint insurance program with the nine State of New Jersey Public Colleges and Universities. The University's risk management program involves insurance for all property risk in the joint insurance program and all liability risk and employee benefit exposures are self-funded programs maintained and administered by the State of New Jersey (including tort liability, auto liability, trustees and officers liability, workers' compensation, unemployment, temporary and long term disability, unemployment liability, life insurance and employee retirement programs).

Buildings, plants, and equipment and lost revenue are fully insured on an all risk replacement basis to the extent that losses exceed \$100,000 per occurrence with a per occurrence limit of \$1,500,000,000. Money and securities coverage provides for the actual loss in excess of \$25,000 with a per loss limit of \$5,000,000. In addition to the insurance purchased and maintained through the consortium, the University maintains an additional student professional liability policy to cover students participating in medical arts internships with a limit of \$1,000,000 per claim and a \$3,000,000 aggregate.

As an instrumentality of the State of New Jersey the liability of the University is subject to all of the provisions of the New Jersey Tort Claims Act (NJSA 59:1-1 et seq.), the New Jersey Contractual Liability Act (NJSA 59:13-1 et seq.), and the availability of appropriations. The Tort Claims Act also creates a fund and provides for payment of claims under the Act against the State of New Jersey or against its employees for which the State of New Jersey is obligated to indemnify against tort claims, which arise out of the performance of their duties.

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All insurance policies are renewed on an annual basis. All of the State of New Jersey self-funded programs are statutory with an annual appropriation provided by the legislature. There has been no decrease in insurance coverage during the current year. There have been no settlements in excess of insurance coverage in the past three years.

Other Contingencies

The University is involved in several claims and lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the University.

(12) Rowan University Foundation

Component Unit

Rowan University Foundation (the Foundation) is a legally separate, tax-exempt component unit of the University with a fiscal year-end of June 30. The Foundation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation acts primarily as a fund-raising entity to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the Foundation's assets are used exclusively for the benefit, support, and promotion of the University and its educational activities. Because these resources held by the Foundation can only be used by, or are for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented as part of the University's financial statements in accordance with GASB Statement No. 39.

During the years ended June 30, 2012 and 2011, the University received \$6,660,716 and \$8,169,404, respectively, from the Foundation. Complete financial statements of the Foundation can be obtained from the Office of the Chief Financial Officer, Rowan University, Glassboro, New Jersey.

Cash, Cash Equivalents, Restricted Nonexpendable Investments and Investments

Cash, cash equivalents, restricted nonexpendable investments and investments are carried in the financial statements at fair value and consist of the following as of June 30, 2012 and 2011:

	2012	2011
Cash and cash equivalents	\$ 2,778,704	2,168,881
Restricted cash and cash equivalents	1,050,372	596,829
Investments:		
Bond mutual funds (domestic)	\$ 17,629,971	15,774,271
Common stock mutual funds (domestic)	48,439,925	52,002,160
Common stock mutual funds (international)	27,677,791	32,877,158
Realty investments	4,880,556	5,197,971
Alternative investments	42,313,380	41,742,745
	\$ 140,941,623	147,594,305

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As of June 30, 2012 and 2011, the Foundation's investments are reported on the statements of net assets as follows:

	2012	2011
Investments	\$ 21,969,473	29,178,238
Restricted investments	8,687,057	8,856,695
Restricted nonexpendable investments	110,285,093	109,559,372
	\$ 140,941,623	147,594,305

For the years ended June 30, 2012 and 2011, the (decrease) increase in fair value on investments was (\$4,384,126) and \$22,437,548, respectively and the net realized gain on investments for June 30, 2012 and 2011 was \$612,064 and \$1,634,434, respectively. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year.

Alternative investments are valued using 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 valuations provided by the external investment managers. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

The Foundation maintains a diverse investment portfolio. Alternative investments include interests in real estate, limited partnerships, and other domestic and international investment funds. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence on key individuals, and nondisclosure of portfolio composition. The Foundation reviews the performance and risks associated with these investments on at least a monthly basis. In addition, the Foundation utilizes the services of an investment consultant who continually monitors the individual investment fund performance, any changes in management at the investment fund or any other significant matters affecting the fund and advises the Foundation of any such changes.

As the Foundation is dependent on investment return to fund a significant portion of the operations of the Foundation, a significant decrease in investment return may have a material impact on the financial position, changes in net assets, and cash flows of the Foundation.

The Foundation has an investment policy which establishes guidelines for permissible investments. The Foundation may invest in domestic equity securities, international equity securities, fixed income securities, real estate investments and venture capital investments. The Foundation's investments are subject to various risks. Among these risks are credit risk and interest rate risk. Each one of these risks are discussed below.

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Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Standard and Poors. The Foundation's investment policy requires fixed income securities to replicate the Barclays Capital Aggregate characteristics with regard to maturity, structure, duration, credit quality, sector distribution, etc. The Foundation's investments in bond mutual funds are unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not specifically address limitations in the maturities of investments. The Foundation's investments in bond mutual funds are all considered to have a maturity of one year or less.

Restricted Nonexpendable Net Assets

Restricted nonexpendable net assets as of June 30, 2012 and 2011 consist of the following:

	2012	2011
Henry and Betty Rowan for general operations	\$ 97,000,118	97,000,118
William G. Rohrer Professorial Chair in the College of Business	1,000,000	1,000,000
King Family Professorial Chair	1,000,000	1,000,000
Thomas N. Bantivoglio Honors Program for scholarships	1,103,082	1,103,082
Rohrer Scholars for scholarships	1,080,832	1,080,832
John B. Campbell Professorial Chair	1,176,282	1,176,282
Keith and Shirley Campbell Endowment to support library operations	1,641,896	1,641,896
Other endowment funds	6,282,883	5,557,163
	\$ 110,285,093	109,559,372

(13) South Jersey Technology Park at Rowan University, Inc.

Component Unit

South Jersey Technology Park at Rowan University, Inc. (SJTP) was established and is being maintained as part of the educational mission of the University, its initial sole member. SJTP hopes to create jobs and job training and provide new and varied "hands-on" educational experiences for the University students as well as combat community deterioration. The goal of SJTP is to create job opportunities and job training for the under-employed and unemployed of the South Jersey region. SJTP is an organization described under Section 501(c)(3) of the Internal Revenue Code and therefore exempt from Federal income taxes under Section 501(a) of the Code. SJTP's assets are used exclusively for the benefit, support, and promotion of the University and its educational activities. Because the members of the SJTP Board of Directors are appointed by the Board of Trustees of the University, SJTP is considered a component unit of the University and is discretely presented as part of the University's financial statements.

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Related Party Transactions

Lease Agreements

In fiscal year 2008, the University Board of Trustees approved a long-term lease agreement for the SJTP to use a parcel of land owned by the University. The lease commenced on January 1, 2008 and is for 50 years with a renewal term of 20 years. Under the lease agreement, SJTP is to pay \$1,000 each year for the first 5 years. After 5 years there is an option that the rent may increase to the market rate for properties of a similar purpose. The rental payment of \$1,000 is included in professional and other services expenses in the accompanying statements of revenues, expenses, and changes in net assets for fiscal years 2012 and 2011.

The University Board of Trustees approved a lease agreement by and between the University and the SJTP to lease the first floor of the Samuel H. Jones Innovation Center to support its educational mission. For the years ended June 30, 2012 and 2011, SJTP recognized \$483,576 and \$473,605, respectively, in rental income related to this lease agreement. The University also reimbursed SJTP \$72,651 and \$104,077 for utility charges associated with this lease for fiscal years 2012 and 2011, respectively.

Financing

During fiscal year 2007, the University loaned the SJTP \$1,000,000 to provide cash flow during the construction of the Samuel H. Jones Innovation Center. The SJTP used these funds to pay construction related costs which would later be reimbursed to the SJTP from other funding sources. During fiscal year 2011, the SJTP made interest only payments on this loan at the rate of five percent annually.

During fiscal year 2010, the University Board of Trustees approved a bridge loan to SJTP in the amount of \$5,000,000. SJTP used the loan proceeds to refinance its \$5,000,000 debt payable to The Bank. SJTP made interest only payments on this loan in fiscal year 2011 at the rate of four percent annually. Interest only payments on amounts owed to the University ceased during fiscal year 2011 when the SJTP obtained permanent financing and repaid the amounts owed to the University. SJTP repaid the \$6,000,000 loan from the University through the receipt of monies received from a private placement bond issued by the Gloucester County Improvement Authority (GCIA) and purchased by TD Bank. The private placement bond closing took place in October 2010.

Business Operating Agreement

SJTP and the University entered into a business operating agreement for the University to provide certain services and functions to SJTP. SJTP pays the University for these services and functions which include salaries and benefits of employees who perform functions for SJTP, accounting services, custodial services, repairs and maintenance, and other indirect charges. The charges amounted to \$287,777 and \$202,588 for fiscal years 2012 and 2011, respectively and are reflected in professional and other services expenses in the accompanying statements of revenues, expenses, and changes in net assets. Of these amounts, \$0 was due to the University as of June 30, 2012 and \$5,961 was outstanding as of June 30, 2011.

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(14) Subsequent Events

On August 22, 2012 Governor Christie signed the “New Jersey Medical and Health Sciences Education Restructuring Act” (Law) into law. The Law, which is effective July 1, 2013, transfers from The University of Medicine and Dentistry of New Jersey (UMDNJ) to Rowan University (Rowan), the School of Osteopathic Medicine in Stratford, NJ. The Law also establishes Rowan as a public research institution. Rowan is currently evaluating the impact of the School of Osteopathic Medicine and the public research status on its financial affairs and operations.