KPMG

RIDER UNIVERSITY

Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
Rider University:

We have audited the accompanying statement of financial position of Rider University as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2009 financial statements and, in our report dated October 20, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rider University as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 19, 2010

RIDER UNIVERSITY

Statement of Financial Position

June 30, 2010
(with summarized financial information as of June 30, 2009)

(In thousands)

Assets	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total 2010**	**Total 2009**
Cash and cash equivalents	$ 26,207	4,374	119	30,700	20,561
Short-term investments (note 8)	490	—	—	490	3,585
Student accounts receivable, net of allowance for doubtful accounts of $2,528 and $1,771 in 2010 and 2009, respectively	2,227	—	—	2,227	3,258
Grants and other receivables	1,500	1,770	—	3,270	4,325
Contributions receivable, net (notes 2 and 8)	1,761	5,140	4,807	11,708	11,425
Student loans, net of allowance for doubtful loans of $2,469 and $2,295 in 2010 and 2009, respectively	8,268	—	—	8,268	8,283
Investments (notes 3 and 8):					
Funds held by bond trustees	8,547	—	—	8,547	10,091
Long-term investments	14,640	6,297	27,766	48,703	53,723
Plant assets, net (notes 4 and 7)	92,097	—	—	92,097	88,460
Other assets	6,306	—	19	6,325	7,319
Total assets	$ 162,043	17,581	32,711	212,335	211,030
Liabilities and Net Assets					
Liabilities:					
Accounts payable	$ 3,378	—	—	3,378	2,879
Accrued wages and benefits (note 5)	13,907	—	—	13,907	13,570
Other liabilities	6,365	1,407	—	7,772	7,286
Deferred revenue	5,590	—	—	5,590	7,438
Refundable government loan funds	5,116	—	—	5,116	5,134
Asset retirement obligation (note 6)	3,713	—	—	3,713	3,619
Bonds and mortgage notes payable (note 7)	59,054	—	—	59,054	62,253
Total liabilities	97,123	1,407	—	98,530	102,179
Net assets (note 12):					
Designated for:					
Bond indenture deposit requirements (note 7)	7,475	—	—	7,475	9,987
Other specific purposes	13,154	—	—	13,154	13,100
Student loans	3,187	—	63	3,250	3,253
Quasi-endowment (notes 9 and 10)	13,013	—	—	13,013	12,312
Unexpended restricted contributions and grants	—	8,944	—	8,944	10,016
Annuity and life income funds	—	211	—	211	1,236
Beneficial interest in perpetual trust	—	—	1,680	1,680	1,598
Net investment in plant assets	30,237	—	—	30,237	23,566
Endowment corpus (note 10)	—	—	30,962	30,962	30,148
Accumulated net appreciation (depreciation) of endowment corpus (note 10)	(2,146)	7,019	6	4,879	3,635
Total net assets	64,920	16,174	32,711	113,805	108,851
Total liabilities and net assets	$ 162,043	17,581	32,711	212,335	211,030

See accompanying notes to financial statements.

RIDER UNIVERSITY

Statement of Activities

Year ended June 30, 2010
(with summarized financial information for the year ended June 30, 2009)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2010	Total 2009
Operating revenues:					
Student tuition and fees	$ 143,772	—	—	143,772	134,070
Less scholarship allowance	(44,550)	—	—	(44,550)	(40,838)
Net student tuition and fees	99,222	—	—	99,222	93,232
Sales and services of auxiliary enterprises	33,348	—	—	33,348	30,684
Less scholarship allowance	(262)	—	—	(262)	—
Net sales and services of auxiliary enterprises	33,086	—	—	33,086	30,684
State of New Jersey appropriation	1,833	—	—	1,833	1,978
Grants and contracts	—	3,346	—	3,346	4,676
Contributions	1,673	1,122	—	2,795	8,554
Endowment spending policy (note 10)	668	1,402	—	2,070	2,508
Return on working capital	892	—	—	892	(1,055)
Other revenues	3,328	25		3,353	2,515
Total operating revenues	140,702	5,895	—	146,597	143,092
Net assets released from restrictions	7,992	(7,992)	—	—	—
Total operating revenues and other support	148,694	(2,097)	—	146,597	143,092
Operating expenses (note 11):					
Instruction	59,227	—	—	59,227	53,268
Research	1,671	—	—	1,671	1,550
Academic support	13,895	—	—	13,895	14,634
Student services	23,225	—	—	23,225	20,777
Institutional support	19,136	—	—	19,136	19,291
Fundraising	2,065	—	—	2,065	1,669
Auxiliary enterprises	26,099	—	—	26,099	24,032
Total operating expenses	145,318	—	—	145,318	135,221
Increase (decrease) in net assets from operating activities	3,376	(2,097)	—	1,279	7,871
Nonoperating revenues and gains:					
Endowment contributions (note 10)	—	—	814	814	1,241
Net endowment surplus (deficit) (note 10)	773	1,171	1	1,945	(13,559)
Pension adjustment	834	—	—	834	902
Change in value of beneficial interest in perpetual trust	—	—	82	82	(488)
Increase (decrease) in net assets	4,983	(926)	897	4,954	(4,033)
Net assets as of beginning of year	59,937	17,100	31,814	108,851	112,884
Net assets as of end of year	$ 64,920	16,174	32,711	113,805	108,851

See accompanying notes to financial statements.

RIDER UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2010
(with comparative financial information for the year ended June 30, 2009)

(In thousands)

		2010	2009
Cash flows from operating activities:			
Increase (decrease) in net assets	$	4,954	(4,033)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation and amortization expense		7,274	5,837
Loss on disposal of plant assets		1	42
Accretion expense		163	157
Net realized (gains) losses on sales of investments		(258)	1,591
(Increase) decrease in unrealized appreciation on investments		(3,771)	11,898
Provision for doubtful student accounts receivable		855	514
Provision for doubtful student loans		175	110
Contributions restricted for plant facilities		(178)	(564)
Contributions and investment income permanently restricted for long-term investment		(770)	(1,241)
Changes in operating assets and liabilities:			
Student accounts receivable		176	(87)
Grants and other receivables		1,055	(1,694)
Contributions receivable		(283)	(1,810)
Other assets		994	(2,719)
Accounts payable		467	187
Accrued wages and benefits		337	220
Other liabilities		486	520
Deferred revenue		(1,848)	(1,258)
Refundable government loan funds		(18)	31
Asset retirement obligation		(69)	(36)
Net cash provided by operating activities		9,742	7,665
Cash flows from investing activities:			
Purchases of short-term investments		(1,610)	(92,858)
Proceeds from sales of short-term investments		4,705	100,917
Purchases of investments		(116,809)	(115,423)
Proceeds from sales of investments		127,402	133,951
Purchases of plant assets, net of change in related accounts payable		(10,880)	(23,029)
Change in student loans		(160)	(555)
Net cash provided by investing activities		2,648	3,003
Cash flows from financing activities:			
Repayment of bonds and mortgage notes payable		(3,199)	(2,704)
Contributions restricted for plant facilities		178	564
Contributions and investment income permanently restricted for long-term investment		770	1,241
Net cash used in financing activities		(2,251)	(899)
Net increase in cash and cash equivalents		10,139	9,769
Cash and cash equivalents as of beginning of year		20,561	10,792
Cash and cash equivalents as of end of year	$	30,700	20,561
Supplementary disclosure of cash flow information:			
Cash paid during the year for interest	$	2,977	3,122

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

Rider University (the University) is a private, not-for-profit institution founded in 1865. The University's four academic units include the College of Business Administration, the College of Liberal Arts, Education and Sciences, the College of Continuing Studies, and the Westminster College of the Arts. During the year ended June 30, 2010, the University enrolled approximately 4,400 full-time and 1,700 part-time undergraduate and graduate students.

Summary of Significant Accounting Policies

Basis of Presentation

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions according to the presence or absence of donor-imposed restrictions.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements as of and for the year ended June 30, 2009, from which the summarized information was derived.

Classification of Net Assets

The University reports its net assets and changes therein in three classes: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets

Unrestricted net assets represent resources that are generally available for support of the University's activities, with certain limitations, as follows:

- Certain unrestricted net assets are previously committed through contractual agreements. Such amounts primarily consist of matching funds under student loan programs of the Federal Government and required trusteed balances under long-term debt agreements. In addition, grants and contracts received that are for the performance of certain services or functions are reported in the unrestricted net asset category.
- The Board of Trustees, through voluntary resolutions, has set aside portions of the University's unrestricted net assets to function as quasi-endowment.
- Net investment in plant assets.

Temporarily Restricted Net Assets

The University reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or donor-specified purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the investment return on related investments for donor specified or unrestricted purposes.

Statement of Activities

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Investments

Investments are reported at fair values. The University has interpreted New Jersey State law to allow the spending of income and net realized and unrealized gains on investments of permanently restricted net assets, absent explicit donor stipulations that all or a portion of such income or net realized or unrealized gains be maintained in perpetuity. New Jersey State law allows the University to appropriate and spend such income and gains as is prudent. The spending policy allocations are made considering such factors as the University's long-term and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. Accordingly, such realized and unrealized gains, as well as gains and losses on temporarily restricted and unrestricted net assets, are reported as temporarily restricted or unrestricted, based upon the presence or absence of donor stipulations as to their use.

Interest and dividends and net realized and unrealized gains and losses on investments of permanently restricted net assets are reported as follows:

- as increases (decreases) in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanently restricted net asset;
- as increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income and/or net gains or by law; and
- as increases (decreases) in unrestricted net assets in all other cases.

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Nonoperating Activities

A portion of long-term investment income and gains and losses is allocated to operating revenue each year in accordance with the University's spending policy for investments held for endowment and similar purposes, as more fully discussed in notes 9 and 10. All other investment income earned and gains and losses on investments held for long-term purposes (including land), pension adjustment, and other non-recurring activities are considered nonoperating activities in the statement of activities.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value at date of donation.

Contributions of plant assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire plant assets with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time such long-lived assets are acquired or in the case of construction when the project is complete. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contributions revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activities.

Investments

Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are reported at fair value based upon quoted market prices. Investments in investment companies (consisting of investments in hedge funds, private equity funds, and other non-public equity funds) are reflected at fair value as estimated and reported by general partners, based upon the underlying net asset value (practical expedient) of the fund or partnership. These estimated values are reviewed and evaluated by the University.

Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of charitable gift annuities and irrevocable charitable remainder trusts. Assets are invested and payments are made to donors and/or beneficiaries in accordance with the respective agreements. Contribution revenue for charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established, net of the liability for the present value of the estimated future payments to be made to the respective donors and/or beneficiaries.

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The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts is calculated using discount rates, which represent the risk-adjusted rates in existence at the date of the gift. Gain or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset class in the accompanying statement of activities.

Income Taxes

The University is an organization described under Section 501(c)(3) of the Internal Revenue Code (the Code) and therefore is exempt from Federal income taxes under Section 501(a) of the Code. Accordingly, the University is not subject to income taxes except to the extent it has taxable income from activities unrelated to its exempt purpose. No provision for income taxes was required in 2010 and 2009.

Cash Equivalents

Cash equivalents include short-term, highly liquid investments held for current operating purposes and consist principally of money market accounts and securities having an original maturity of three months or less.

Short-Term Investments

Short-term investments include short-term investments held for current operating purposes and consist of securities having an original maturity of greater than three months.

Plant Assets

All property is carried at cost at date of acquisition or at fair market value at date of gift, less accumulated depreciation computed on a straight-line basis over their estimated useful lives (buildings – 50 years; building systems, renovations, and land improvements – 20 to 30 years; and equipment – 3 to 20 years).

Deferred Revenue

Amounts received in advance for tuition and fees are included in deferred revenue in the statement of financial position.

Asset Retirements

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the University capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities.

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Refundable Government Loan Funds

Funds provided by the U.S. government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the U.S. government and are presented in the statement of financial position as a liability.

Use of Estimates

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

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents and short-term investments approximates fair value because of the short maturity of these financial instruments. The fair value of long-term investments in debt and equity securities, real estate, and venture capital are based upon net asset values provided by external investment managers, general partners, or quoted market value, which are reviewed and evaluated by University management for reasonableness. The carrying amount of bonds and mortgage notes payable approximates fair value because these financial instruments bear interest at various rates that, when averaged, are not significantly different from current market rates for loans with similar maturities and credit quality.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

(2) Contributions Receivable

Contributions receivable consist of the following as of June 30, 2010 and 2009 (in thousands):

		2010	2009
Unconditional promises to give, net	$	2,765	2,646
Irrevocable trusts, net		7,263	7,181
Beneficial interest in perpetual trust		1,680	1,598
	$	11,708	11,425

Unconditional promises to give and the irrevocable trusts are expected to be received during the indicated time periods and have been discounted for the time value of money at rates ranging from 0.17% to 4.86% as of June 30 (in thousands):

		2010	2009
One year or less	$	2,272	2,190
Between one and five years		8,570	8,431
		10,842	10,621
Less:			
Present value discount		(789)	(779)
Allowance for uncollectible contributions receivable		(25)	(15)
	$	10,028	9,827

(3) Investments

Funds Held by Bond Trustees

Under the terms of certain debt agreements, funds are required to be placed on deposit with specified financial institutions acting as trustee. These funds are reported as funds held by bond trustees in the statement of financial position. As of June 30, 2010 and 2009, investments held by bond trustees related to notes payable and mortgage notes payable were composed of funds held for the following purposes (in thousands):

		2010	2009
Debt service reserve funds	$	4,437	4,613
Principal funds		2,561	2,680
Interest funds		1,327	1,393
Project mortgage funds		98	205
Renewal and replacement funds		124	1,200
	$	8,547	10,091

(Continued)

The funds held by bond trustees above are invested as follows as of June 30 (in thousands):

		2010	2009
Money market funds	$	4,483	7,662
U.S. government obligations		4,064	2,429
	$	8,547	10,091

Long-Term Investments

Long-term investments are recorded at fair value and consist of the following as of June 30 (in thousands):

		2010	2009
Investment in fund of funds:			
Common and preferred stocks	$	30,857	29,520
U.S. government obligations		1,583	7,023
Diversified bonds		9,076	8,463
Other alternatives		2,867	4,436
Directly owned:			
Common and preferred stocks		199	193
U.S. government obligations		110	109
Diversified bonds		127	111
Certificates of deposit and money market funds		159	143
Land		3,725	3,725
Total long-term investments	$	48,703	53,723

Diversified bonds primarily include U.S. government obligations, corporate bonds, and international instruments. Other alternatives include absolute return, natural resources, private equity, real estate, and venture capital.

As of June 30, 2010 and 2009, the University holds land for investment purposes. The fair value of $3,725,000 is based upon an appraisal obtained during the year ended June 30, 2009.

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Redemption and Investment Strategy

The University's best estimate of the remaining life of finite-lived investments, the amount of the University's unfunded commitments related to the investment at June 30, 2010, and the terms and conditions upon which the University may redeem its investment for each major category of alternative investments are summarized below:

Alternative investment category	Investment strategy	Estimated remaining life	Unfunded commitments at June 30, 2010	Redemption terms
Commonfund Intermediate Term Fund	Treasuries	N/A	$ N/A	Weekly, with five business days notice
Commonfund Absolute Return Fund	Treasury bills	N/A	N/A	N/A
Commonfund Multi-Strategy Equity	Equity	N/A	N/A	Monthly, with five business days notice
Commonfund Multi-Strategy Bond	Bond	N/A	N/A	Monthly, with five business days notice
Commonfund International Equity	International equity	N/A	N/A	Monthly, with five business days notice
Capital Partners III	Private equity	12	198,700	N/A
Natural Resources VII	Natural resources	11	245,500	N/A
Natural Resources VIII	Natural resources	13	416,250	N/A
Private Equity Partners VII	Private equity	12	571,125	N/A
International Private Equity Partners VI	International equity	12	510,000	N/A
Venture Partners VIII	Venture	12	500,627	N/A
Global Distressed	Distressed debt	7	331,291	N/A
Land	Real estate	N/A	N/A	N/A

(4) Plant Assets

Plant assets consist of the following as of June 30 (in thousands):

	2010			2009
	Cost	Accumulated depreciation and amortization	Net carrying value	Net carrying value
Land	$ 253	—	253	253
Land improvements	10,872	4,508	6,364	5,009
Buildings and improvements	131,047	60,102	70,945	71,465
Equipment	20,891	14,681	6,210	4,768
Library collection	17,441	10,883	6,558	6,279
Construction in progress	1,767	—	1,767	686
	$ 182,271	90,174	92,097	88,460

Commitments outstanding on projects included in construction in progress as of June 30, 2010 amounted to approximately $9,211,000.

Capitalized interest has been recorded for the bond-funded construction projects. Interest expense of approximately $979,000, net of interest income of $333,000, was capitalized for the year ended June 30, 2009.

(5) Postretirement Benefits Other than Pensions

The University provides postretirement medical benefits to former employees who meet certain criteria.

Information with respect to the plan at June 30, 2010 and 2009 is as follows (in thousands):

		2010	2009
Change in benefit obligation:			
Benefit obligation at beginning of year	$	6,939	7,139
Service cost		266	286
Interest cost		345	406
Assumption change		528	295
Actuarial gain		(1,326)	(962)
Benefits paid		(200)	(225)
Benefit obligation at end of year	$	6,552	6,939
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
Employer contributions		200	225
Benefits paid		(200)	(225)
Fair value of plan assets at end of year		—	—
Funded status, included in accrued wages and benefits	$	(6,552)	(6,939)

		2010	2009
Components of net periodic benefit cost:			
Service cost	$	266	286
Interest cost		345	406
Amortization of transition obligation		—	200
Recognized actuarial loss		36	35
Net periodic benefit cost	$	647	927
Weighted average assumptions as of June 30:			
Benefit obligation discount rate		5.25%	6.25%
Periodic benefit cost discount rate		6.25%	6.75%

As of June 30, 2010, the medical trend and inflation rate is 9.0% per year grading down to an ultimate rate of 4% in 2014.

The effects of a 1% increase or decrease in trend rates on total service and interest costs and the postretirement benefit obligation are as follows (in thousands):

		One-percentage-point increase		One-percentage-point decrease	
		2010	**2009**	**2010**	**2009**
Effect on total of service and interest cost components	$	73	83	(62)	(71)
Effect on postretirement benefit obligation		(516)	(599)	453	522

Projected premium payments for each of the next five fiscal years and thereafter are as follows (in thousands):

		Amount
Year ending June 30:		
2011	$	316
2012		402
2013		481
2014		560
2015		561
2016 through 2020		3,261

The University expects to contribute approximately $200,000 next year.

In fiscal year 2010, a pension adjustment of $834 was recorded in nonoperating revenues and gains in the statement of activities.

At June 30, 2010, a $600,000 net loss has not yet been recognized as a component of net periodic benefit cost.

(6) Asset Retirement Obligation

The University has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings are disposed. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The activity for the asset retirement obligation for the years ended June 30, 2010 and 2009 was as follows (in thousands):

		2010	**2009**
Balance at beginning of year	$	3,619	3,498
Accretion expense		163	157
Change in amount or timing of cash flow		(69)	(36)
Balance at end of year	$	3,713	3,619

(Continued)

(7) Bonds and Mortgage Notes Payable

Bonds and mortgage notes payable consist of the following as of June 30 (in thousands):

	Interest rate	2010	2009
Bonds payable:			
U.S. Department of Education (due serially to 2017)	3.00% to 3.63%	$ 792	952
New Jersey Educational Facilities Authority:			
Series 1971 A (due serially to 2009)	6.875%	—	250
Series 2002 A (due through 2017)	4.00% to 5.25%	17,810	19,595
Series 2004 A (due serially to 2034)	2.75% to 5.50%	13,665	13,940
Series 2007 C (due serially to 2037)	4.25% to 5.00%	21,630	22,000
Higher Education Capital Improvement Fund Series 2000 A and B (due serially to 2020)	4.20% to 5.75%	605	645
Higher Education Capital Improvement Fund Series 2002 A (due serially to 2022)	3.00% to 5.25%	914	949
Higher Education Capital Improvement Fund Series 2004 A (due serially to 2024)	5.00% to 5.25%	233	243
Dormitory Safety Trust Fund 2001 A (face value $1,500 discounted at 4.7%)	—	549	627
Dormitory Safety Trust Fund 2003 A (face value $1,525 discounted at 4.0%)	—	714	788
Total bonds payable		56,912	59,989
Mortgage notes payable:			
U.S. Department of Education (due semi-annually to 2019)	3.00%	253	278
U.S. Department of Education (due semi-annually to 2023)	5.50%	1,889	1,986
Total mortgage notes payable		2,142	2,264
Total bonds and mortgage notes payable		$ 59,054	62,253

(Continued)

Annual debt service requirements (principal and interest) over the next five years are as follows (in thousands):

		Annual maturities				Total debt service
		Bonds	**Mortgages**	**Total**	**Interest**	**requirement**
Year:						
2011	$	2,973	128	3,101	2,868	5,969
2012		3,107	135	3,242	2,717	5,959
2013		3,274	142	3,416	2,554	5,970
2014		3,438	149	3,587	2,382	5,969
2015		3,443	157	3,600	2,206	5,806

Certain University debt, aggregating approximately $53,897,000, is collateralized by plant assets with a carrying value of approximately $58,153,000 as of June 30, 2010.

Interest expense, net of capitalized amounts, on bonds and mortgage notes payable for the years ended June 30, 2010 and 2009 was approximately $2,911,000 and $2,088,000, respectively.

(8) Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quotes prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

(Continued)

The University's assets at June 30, 2010 that are reported at fair value are summarized in the following table by their fair value hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
Short-term investments	$ 490	—	—	490
Irrevocable trusts, net and beneficial interest in perpetual trust	8,943	—	—	8,943
Funds held by bond trustees:				
Money market funds	4,483	4,483	—	—
U.S. government obligations	4,064	3,066	998	—
Total funds held by bond trustees	8,547	7,549	998	—
Long-term investments:				
Investment in fund of funds	44,384	—	41,785	2,599
Directly owned	4,319	404	190	3,725
Total long-term investments	48,703	404	41,975	6,324
Total	$ 66,683	7,953	42,973	15,757

The University's assets at June 30, 2009 that are reported at fair value are summarized in the following table by their fair value hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
Short-term investments	$ 3,585	—	—	3,585
Irrevocable trusts, net and beneficial interest in perpetual trust	8,779	—	—	8,779
Funds held by bond trustees:				
Money market funds	7,662	7,662	—	—
U.S. government obligations	2,429	1,247	1,182	—
Total funds held by bond trustees	10,091	8,909	1,182	—
Long-term investments:				
Investment in fund of funds	49,442	—	45,541	3,901
Directly owned	4,281	384	172	3,725
Total long-term investments	53,723	384	45,713	7,626
Total	$ 76,178	9,293	46,895	19,990

(Continued)

The following table presents the University's activity for all Level 3 assets measured at fair value for the period July 1, 2008 to June 30, 2010 (in thousands):

		Total	Short-term investments	Irrevocable trusts, net and beneficial interest in perpetual trust	Long-term investments
Fair value at July 1, 2008	$	27,371	11,644	9,267	6,460
Change in value of beneficial interest in perpetual trust		(488)	—	(488)	—
Purchases		95,329	92,858	—	2,471
Sales		(101,097)	(100,917)	—	(180)
Realized losses		(15)	—	—	(15)
Unrealized losses		(1,110)	—	—	(1,110)
Fair value at July 1, 2009		19,990	3,585	8,779	7,626
Change in value of beneficial interest in perpetual trust		164	—	164	—
Purchases		2,322	1,610	—	712
Sales		(6,073)	(4,705)	—	(1,368)
Realized gains		1	—	—	1
Unrealized losses		(647)	—	—	(647)
Fair value at June 30, 2010	$	15,757	490	8,943	6,324

(9) Quasi-Endowment Net Assets

Quasi-endowment net assets, unlike endowment corpus, are not subject to donor or other outside restrictions. Quasi-endowment net assets have been designated by the University's Board of Trustees and are expended at its discretion. The components of quasi-endowment net assets as of June 30, 2010 and 2009, and the quasi-endowment activity for the years ended June 30 were as follows (in thousands):

		2010	2009
Balance as of beginning of year	$	12,312	14,600
Return on quasi-endowment funds		1,169	(1,836)
Quasi-endowment spending policy		(468)	(452)
Net increase (decrease) for the year		701	(2,288)
Balance as of end of year	$	13,013	12,312

The quasi-endowment net assets include land held for investment purposes with a fair value of $3,725,000 as of June 30, 2010 and 2009.

(10) Endowment

The University endowment consists of approximately 340 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the University has interpreted the State of New Jersey Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated by the University in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the University and the donor-restricted;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the University; and
7. The investment policy of the University.

Endowment net assets consisted of the following at June 30, 2010 and June 30, 2009 (in thousands):

	2010			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor restricted	$ (2,146)	7,019	30,968	35,841
Quasi (Board designated)	13,013	—	—	13,013
Total	$ 10,867	7,019	30,968	48,854

	2009			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor restricted	$ (2,218)	5,848	30,153	33,783
Quasi (Board designated)	12,312	—	—	12,312
Total	$ 10,094	5,848	30,153	46,095

Changes in endowment net assets for the year ended June 30, 2010 and 2009 are as follows (in thousands):

	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets after reclassification, July 1, 2008	$ 14,755	14,746	28,912	58,413
Investment return	(334)	190	—	(144)
Unrealized losses	(2,153)	(8,782)	—	(10,935)
Total investment return	(2,487)	(8,592)	—	(11,079)
Contributions	—	—	1,241	1,241
Appropriation of endowment assets for expenditures	(2,174)	(334)	—	(2,508)
Unspent appropriation related to underwater endowments returned to principal	—	28	—	28
Endowment net assets, July 1, 2009	10,094	5,848	30,153	46,095
Investment return	96	944	1	1,041
Unrealized gains	1,345	1,359	—	2,704
Total investment return	1,441	2,303	1	3,745
Contributions			814	814
Appropriation of endowment assets for expenditures	(668)	(1,402)	—	(2,070)
Unspent appropriation related to underwater endowments returned to principal	—	270	—	270
Endowment net assets, June 30, 2010	$ 10,867	7,019	30,968	48,854

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and were approximately $2,146,000 and $2,218,000 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of income and growth, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the University's Board of Trustees, the endowment assets are invested in a number of different asset classes and investment strategies to diversify the investments to provide a balance that will enhance the long-term total return of the overall investment portfolio while avoiding undue risk or concentration in any single asset class or investment category.

Spending Policy

Each year, the University includes a portion of the endowment return in its operating budget, with the amount of such planned support determined using its spending policy. The policy of the University for the years ended June 30, 2010 and 2009 is to distribute for current spending 5% of a three-year moving average of the fair value of pooled investments. In establishing this policy, the University considered the expected return on its endowment. Accordingly, the University expects the current spending policy to allow its endowment over the long-term to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment returns.

(11) Functional Allocation of Expenses

The costs of providing program services and supporting services of the University have been summarized on a functional basis in the statement of activities and are reported in the University's financial statements in categories recommended by the National Association of College and University Business Officers. Accordingly, certain operating costs have been allocated among the functional categories.

Operation and maintenance of plant expenses (including depreciation, amortization and accretion) for the years ended June 30 were allocated to the functional categories in the statement of activities and consisted of the following (in thousands):

		2010	2009
Instruction	$	4,682	4,002
Research		391	358
Academic support		1,920	1,806
Student services		3,860	3,282
Institutional support and fundraising		924	740
Auxiliary enterprises		11,212	9,464
	$	22,989	19,652

The allocation of University operating expenses to program and supporting services for the years ended June 30 is as follows (in thousands):

		2010	2009
Program	$	124,117	114,261
Supporting services:			
Institutional support		19,136	19,291
Fundraising		2,065	1,669
Total operating expenses	$	145,318	135,221

(12) Restrictions on Net Asset Balances

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30 (in thousands):

		2010	2009
Unexpended revenues and gains available for:			
Instruction and scholarships	$	2,976	4,106
Capital acquisitions		828	1,679
Annuity and life income funds		211	1,236
Future periods		12,159	10,079
Total temporarily restricted net assets	$	16,174	17,100

Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment gifts from donors with income to be used primarily for scholarships.

(13) Retirement Plan

The University has a contributory defined contribution retirement plan, covering substantially all employees under arrangements with Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF), that provides for the purchase of annuities for employees. The cost to the University for the retirement plan for the years ended June 30, 2010 and 2009 was approximately $4,082,000 and $3,681,000, respectively. Employees are eligible after one year of service and must contribute 5% of compensation to participate. The University matched employee contributions at 8.00% or 8.25% depending on the employee’s classification for the years ended June 30, 2010 and 2009.

(14) Commitments and Contingencies

The University receives support from Federal and State of New Jersey grant programs, primarily student financial assistance. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2010, the University believes it has complied with the terms of the grant agreements and applicable regulations in all material respects.

The University is party to two collective bargaining agreements with faculty members and clerical staff. These agreements set forth terms and conditions that the University must abide by, including, but not limited to, salaries, benefits, and working conditions.

The University is party to various legal actions and other claims in the normal course of business, and it is the opinion of management that the outcome thereof will not have a material effect on its financial position.

(15) Subsequent Events

The University evaluated events subsequent to June 30, 2010 and through October 19, 2010, the date on which the financial statements were issued, and has concluded that there are no subsequent events to be disclosed.