



**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Basic Financial Statements and  
Management's Discussion and Analysis

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

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**MONTCLAIR STATE UNIVERSITY**  
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## **Management's Discussion and Analysis**

### **Introduction**

This section of the Annual Financial Report for Montclair State University (the University) presents management's discussion and analysis of the University's financial activity during fiscal years ended June 30, 2006 and 2005. Since this management discussion and analysis is designed to focus on current activities, resulting change and currently known facts, it should be read in conjunction with the University's basic financial statements and footnotes that immediately follow this section.

### **Using This Annual Financial Report**

The financial statements presented in this report focus on the financial condition of the University, the results of operations and cash flows of the University as a whole. The statement of net assets focuses on total assets and liabilities. This statement combines and consolidates current short-term expendable resources with capital assets. The statement of revenues, expenses, and changes in net assets focuses on the revenues earned during the year and the costs of University activities. The statement of cash flows focuses on cash inflows and outflows summarized by operating, noncapital financing, capital financing and related investing activities.

### **Financial Highlights**

At June 30, 2006, the University's net assets increased to \$192.4 million from \$182.5 million at June 30, 2005. Operating expenses for the year ended June 30, 2006, were \$222.0 million, an increase of \$31.5 million over the same period in fiscal year 2005. Operating expenses for the year ended June 30, 2005, were \$190.5 million, an increase of \$26.9 million over the same period in fiscal year 2004. Increases during both years were caused primarily by an increase in instruction, student services, public service, academic support, institutional support, depreciation, operations and maintenance of plant, student aid, and auxiliary enterprises, e.g., parking costs and room and board costs. The increase in instruction during both years was primarily due to a higher number of faculty positions, resulting from increased student enrollments, and higher contractual faculty salaries. The increase in depreciation is the result of completing major construction and renovation projects and utilization of the facilities. The increases to the other categories noted above were primarily due to increased enrollments and related operations during both periods.

Operating revenues for the year ended June 30, 2006, were \$159.7 million, an increase of \$18.4 million over the same period in fiscal year 2005. Operating revenues for the year ended June 30, 2005, were \$141.3 million, an increase of \$20.6 million over the same period in fiscal year 2004. The increase in net student revenues, as a result of increased enrollments and tuition rate increases, was the primary reason for each year's increase in operating revenues. The increase in revenues from federal grants also contributed to the increase in operating revenues in fiscal year 2005.

Nonoperating and other revenues, including capital gifts and grants, for the year ended June 30, 2006, were \$82.7 million, an increase of \$5.5 million over the same period in fiscal year 2005. Increases in state funding and investment income offset by a decrease in other nonoperating revenues were the primary reasons for the change. Nonoperating and other revenues, including capital grants, for the year ended June 30, 2005 were \$77.2 million, an increase of \$5.6 million over the same period in the year ended June 30, 2004, primarily due to increases in state funding, investment income and other nonoperating revenues.

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The University is continuing its planned major capital construction and renovation activities. During fiscal year 2006 University Hall, the 270,000 square foot academic building, and the 21,500 square foot Children's Center were completed and occupied. Additionally completed in fiscal year 2006 were a campus-wide connectivity and a sewer replacement projects as well as numerous renovations to existing facilities. The major component of construction in progress at year-end 2006 was a 77,000 square foot student recreation center.

There are currently no other known facts, decisions or conditions that are expected to have a significant effect on the University's financial position (net assets) or results of operation (revenues, expenses, and changes in net assets).

**Schedule of Net Assets**  
**At June 30,**  
**(dollars in millions)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 56.5	69.7	67.8
Noncurrent assets			
Capital assets, net	396.5	356.5	290.2
Assets held under bond indenture agreements	17.0	43.3	94.2
Investments	29.3	22.0	12.6
Other	<u>8.5</u>	<u>8.4</u>	<u>9.0</u>
Total assets	<u>507.8</u>	<u>499.9</u>	<u>473.8</u>
Current liabilities	45.4	45.7	35.7
Noncurrent liabilities	<u>270.0</u>	<u>271.7</u>	<u>277.0</u>
Total liabilities	<u>315.4</u>	<u>317.4</u>	<u>312.7</u>
Net assets			
Invested in capital assets, net	127.9	121.5	98.8
Restricted	20.3	14.9	14.1
Unrestricted	<u>44.2</u>	<u>46.1</u>	<u>48.2</u>
Total net assets	<u>\$192.4</u>	<u>182.5</u>	<u>161.1</u>

This schedule is prepared from the University's statements of net assets that are presented on an accrual basis of accounting whereby capital assets are capitalized and depreciated.

Total current assets decreased \$13.2 million during the year ended June 30, 2006 the result of decreased cash and equivalents and a decrease in investments provided by operations as a result of general increasing of investment maturities in noncurrent assets. These decreases are offset by an increase in assets held under bond indenture agreements. During the year ended June 30, 2005 total current assets increased \$1.9 million primarily the result of increased cash and equivalents, assets held under bond indenture agreements and receivables. These increases are offset by a decrease in investments provided by operations as a result of general increasing of investment maturities in noncurrent assets.

Total noncurrent assets increased \$21.1 million during the year ended June 30, 2006 and increased \$24.2 million during the year ended June 30, 2005. The increase during each fiscal year was primarily as a result of construction projects completed during the fiscal year, projects in progress at

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year-end, renovations to facilities, and acquisition of technology and other equipment to support increased academic demand. Assets held under bond indenture agreements were utilized to fund construction projects

Total assets increased \$7.9 million to \$507.8 million at June 30, 2006. The primary causes are the increases in capital assets and investments offset by decreases in investments held under bond indenture agreements to fund construction projects. During the year ended June 30, 2005, total assets increased \$26.1 million to \$499.9 million. The primary causes were the increases in capital assets offset by decreases in investments held under bond indenture agreements to fund construction projects in progress at year-end.

Current liabilities decreased \$300 thousand during the year ended June 30, 2006. During year ended June 30, 2005 total current liabilities increased \$10.0 million during the primarily as a result of increases to deferred revenue relating to the summer term, obligations relating to capital financing and accrued expenses at year-end.

Noncurrent liabilities decreased \$1.7 million during the year ended June 30, 2006 primarily as a result of repayment of principal on bonds and other long-term debt. During the year ended June 30, 2005, noncurrent liabilities decreased \$5.3 million primarily as a result of repayment of principal on bonds and other long-term debt offset somewhat by additional borrowing to fund construction and capital renovations to facilities and acquisition of technology and other equipment.

**Operating Results for the Years Ended**  
**June 30,**  
**(dollars in millions)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues			
Net student revenues	\$122.7	105.8	87.6
Other	<u>37.0</u>	<u>35.5</u>	<u>33.1</u>
Total operating revenues	159.7	141.3	120.7
Less operating expenses	<u>222.0</u>	<u>190.5</u>	<u>163.6</u>
Operating loss	<u>(62.3)</u>	<u>(49.2)</u>	<u>(42.9)</u>
Nonoperating and other revenues			
State appropriations			
General	50.4	47.4	43.4
Fringe benefit	26.9	24.0	22.6
Other	5.4	5.8	5.6
Less nonoperating expenses	<u>10.5</u>	<u>6.6</u>	<u>5.1</u>
Net nonoperating and other revenues	<u>72.2</u>	<u>70.6</u>	<u>66.5</u>
Increase in net assets	9.9	21.4	23.6
Net assets, beginning of year	<u>182.5</u>	<u>161.1</u>	<u>137.5</u>
Net assets, end of year	<u>\$192.4</u>	<u>182.5</u>	<u>161.1</u>

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**Operating Revenues**

Operating revenues are those revenues received by the University in exchange for providing goods and services directly to the students and the constituencies of the institution.

The University generated operating revenues of \$159.7 million and \$141.3 million in 2006 and 2005, respectively. The sources of these revenues were:

**Operating Revenues for the Years Ended  
June 30,  
(dollars in millions)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues			
Student tuition, fees and other student revenues (net of scholarship allowances of \$19.3 million in 2006 and in 2005 and \$18.3 million in 2004)	\$122.7	105.8	87.6
Grants – State of New Jersey	13.5	13.4	12.9
Other	12.5	11.6	12.2
Other sources	<u>11.0</u>	<u>10.5</u>	<u>8.0</u>
Total operating revenues	<u>\$159.7</u>	<u>141.3</u>	<u>120.7</u>

Student tuition, fees and other student revenues represent 76.8 percent and 74.9 percent in 2006 and 2005, respectively, of total operating revenues. In the years 2006 and 2005 the University experienced enrollment growth and increased general tuition rates by 8 percent.

**Operating Expenses**

Operating expenses are those expenses paid by the University to acquire or produce goods and services to fulfill its mission. The University incurred total operating expenses of \$222.0 million and \$190.5 million in 2006 and 2005, respectively. The University's operating expenses were:

**Operating Expenses for the Years Ended  
June 30,  
(dollars in millions)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating expenses			
Instruction	\$ 68.9	63.4	58.5
Research	1.6	1.2	1.1
Public service	9.9	9.1	8.8
Academic support	18.3	16.6	14.7
Student services	17.0	15.1	13.5
Institutional support	29.0	25.1	22.2
Operation and maintenance of plant	27.5	18.8	12.9
Depreciation	17.0	13.7	10.5
Student aid	8.8	7.4	7.4
Auxiliary enterprises	<u>24.0</u>	<u>20.1</u>	<u>14.0</u>
Total operating expenses	<u>\$222.0</u>	<u>190.5</u>	<u>163.6</u>

Operating expenses increased \$31.5 million in fiscal year 2006 compared to fiscal year 2005. The cost of instruction increased \$5.5 million as new faculty members were hired to meet enrollment

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growth. Utility costs increased \$3.3 million the result of significant price increases and additional volumes due to the 270,000 square foot academic building opening in January 2006 and the Children's Center in September 2005. Depreciation expense increased, the result of depreciation of the new facilities that were opened during the year and a full year's depreciation of new facilities that were placed into service in 2005. Operating expenses increased \$26.9 million in fiscal year 2005 compared to fiscal year 2004. Generally expenses increased in response to providing services to the student population.

**Nonoperating and Other Revenues**

Nonoperating and other revenues are those revenues received for which goods and services are not provided in exchange for the revenues.

The University generated nonoperating and other revenues of \$82.7 million and \$77.2 million in 2006 and 2005, respectively. The sources of these revenues were:

**Nonoperating and Other Revenues for the Years Ended  
June 30,  
(dollars in millions)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Nonoperating and other revenues			
State appropriations			
General	\$50.4	47.4	43.4
Fringe benefits	26.9	24.0	22.6
Capital gifts and grants	1.4	3.0	2.9
Investment income	3.9	2.2	0.6
Other sources	<u>0.1</u>	<u>0.6</u>	<u>2.1</u>
Total nonoperating and other revenues	<u>\$82.7</u>	<u>77.2</u>	<u>71.6</u>

Capital gifts and grants represent imputed interest resulting from the discount on interest free notes payable to the State of New Jersey and capital gifts received through the Montclair State University Foundation, Inc.

**Capital Assets and Debt Activities**

The University's investment in capital assets, net of accumulated depreciation, was \$396.5 million and \$356.5 million at June 30, 2006 and 2005, respectively. Accumulated depreciation totaled \$130.4 million and \$113.6 million at June 30, 2006 and 2005 respectively. Depreciation charged to operations totaled \$17.0 million and \$13.7 million in 2006 and 2005, respectively. Debt related to these capitalized assets was \$265.0 million and \$238.8 million at year-end 2006 and 2005, respectively.

The University incurred new long-term debt from bonds and other sources totaling \$1.8 million in fiscal year 2005 for construction and acquisition of capital assets. In addition, the University received private capital gifts and capital grants from the State of New Jersey and the federal government totaling \$1.4 million in fiscal year 2006 and \$3.1 million in fiscal year 2005 to fund capital asset acquisitions.

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The components of the University's investment in capital assets at June 30 are:

<b>Investment in Capital Assets</b>			
<b>At June 30,</b>			
<b>(dollars in millions)</b>			
	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
Land	\$ 14.7	14.5	13.9
Construction in progress	24.7	80.4	75.1
Infrastructure	32.6	26.2	8.4
Buildings and improvements	372.9	283.1	237.3
Equipment	65.5	52.0	47.2
Other capital assets	<u>16.5</u>	<u>13.9</u>	<u>9.9</u>
Total	<u>526.9</u>	<u>470.1</u>	<u>391.8</u>
Accumulated depreciation			
Infrastructure	5.1	4.0	3.3
Buildings and improvements	80.0	71.1	64.0
Equipment	41.6	35.6	32.0
Other capital assets	<u>3.7</u>	<u>2.9</u>	<u>2.3</u>
Total	<u>130.4</u>	<u>113.6</u>	<u>101.6</u>
Total capital assets, net	<u>\$396.5</u>	<u>356.5</u>	<u>290.2</u>

**Concluding Comment**

The University continues to demonstrate its ability to generate an annual increase in net assets. These annual increases are critical to generate the necessary funding to maintain, improve and grow its physical and instructional capacities to meet the increasing student enrollment demands.



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## Independent Auditors' Report

The Board of Trustees  
Montclair State University:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Montclair State University (the University), a component unit of the State of New Jersey, as of and for the years ended June 30, 2006 and 2005, 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 did not audit the financial statements of Montclair State University Foundation, Inc., a component unit of Montclair State University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Montclair State University Foundation, Inc., is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Montclair State University as of June 30, 2006 and 2005, 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.

The management's discussion and analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

September 1, 2006

**MONTCLAIR STATE UNIVERSITY**  
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Statements of Net Assets

Business-Type Activities – University Only

June 30, 2006 and 2005

(dollars in thousands)

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Current assets:		
Cash and cash equivalents (note 2)	\$ 23,239	31,071
Investments (note 2)	4,205	11,079
Assets held under bond indenture agreements (note 2)	19,724	16,975
Receivables:		
Students, less allowance for doubtful accounts of \$2,274 in 2006 and \$2,075 in 2005	2,452	3,491
Loans, less allowance for doubtful loans of \$50 in 2006 and \$56 in 2005	276	292
Grants and contracts	853	1,229
State of New Jersey	2,554	2,230
Accrued interest	813	711
Other receivables	666	1,032
Total receivables	7,614	8,985
Other current assets	1,770	1,575
Total current assets	56,552	69,685
Noncurrent assets:		
Investments (note 2)	29,325	21,980
Assets held under bond indenture agreements (note 2)	16,963	43,326
Loans receivable, less allowance for doubtful loans of \$632 in 2006 and \$644 in 2005	3,462	3,360
Capital assets, net (note 3)	396,546	356,489
Other noncurrent assets	4,998	5,021
Total noncurrent assets	451,294	430,176
Total assets	507,846	499,861
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses:		
Vendors	7,238	2,665
Capital projects	7,551	8,976
Employees	3,988	7,513
Interest payable	6,050	4,270
Compensated absences – current portion (note 9)	3,154	3,100
Total accounts payable and accrued expenses	27,981	26,524
Bonds payable and other long-term debt – current portion (note 4)	6,728	7,204
Deferred tuition, fees, and deposits	9,047	9,864
Deferred revenue from grantors	1,043	1,472
Assets held on behalf of others	644	585
Total current liabilities	45,443	45,649
Noncurrent liabilities (note 5):		
Bonds payable and other long-term debt – noncurrent portion (note 4)	265,172	267,061
Compensated absences – noncurrent portion (note 9)	1,151	1,058
Assets held on behalf of Federal government for loan program	3,683	3,614
Total noncurrent liabilities	270,006	271,733
Total liabilities	315,449	317,382
<b>Net Assets</b>		
Invested in capital assets, net of related debt	127,889	121,489
Restricted expendable for:		
Loans	473	473
Renewal and replacements	3,679	3,760
Debt service and debt service reserve	16,169	10,686
Unrestricted	44,187	46,071
Total net assets	\$ 192,397	182,479

See accompanying notes to financial statements.

**MONTCLAIR STATE UNIVERSITY FOUNDATION, INC.**  
(A Component Unit of Montclair State University)

Statements of Financial Position

June 30, 2006 and 2005

	<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash		\$ 284,830	584,277
Unconditional promises to give, net		3,822,461	4,055,751
Investments, at market value:			
Cash equivalents		1,660,763	1,091,558
Certificates of deposit		554,602	554,110
Bonds and notes		12,673,902	11,129,065
Mutual funds		12,549,918	12,056,930
Common and preferred stocks		2,246,734	1,704,731
Land held for investment		350,000	—
		<u>30,035,919</u>	<u>26,536,394</u>
Total assets		<u>\$ 34,143,210</u>	<u>31,176,422</u>
	<b>Liabilities &amp; Encumbrances</b>		
Accounts payable		\$ 781,617	732,621
Encumbrances		188,267	167,413
Total liabilities		<u>969,884</u>	<u>900,034</u>
	<b>Net Assets</b>		
Unrestricted:			
Custodial funds		789,105	928,958
Undesignated general operating		233,494	158,994
Total unrestricted		<u>1,022,599</u>	<u>1,087,952</u>
Temporarily restricted:			
Phonathon and special events		148,986	192,183
Scholarship noninterest bearing		245,779	356,083
Special program funds		2,193,634	1,807,530
Special scholarship funds		3,955,795	3,094,400
Building funds		7,001,293	7,266,441
Designated for investment		1,608,166	2,103,956
Donor designated endowments		2,036,892	1,820,094
Total temporarily restricted		<u>17,190,545</u>	<u>16,640,687</u>
Permanently restricted:			
Donor designated endowments		14,627,714	12,242,131
Donor undesignated endowments		332,468	305,618
Total permanently restricted		<u>14,960,182</u>	<u>12,547,749</u>
Total net assets		<u>33,173,326</u>	<u>30,276,388</u>
Total liabilities and net assets		<u>\$ 34,143,210</u>	<u>31,176,422</u>

See accompanying notes to financial statements.

**MONTCLAIR STATE UNIVERSITY**  
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Statements of Revenues, Expenses, and Changes in Net Assets

Business-Type Activities – University Only

Years ended June 30, 2006 and 2005

(dollars in thousands)

	<b>2006</b>	<b>2005</b>
Operating revenues:		
Net student revenues:		
Student tuition and fees	\$ 110,577	97,432
Residence life – room and board, including pledged revenues of \$18,283 in 2006 and \$16,003 in 2005	30,600	26,859
Bookstore	841	718
Less scholarship allowance	19,340	19,255
Net student revenues	122,678	105,754
Federal grants and contracts	11,782	10,788
State of New Jersey grants and contracts	13,524	13,422
Nongovernmental grants and contracts	734	772
Sales and services of educational departments	5,133	4,168
Auxiliary enterprises	4,542	4,405
Other operating revenues	1,333	2,009
Total operating revenues	159,726	141,318
Operating expenses:		
Instruction	68,887	63,458
Research	1,605	1,244
Public service	9,939	9,054
Academic support	18,287	16,506
Student services	16,881	15,122
Institutional support	28,988	25,067
Operations and maintenance of plant	27,534	18,781
Depreciation	17,015	13,726
Student aid	8,805	7,430
Auxiliary enterprises	24,021	20,144
Total operating expenses	221,962	190,532
Operating loss	(62,236)	(49,214)
Nonoperating revenues (expenses):		
State of New Jersey appropriations:		
General appropriation	50,355	47,445
Fringe benefit appropriation (note 8)	26,908	23,994
Investment income, net of investment expenses of \$78 in 2006 and \$55 in 2005	3,659	2,431
Unrealized and realized gains (losses) on investment securities	189	(263)
Interest on indebtedness	(9,994)	(6,151)
Administrative costs	(489)	(501)
Other nonoperating revenues	115	619
Net nonoperating revenues	70,743	67,574
Income before other revenues	8,507	18,360
Capital gifts and grants	1,411	3,056
Increase in net assets	9,918	21,416
Net assets as of beginning of year	182,479	161,063
Net assets as of end of year	\$ 192,397	182,479

See accompanying notes to financial statements.

**MONTCLAIR STATE UNIVERSITY FOUNDATION, INC.**  
(A Component Unit of Montclair State University)

Statement of Activities  
Year ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions, net	\$ 912,958	3,786,339	1,136,953	5,836,250
Other support	21,847	90,710	—	112,557
Annual fund	119,627	—	—	119,627
In-kind contribution	70,234	—	—	70,234
Earnings from investments	175,381	868,284	—	1,043,665
Gain (loss) on sale of securities	29	(577,645)	545	(577,071)
Unrealized (loss) gain on securities	(12,788)	46,168	980,935	1,014,315
Net assets released from restrictions:				
Satisfaction of scholarship restrictions	1,299,746	(1,299,746)	—	—
Satisfaction of program restrictions	1,925,720	(1,925,720)	—	—
Total revenues, gains and other support	<u>4,512,754</u>	<u>988,390</u>	<u>2,118,433</u>	<u>7,619,577</u>
Expenses:				
Program services:				
Phonathon and special events	301,727	—	—	301,727
Scholarships, noninterest bearing	180,045	—	—	180,045
Special program funds	531,269	—	—	531,269
Special scholarship funds	286,707	—	—	286,707
Donor designated endowments	485,713	—	—	485,713
Building and special funds	1,440,006	—	—	1,440,006
Custody fund	241,693	—	—	241,693
Transfers:				
Transfer of statues to MSU	850,000	—	—	850,000
Management and general:				
Salaries	62,790	—	—	62,790
Rent	7,444	—	—	7,444
Investment fees	59,381	—	—	59,381
Direct support of MSU	125,000	—	—	125,000
Auditing fees	15,000	—	—	15,000
Accounting fees	36,504	—	—	36,504
Bad debt expense	30,000	—	—	30,000
Accounting software upgrade	17,423	—	—	17,423
Planned giving	3,594	—	—	3,594
Printing and postage	9,910	—	—	9,910
Miscellaneous	4,886	—	—	4,886
Legal fee	6,708	—	—	6,708
Meetings and memberships	2,647	—	—	2,647
Bonding/insurance fees	3,664	—	—	3,664
Donor cultivation	20,528	—	—	20,528
Total expenses	<u>4,722,639</u>	<u>—</u>	<u>—</u>	<u>4,722,639</u>
Changes in net assets	(209,885)	988,390	2,118,433	2,896,938
Transfers				
Net assets – beginning	1,087,952	16,640,687	12,547,749	30,276,388
Net assets – ending	<u>\$ 1,022,599</u>	<u>17,190,545</u>	<u>14,960,182</u>	<u>33,173,326</u>

**MONTCLAIR STATE UNIVERSITY FOUNDATION, INC.**  
(A Component Unit of Montclair State University)

Statement of Activities  
Year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 400,649	2,615,055	1,026,932	4,042,636
Other support	51,233	95,266	—	146,499
Annual fund	104,916	—	—	104,916
In-kind contribution	66,194	—	—	66,194
Earnings from investments	5,740	712,838	—	718,578
(Loss) gain on sale of securities	15	(19,233)	1,520	(17,698)
Unrealized gain on securities	23,117	616,822	228,066	868,005
Net assets released from restrictions:				
Satisfaction of scholarship restrictions	1,387,755	(1,387,755)	—	—
Satisfaction of program restrictions	2,184,888	(2,184,888)	—	—
Total revenues, gains and other support	<u>4,224,507</u>	<u>448,105</u>	<u>1,256,518</u>	<u>5,929,130</u>
Expenses:				
Program services:				
Phonathon and special events	478,641	—	—	478,641
Scholarships, non-interest bearing	161,678	—	—	161,678
Special program funds	502,979	—	—	502,979
Special scholarship funds	244,457	—	—	244,457
Donor designated endowments	493,178	—	—	493,178
Building and special funds	1,691,710	—	—	1,691,710
Custody fund	348,922	—	—	348,922
Management and general:				
Salaries	59,272	—	—	59,272
Rent	6,922	—	—	6,922
Investment fees	13,871	—	—	13,871
Direct support of MSU	125,000	—	—	125,000
Auditing fees	12,500	—	—	12,500
Accounting fees	34,334	—	—	34,334
Planned giving	2,385	—	—	2,385
Printing and postage	7,219	—	—	7,219
Miscellaneous	7,666	—	—	7,666
Legal fee	5,080	—	—	5,080
Meetings and memberships	3,024	—	—	3,024
Bonding/insurance fees	3,042	—	—	3,042
Donor cultivation	10,653	—	—	10,653
Transfer of land	37,000	—	—	37,000
Total expenses	<u>4,249,533</u>	<u>—</u>	<u>—</u>	<u>4,249,533</u>
Changes in net assets	(25,026)	448,105	1,256,518	1,679,597
Transfers	(134,878)	253,926	(119,048)	—
Net assets – beginning	<u>1,247,856</u>	<u>15,938,656</u>	<u>11,410,279</u>	<u>28,596,791</u>
Net assets – ending	<u>\$ 1,087,952</u>	<u>16,640,687</u>	<u>12,547,749</u>	<u>30,276,388</u>

See accompanying notes to financial statements.

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

Business-Type Activities – University Only

Years ended June 30, 2006 and 2005

(dollars in thousands)

	<b>2006</b>	<b>2005</b>
Cash flows from operating activities:		
Student tuition and fees	\$ 91,299	77,456
Grants and contracts	26,056	25,751
Payments for salaries	(109,035)	(98,177)
Payments for fringe benefits	(15,596)	(11,171)
Payments to suppliers	(42,395)	(33,799)
Payments for utilities	(11,306)	(8,985)
Payments for student aid	(8,850)	(7,453)
Loans issued to students	(619)	(607)
Collection of loans from students	550	580
Auxiliary enterprises charges:		
Residence life	30,742	26,944
Bookstore	841	718
Other	4,542	4,405
Sales and services of educational departments	5,133	4,168
Other receipts	1,696	2,316
Net cash used by operating activities	(26,942)	(17,854)
Cash flows from noncapital financing activities:		
State of New Jersey appropriations	60,177	55,527
Student organization agency transactions	60	50
Other receipts	115	620
Net cash provided by noncapital financing activities	60,352	56,197
Cash flows from capital financing activities:		
Capital gifts and grants	1,411	3,056
Proceeds from capital debt	3,332	1,472
Principal paid on capital debt	(5,706)	(5,084)
Interest paid on capital debt	(8,427)	(5,959)
Purchases of capital assets	(58,498)	(75,526)
Administrative costs	(245)	(250)
Withdrawals with bond trustees	23,614	47,447
Net cash used by capital financing activities	(44,519)	(34,844)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	93,393	11,970
Purchases of investments	(94,144)	(12,853)
Interest on investments	4,028	2,286
Net cash provided by investing activities	3,277	1,403
Net (decrease) increase in cash and cash equivalents	(7,832)	4,902
Cash and cash equivalents as of beginning of year	31,071	26,169
Cash and cash equivalents as of end of year	\$ 23,239	31,071

See accompanying notes to financial statements.

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

Business-Type Activities – University Only

Years ended June 30, 2006 and 2005

(dollars in thousands)

	<b>2006</b>	<b>2005</b>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (62,236)	(49,214)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Fringe benefit appropriation	16,761	14,970
Depreciation expense	17,015	13,726
Provision for bad debts	180	239
Changes in assets and liabilities:		
Student receivables	841	(1,832)
Loans receivable	(68)	(27)
Grants receivable	376	658
Other receivables	366	(14)
Other current assets	(195)	(137)
Accounts payable and accrued expenses	1,102	2,227
Deferred tuition, fees, and deposits	(817)	957
Deferred revenue from grantors	(429)	386
Compensated absences – noncurrent portion	93	154
Assets held on behalf of Federal government for loan programs	69	53
Net cash used by operating activities	\$ (26,942)	(17,854)

See accompanying notes to financial statements.

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

**(1) Organization and Summary of Significant Accounting Policies**

***Organization***

Montclair State University (the University) is recognized as a public institution of higher education by the State of New Jersey (the State). With its emphasis on the liberal arts and sciences, the University, in 1937, became one of the first teachers' colleges accredited by the Middle States Association of Colleges and Schools. Responding to enrollment growth in the late forties and fifties with an expanded curriculum and faculty, the campus became Montclair State College in 1958, and a comprehensive, multipurpose institution in 1966. Recognizing the strengths of its academic programs and faculty and the commitment to excellence in instruction and research, the State of New Jersey Board of Higher Education designated Montclair State a teaching university on April 27, 1994.

The University is an instrumentality of the State with a high degree of autonomy. However, under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the University, which is financially dependent on the State, is considered to be a component unit of the State for financial reporting purposes. Accordingly, the financial statements of the University are included in the State's Comprehensive Annual Financial Report.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, establishes additional guidance on the assessment of potential component units in determining the financial reporting entity. In accordance with GASB Statement No. 39, the operations of Montclair State University Foundation, Inc. are included in the accompanying basic financial statements (see note 10).

***Summary of Significant Accounting Policies***

***Basis of Presentation***

The accounting policies of the University conform to U.S. generally accepted accounting principles as applicable to public colleges and universities. The University's reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, 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*: Plant facilities, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

- *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.

- *Unrestricted:* Net assets not subject to externally-imposed stipulations that may be designated for specific purposes by action of management or the Board of Trustees, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic programs and initiatives and capital programs.

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 using the economic resources measurement focus. The University reports as a business type activity, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

***Use of Estimates***

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

***Cash and Cash Equivalents***

Cash and cash equivalents consist of highly liquid short-term investments purchased with an original maturity of six months or less.

***Investments***

Investments are recorded in the financial statements 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.

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

***Capital Assets***

Capital assets with acquisition costs of at least \$5,000 and useful lives of at least three years are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Assets acquired under lease agreements are classified as capital leases and are recorded as capital assets. In fiscal year ended June 30, 2005, the University changed the capitalization policy to increase the threshold for capital assets from \$1,000 to \$5,000; the impact on the financial statements is considered immaterial.

Capital assets of the University are depreciated using the straight-line method over the following useful lives:

	<u>Useful lives</u>
Buildings	50 years
Building improvements	20 years
Infrastructure	25 years
Land improvements	25 years
Equipment, furniture, and vehicles	3–10 years

The University owns works of art and other collectibles valued at approximately \$1.6 million and \$0.75 million as of June 30, 2006 and 2005, respectively. In fiscal year 2006, the University received a gift valued at approximately \$0.85 million, the remaining \$0.75 million is based on an appraisal performed in 1998. Management has elected not to capitalize these items in accordance with GASB Statement No. 34.

***Deferred Financing Costs***

The University capitalizes costs incurred in connection with its bonds and amortizes these costs over the life of the respective obligations. These deferred costs are included in other noncurrent assets in the accompanying statements of net assets. Accumulated amortization amounted to \$1.2 million and \$1.0 million in 2006 and 2005, respectively.

***Assets Held on Behalf of Others***

The University holds cash and cash equivalents as custodian for various student organizations.

***Revenue Recognition***

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, and are recognized in the period earned. Student tuition and fees collected in advance of the academic year are recorded as deferred tuition and fees in the accompanying financial statements.

Grants and contracts revenue is comprised mainly of revenues received from grants from the State of New Jersey and Federal governments and are recognized as the related expenses are incurred. Amounts received from grants which have not yet been earned under the terms of the agreement are recorded as deferred revenue from grantors in the accompanying financial statements.

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

Revenue from state appropriations is recognized in the fiscal year during which the State of New Jersey appropriates the funds to the University.

***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: student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; and most Federal, State and local grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as operating and capital appropriations from the State and net investment income.

***Tax Status***

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

**(2) Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreements**

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the University has assessed the custodial credit risk, interest rate risk, credit risk, and concentration of credit risk of its cash, assets held under bond indenture agreements and investments.

Statutes of the State of New Jersey and regulations of the State Investment Council authorize the University to invest in obligations of the U.S. Treasury; agencies, and other municipal or political subdivisions of the State; commercial paper; bankers acceptances; revenue obligations of public authorities; debt instruments of banks; collateralized notes and mortgages; certificates of deposit; repurchase agreements; equity and convertible equity securities; and other common types of investment securities. Investee institutions and organizations are prescribed by the statutes and regulations based on such things as minimum capital, dividend paying history, credit history, and other evaluation factors.

Cash, investments and assets held under bond indenture agreements as of June 30, 2006 and 2005 are classified in the statements of net assets as follows (dollars in thousands):

	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 23,239	31,071
Investments	33,530	33,059
Assets held under bond indenture agreements	36,687	60,301
Total	\$ 93,456	124,431

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2006 and 2005, cash and cash equivalents were held by depositories and amounted to \$25.3 million and \$31.2 million, respectively, of which \$0.2 million was insured for both years, and \$25.1 million and \$31.0 million was uninsured and uncollateralized or collateralized with securities held by the pledging financial institution, or by trust department or agent but not in the University's name. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's investment policy requires that any repurchase agreements held in the portfolio be collateralized at least 102% with U.S. Government securities or mortgage-backed securities. The maximum term of these agreements will be 90 days, and the collateral must be marked-to-market daily.

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the University's investment policy limits stipulates that the portfolio shall be managed to have a targeted duration within a band +/- 20% of the Merrill Lynch 1-3 Year Treasury Index. The final maturity of each security within the portfolio shall not exceed five years, with the exception that for mortgage-backed securities and asset-backed securities, the average life of the security may not exceed five years. As of June 30, 2006, the University had the following investments and maturities (dollars in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>Maturities (in years)</u>		
		<u>less than 1</u>	<u>1 – 5</u>	<u>greater than 5</u>
U.S. treasuries	\$ 10,881	1,291	9,590	—
U.S. agencies	7,330	1,150	627	5,553
Debt securities	14,107	642	9,418	4,047
Certificates of deposit	1,212	1,122	90	—
Total	\$ 33,530	4,205	19,725	9,600

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

As of June 30, 2005, the University had the following investments and maturities (dollars in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>Maturities (in years)</u>		
		<u>less than 1</u>	<u>1 – 5</u>	<u>greater than 5</u>
U.S. treasuries	\$ 10,839	—	10,839	—
U.S. agencies	15,607	7,466	8,141	—
Debt securities	4,907	2,000	2,907	—
Money market funds	1,495	1,495	—	—
Certificates of deposit	211	118	93	—
Total	<u>\$ 33,059</u>	<u>11,079</u>	<u>21,980</u>	<u>—</u>

Assets held under bond indenture agreements are not governed by the University's investment policies, but rather by the investment policies of New Jersey Educational Facilities Authority (the Authority). As of June 30, 2006, investments were in U.S. treasuries of \$18.96 million, and money market funds of \$17.73 million. As of June 30, 2005, investments were in U.S. treasuries of \$13.37 million, money market funds of \$15.42 million and Guaranteed Investment Contract of \$31.51 million, all maturing within one year.

***Credit Risk***

Securities must be rated investment grade or better by a nationally recognized credit rating agency at the time of purchase. Split rated credits will be considered to have the lower credit rating. Money market instruments must be rated A-1 or P-1 or better at the time of purchase.

In the event that a security is downgraded below these credit quality guidelines, the investment manager(s) shall notify the University and provide an evaluation and plan of action. If bonds in the portfolio are downgraded below investment grade, the investment manager(s) may continue to hold up to 2% in aggregate market value of these securities.

Temporary cash balances may be invested in a money market instrument (A-1/P-1 or better, less than 390 days).

As of June 30, 2006, \$10.4 million in debt securities were rated AAA, and \$3.7 million in debt securities were rated AA, respectively, by Moody's. As of June 30, 2005, money market accounts in the amount of \$1.49 million were rated A-1 by Moody's, and \$2.04 million in debt securities were rated AAA, and \$2.87 million in debt securities were rated AA, respectively, by Moody's.

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

***Concentration of Credit Risk***

This is the risk associated with the amount of investments the University has with any one issuer. Except for treasuries, agency debentures, agency pass-throughs, agency REMICs, and asset-backed securities, no more than 2% of the portfolio shall be invested in securities of a single issuer. Asset-backed securities are limited to 5% per issuer.

Assets held under bond indenture agreements represent assets held by bond trustees under the terms of various bond and other long-term debt agreements. Assets held under bond indenture agreements are carried in the financial statements at fair value, and consist of cash and cash equivalents and U.S. Government obligations. Assets held under bond indenture agreements are maintained for the following (dollars in thousands):

	<b>2006</b>	<b>2005</b>
Project and construction fund	\$ 8,899	33,719
Debt service fund for principal and interest	10,997	9,843
Debt service reserve fund	11,493	11,784
Renewal and replacement fund	3,679	3,760
Excess rental pledge	1,619	1,195
	36,687	60,301
Less current portion	19,724	16,975
Noncurrent assets held under bond indenture agreements	\$ 16,963	43,326

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

**(3) Capital Assets**

Capital asset activity for the year ended June 30, 2006 is comprised of the following (dollars in thousands):

	<u>Beginning balance</u>	<u>Acquisitions and other increases</u>	<u>Dispositions and other decreases</u>	<u>Ending balance</u>
Depreciable assets:				
Infrastructure	\$ 26,213	6,371	—	32,584
Buildings and improvements	283,135	89,785	—	372,920
Equipment	51,950	13,794	225	65,519
Other	13,914	2,580	—	16,494
Total depreciable assets	<u>375,212</u>	<u>112,530</u>	<u>225</u>	<u>487,517</u>
Less accumulated depreciation on:				
Infrastructure	3,960	1,176	—	5,136
Buildings and improvements	71,113	8,884	—	79,997
Equipment	35,636	6,127	225	41,538
Other	2,886	828	—	3,714
Total accumulated depreciation	<u>113,595</u>	<u>17,015</u>	<u>225</u>	<u>130,385</u>
Depreciable assets, net	<u>261,617</u>	<u>95,515</u>	<u>—</u>	<u>357,132</u>
Nondepreciable assets:				
Land	14,525	195	—	14,720
Construction in progress	80,347	56,977	112,630	24,694
Total nondepreciable assets	<u>94,872</u>	<u>57,172</u>	<u>112,630</u>	<u>39,414</u>
Total capital assets, net	<u>\$ 356,489</u>	<u>152,687</u>	<u>112,630</u>	<u>396,546</u>

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

Capital asset activity for the year ended June 30, 2005 is comprised of the following (dollars in thousands):

	<u>Beginning balance</u>	<u>Acquisitions and other increases</u>	<u>Dispositions and other decreases</u>	<u>Ending balance</u>
Depreciable assets:				
Infrastructure	\$ 8,406	17,807	—	26,213
Buildings and improvements	237,325	46,367	557	283,135
Equipment	47,186	6,421	1,657	51,950
Other	9,874	4,040	—	13,914
Total depreciable assets	<u>302,791</u>	<u>74,635</u>	<u>2,214</u>	<u>375,212</u>
Less accumulated depreciation on:				
Infrastructure	3,267	693	—	3,960
Buildings and improvements	64,060	7,121	68	71,113
Equipment	31,998	5,295	1,657	35,636
Other	2,269	617	—	2,886
Total accumulated depreciation	<u>101,594</u>	<u>13,726</u>	<u>1,725</u>	<u>113,595</u>
Depreciable assets, net	<u>201,197</u>	<u>60,909</u>	<u>489</u>	<u>261,617</u>
Nondepreciable assets:				
Land	13,880	645	—	14,525
Construction in progress	75,094	76,199	70,946	80,347
Total nondepreciable assets	<u>88,974</u>	<u>76,844</u>	<u>70,946</u>	<u>94,872</u>
Total capital assets, net	<u>\$ 290,171</u>	<u>137,753</u>	<u>71,435</u>	<u>356,489</u>

Estimated costs to complete the projects classified as construction in progress as of June 30, 2006 approximated \$29.8 million and are expected to be funded primarily from unrestricted resources and anticipated bond proceeds. During 2006 and 2005, the University capitalized interest expense of \$2.1 million and \$4.0 million, respectively, offset by interest income of \$0.4 million and \$1.0 million, respectively, in construction in progress in the accompanying statements of net assets.

**MONTCLAIR STATE UNIVERSITY**  
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2006 and 2005

**(4) Bonds Payable and Other Long-Term Debt**

***Bonds Payable***

The University is obligated under various revenue bonds issued by the Authority to finance various construction, renovations, and capital acquisitions. The University has pledged net revenue, fees, charges, and rentals derived from the related auxiliary enterprises as security for certain revenue bonds. The following bonds payable of the Authority related to the University were outstanding as of June 30, 2006 and 2005 (dollars in thousands):

	<u>Interest rates</u>	<u>2006</u>	<u>2005</u>
New Jersey Educational Facilities Authority Revenue Bonds:			
Series 1972 B Revenue Bonds, due serially to 2007	6.00%	\$ 700	1,020
Series 1974 D Revenue Bonds, due serially to 2008	6.00	1,250	1,620
Series 1977 A Revenue Bonds, due serially to 2006	6.00	—	405
Series 1977 B Revenue Bonds, due serially to 2006	3.00	—	180
Series 1995 F Revenue Bonds, due serially to 2006	5.10 – 5.375	—	110
Series 1996 C Revenue Bonds, due serially to 2012	4.80 – 5.40	10,265	11,445
Series 1996 D Revenue Bonds, due serially to 2012	4.80 – 5.40	5,225	5,830
Series 1997 D Revenue Bonds, due serially to 2027	4.25	9,435	9,665
Series 1997 E Revenue Bonds, due serially to 2021	4.25	7,830	8,155
Series 2001 F Revenue Bonds, due serially to 2031	4.75 – 5.00	18,695	18,695
Series 2002 F Revenue Bonds, due serially to 2032	3.875 - 5.00	78,500	78,500
Series 2003 E Revenue Bonds, due serially to 2033	3.20 - 4.50	23,425	23,425
Series 2003 L Revenue Bonds, due serially to 2033	2.250 – 5.125	94,540	94,540
		<u>249,865</u>	<u>253,590</u>
Bonds payable			
Plus amounts representing premium		7,573	4,142
Less amounts representing discount		<u>(478)</u>	<u>(367)</u>
Total bonds payable		<u>\$ 256,960</u>	<u>257,365</u>

On July 6, 2006, the Authority issued \$98,090,000 Series 2006 A Revenue Bonds with interest rates of 4.0% to 5.0% and \$9,970,000 Series 2006 B Revenue Bonds with interest rates of 4.0% and 5.0%. The Series 2006 A Revenue Bonds are planned to be used to finance the construction of a student recreation center, a parking structure, an addition and renovation to Chapin Hall, renovation of Finley and Mallory Halls and Panzer Gymnasium. The proceeds of the 2006 B Revenue Bonds are planned to be used to finance refunding a portion of the Authority's Revenue Bonds Series 1996 C and Series 1996 D.

On August 17, 2005, the Authority remarketed the Series 2002 F and 2003 E Variable Rate Revenue Bonds with fixed interest rates of 3.2% to 5.0%. With the exception of the change in interest rates, the general terms of the obligations remain the same.

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***Other Long-term Debt***

The following other long-term debt was outstanding as of June 30, 2006 and 2005 (dollars in thousands):

	<u>Interest rates</u>	<u>2006</u>	<u>2005</u>
Series 2000 Higher Education Capital Improvement Fund, due serially to 2020	5.00 – 5.75%	\$ 3,385	3,532
Series 2001 A Equipment Leasing Fund Revenue Bonds, due serially to 2009	4.98	554	676
Series 2002 A Higher Education Capital Improvement Fund, due serially to 2022	3.00 – 5.25	5,323	5,323
Dormitory Safety Trust Fund Bonds, due serially to 2016	4.50 – 5.00	611	657
Note payable for land purchase, due serially to 2019	4.75 – 5.00	2,074	2,154
New Jersey Environmental Infrastructure Trust, due serially to 2022	3.00 – 5.25	1,278	1,295
State of New Jersey (EPA), due serially to 2022	3.00 – 5.25	734	718
Obligations under capital leases, due in equal monthly installments through 2007	2.40 – 4.53	981	2,545
Total other long-term debt		<u>\$ 14,940</u>	<u>16,900</u>

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***Future Principal and Interest Payments***

The following is a schedule of future minimum principal and interest and fee payments on the University's bonds payable and other long-term debt as of June 30, 2006 (dollars in thousands):

	<b>Principal</b>	<b>Interest and fees</b>
Year ending June 30:		
2007	\$ 6,491	12,533
2008	6,017	12,259
2009	6,144	11,954
2010	5,812	11,666
2011	6,072	11,454
2007 – 2011 subtotal	30,536	59,866
2012 – 2016	39,960	52,313
2017 – 2021	44,010	42,960
2022 – 2026	54,382	31,741
2027 – 2031	67,425	17,504
2032 – 2036	28,492	2,302
	\$ 264,805	206,686

**(5) Summary of Changes in Noncurrent Liabilities**

The following table summarizes the changes in noncurrent liabilities during the year ended June 30, 2006 (dollars in thousands):

	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Current portion</b>
Bonds payable and other long-term debt	\$ 274,265	3,585	(5,950)	271,900	6,728
Compensated absences (see note 9)	4,158	746	(599)	4,305	3,154
Assets held on behalf of Federal government for loan programs	3,614	69	—	3,683	—
Total noncurrent liabilities	\$ 282,037	4,400	(6,549)	279,888	9,882

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The following table summarizes the changes in noncurrent liabilities during the year ended June 30, 2005 (dollars in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Bonds payable and other long-term debt	\$ 277,589	1,833	(5,157)	274,265	7,204
Compensated absences (see note 9)	3,526	914	(282)	4,158	3,100
Assets held on behalf of Federal government for loan programs	3,561	53	—	3,614	—
Total noncurrent liabilities	<u>\$ 284,676</u>	<u>2,800</u>	<u>(5,439)</u>	<u>282,037</u>	<u>10,304</u>

**(6) Retirement Plans**

*Plan Descriptions*

University employees participate in three major retirement plans: Public Employees' Retirement System (PERS), Police and Firemen's Retirement System (PFRS), and the Alternate Benefit Program (ABP), which presently makes contributions to Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA/CREF), Aetna Life Insurance Company, Lincoln Life Insurance Company, Metropolitan Life Insurance Company, Travelers Life Insurance Company, and VALIC. PERS and PFRS are cost-sharing, multiple-employer plans administered by the State of New Jersey. The ABP is administered by separate boards of trustees. Generally, all employees, except certain part-time employees, participate in one of these plans.

PERS was established under the provisions of N.J.S.A. 43:15A to provide coverage, including postretirement healthcare, to substantially all full-time employees of the State or public agencies, provided the employee is not a member of another State-administered retirement system.

PFRS was established under the provisions of N.J.S.A. 43:16A to provide coverage to substantially all full-time county and municipal police or firemen and state firemen appointed after June 30, 1994.

ABP presently makes contributions to TIAA/CREF, Aetna Life Insurance Company, Lincoln Life Insurance Company, Metropolitan Life Insurance Company, Travelers Life Insurance Company, and VALIC. ABP alternatives are administered by separate boards of trustees.

In addition to the three plans referred to above, certain faculty members of the University participate in Teachers' Pension and Annuity Fund (TPAF), which is a State of New Jersey cost-sharing, single employer defined benefit plan. TPAF was established under the provisions of N.J.S.A. 18A:66 to provide coverage, including postretirement healthcare, to substantially all full-time public school employees in the State of New Jersey. The plan's eligibility requirements are similar to PERS' requirements. PERS replaced this plan for all new employees and members of TPAF were able to transfer to PERS.

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The State of New Jersey issues publicly-available financial reports that include financial statements and required supplementary information for PERS, PFRS, and TPAF. This report 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.

***PERS and PFRS Funding Policies***

PERS and PFRS members are required to contribute 3.0% and 8.5%, respectively, of their annual covered salary and the University is required to contribute at an actuarially determined rate. The State of New Jersey contributes to PERS and PFRS on behalf of the University. The current rate is 0% of annual covered payroll. Employers were not required to contribute in 2006 or 2005 due to legislation enacted in 1997 by the State of New Jersey, which fully funded previously existing unfunded accrued liabilities of PERS and PFRS through State of New Jersey bonds. 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, which are privately operated, defined contribution retirement plans. 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 are required to contribute 5% of salary, and may contribute a voluntary additional contribution of salary up to the maximum Federal statutory limit, on a pretax basis. Employer contributions are 8% of salary. During the years ended June 30, 2006 and 2005, ABP received employee contributions of approximately \$3.2 million and \$2.7 million, respectively, and employer contributions of approximately \$5.2 million and \$4.6 million, respectively, which were based on participating employee salaries of \$65.4 million and \$57.8 million, respectively. Employer contributions to ABP are paid by the State of New Jersey and are shown in the accompanying financial statements as appropriations revenue and as expenses.

**(7) Contingent Liabilities**

The University is a party to various legal actions arising in the ordinary course of business. While it is not possible at this time to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the University's financial position.

**(8) Fringe Benefit Appropriation**

The State of New Jersey, through separate appropriations, pays certain fringe benefits (principally health insurance, retirement and FICA taxes) on behalf of University employees. For the years ended June 30, 2006 and 2005, such benefits amounted to approximately \$26.9 million and \$24.0 million, respectively, and are included in appropriations revenue and expenses in the accompanying financial statements.

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**(9) Compensated Absences**

The University recorded a liability for compensated absences in the amount of \$4.3 million and \$4.2 million as of June 30, 2006 and 2005, respectively. The liability is calculated based upon employees' accrued vacation leave as of June 30, 2006 and 2005, as well as an estimated vested amount for accrued sick leave.

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. During the years ended June 30, 2006 and 2005, the University paid approximately \$100,000 and \$130,000, respectively, in sick leave payments for employees who retired.

**(10) Montclair State University Foundation, Inc.**

Montclair State University Foundation, Inc. (the Foundation) is a nonstock corporation organized as a not-for-profit entity under the provisions of Title 15 of the New Jersey statutes. The Foundation was established for the benefit of the University to aid in obtaining additional resources to meet the needs of the University. The Foundation strives to raise funds from subscriptions, gifts, bequests and devises and uses such funds as appropriately determined by its board of trustees. The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation operates under an independent board of trustees. Because the Foundation's resources can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. For the years ended June 30, 2006 and 2005, total gifts given to the University from the Foundation amounted to \$3.1 million and \$2.9 million, respectively. Complete financial statements for the Foundation can be obtained from the Foundation's office at 1 Normal Avenue, Montclair, New Jersey 07043.