

Montclair State University
(A Component Unit of The State of New Jersey)

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2007 and 2006

Montclair State University
(A Component Unit of The State of New Jersey)

Financial Statements

June 30, 2007 and 2006

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

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, 2007 and 2006 and comparative amounts for the year ended June 30, 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.

University Overview

Montclair State University, the second largest university in New Jersey, offers the advantages of a large university – a broad undergraduate curriculum which fosters critical thinking and life-long learning, a wide variety of applied graduate programs that address the needs of the region, a rapidly expanding focus on professional education and a diverse faculty and student body – combined with a small college's attention to students. The University's faculty is committed to learning through creative teaching informed by highly regarded scholarship and service to the community.

The University was founded as Montclair State Normal School in 1908 with a two-year curriculum. The curriculum was expanded to four years in 1927 when the institution became Montclair State Teachers College. Recognizing the expanding mission of the institution, the teachers college became Montclair State College in 1958. The expanded mission was formally recognized when the State identified the University as a comprehensive institution in 1966. In 1994 the New Jersey Board of Higher Education conferred university status on the University in recognition of the quality and breadth of the institution and the extent of its graduate offerings.

Since its founding, the University has earned a reputation for excellence and innovation. With its strong emphasis on the liberal arts and the sciences, in 1937 it became the first teachers college accredited by the Middle States Association as a liberal arts institution. As evidence of the continuing excellence of its programs and faculty, the University was authorized in 1932 to award the master's degree and in 1998 to award the doctoral degree.

With more than 250 majors, minors and concentrations distributed among 58 undergraduate and 42 graduate majors, the University provides a comprehensive and relevant array of programs to over 16,000 undergraduate and graduate students. In addition to a broad range of traditional programs, the University offers programs in more contemporary and evolving areas such as molecular biology, cognitive science, and applied linguistics as well as cross-disciplinary programs in areas such as justice studies, bioinformatics and environmental management. The University's doctoral program in pedagogy, which encourages outstanding teachers to remain in the classroom after they have reached the pinnacle in academic achievement, is unique in the nation.

The Montclair State University Foundation, Inc. (the Foundation) was established as a nonprofit corporation to provide an independent instrument of control of funds, from other than state resources, which support the purpose and mission of the University. The Foundation qualifies under Section 501(c)(3) of the Internal Revenue Code and is exempt from both federal and state taxes. Because the Foundation's resources have historically only been used by or for the benefit of the University, the Foundation is considered a component unit and is discretely presented in the University's financial statements.

MONTCLAIR STATE UNIVERSITY
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Financial Highlights

At June 30, 2007, the University's net assets increased to \$215.7 million from \$192.4 million at June 30, 2006. Operating expenses for the year ended June 30, 2007, were \$228.1 million, an increase of \$6.1 million over the same period in fiscal year 2006. Operating expenses for the year ended June 30, 2006, were \$222 million, an increase of \$31.5 million over the same period in fiscal year 2005. For the year ended June 30, 2007, the largest increase in operating expenses was in instruction. The increase is the result of additional faculty coupled with contractual salary increases. Increases in research and public service are the result of increasing grant activity. Operations and maintenance of plant costs decreased from 2006 as a result of decreases in utility costs and expenditures for minor renovation projects.

For the year ended June 30, 2006, increases 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 was primarily due to a higher number of faculty positions, resulting from increased student enrollments, and higher contractual faculty salaries. The increase in depreciation was 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.

Operating revenues for the year ended June 30, 2007, were \$179.4 million, an increase of \$19.7 million over the same period in fiscal year 2006. 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. 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 and state grants also contributed to the increase in operating revenues in fiscal year 2007.

Nonoperating and other revenues, including capital gifts and grants, for the year ended June 30, 2007, were \$84.7 million, an increase of \$2.0 million over the same period in fiscal year 2006. A net decrease in State funding of \$2 million was offset by increased investment income and capital grants and gifts for the year ended June 30, 2007.

Nonoperating and other revenues, including capital grants, for the year ended June 30, 2006 were \$82.7 million, an increase of \$5.2 million over the same period in the year ended June 30, 2005, primarily due to increases in state funding, investment income and capital gifts and grants.

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).

Financial Statements

The University's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

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

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year. Assets and liabilities are classified as current and noncurrent. Capital assets are carried at cost and depreciated over their respective useful lives. Net assets are the residual interest in the University's assets after the liabilities are deducted. Total net assets is one indicator of the financial condition of the University, while a change in net assets indicates whether the financial condition has improved or deteriorated.

A summary of the University's assets, liabilities and net assets (in millions) at June 30, 2007, 2006 and 2005 follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets	\$174.7	\$ 56.5	\$ 69.7
Noncurrent assets			
Capital assets, net	395.6	396.5	356.5
Assets held under bond indenture agreements	3.6	17.0	43.3
Investments	31.4	29.3	22.0
Other	<u>8.2</u>	<u>8.5</u>	<u>8.4</u>
Total assets	<u>613.5</u>	<u>507.8</u>	<u>499.9</u>
Current liabilities	41.6	45.5	45.7
Noncurrent liabilities	<u>356.2</u>	<u>270.0</u>	<u>271.7</u>
Total liabilities	<u>397.8</u>	<u>315.5</u>	<u>317.4</u>
Net assets			
Investment in capital assets, net	119.3	127.9	121.5
Restricted	10.3	20.3	14.9
Unrestricted	<u>86.1</u>	<u>44.2</u>	<u>46.1</u>
Total net assets	<u>\$215.7</u>	<u>\$192.4</u>	<u>\$182.5</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 increased \$118.2 million during the year ended June 30, 2007. The majority of this increase is the result of an increase in assets held under bond indenture agreements. In July of 2006, bonds totaling \$98 million were issued to finance several construction and renovation projects. During the year ended June 30, 2006, total current assets decreased \$13.2 million as 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 were offset by an increase in assets held under bond indenture agreements.

Total noncurrent assets decreased by \$12.5 million during the year ended June 30, 2007 and increased \$21.1 million during the year ended June 30, 2006. The decrease is primarily in the assets held under bond indenture agreements which were utilized to fund construction projects. The increase during fiscal year 2006 was primarily a result of construction projects completed during the fiscal year, projects in progress at year-end, renovations to facilities, and acquisition of technology and other equipment to support increased academic demand.

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Statement of Net Assets (continued)

Total assets increased \$105.7 million to \$613.5 million at June 30, 2007. The primary cause of this increase is the result of increased assets held under bond indenture agreements. These resources will be utilized to fund several capital construction and renovation projects.

During the year ended June 30, 2006, total assets increased \$7.9 million to \$507.8 million. The primary causes were the increases in capital assets offset by decreases in investments held under bond indenture agreements to fund construction projects.

Total current liabilities decreased \$3.9 million during the year ended June 30, 2007. This change is related to a decrease in accrued expenditures at year end. This is partially offset by an increase in interest payable which is the result of additional bonds that were issued during the fiscal year.

Noncurrent liabilities increased by \$86.2 million during the year ended June 30, 2007 as the result of additional long term debt that was issued to finance several construction and renovation projects.

For the year ended June 30, 2006, noncurrent liabilities decreased \$1.7 million primarily as a result of repayment of principal on bonds and other long-term debt.

Statements of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenue earned and expenses incurred, both operating and nonoperating, during the fiscal year.

Operating revenues are those revenues received for providing goods and services. Operating expenses are incurred to acquire goods and services in order to carry out the University's mission. Nonoperating revenue is revenue earned for which goods and services were not provided, such as state appropriations and interest income.

A summary of the University's revenues, expenses, and changes in net assets (in millions) for the years ended June 30, 2007, 2006, and 2005 follows:

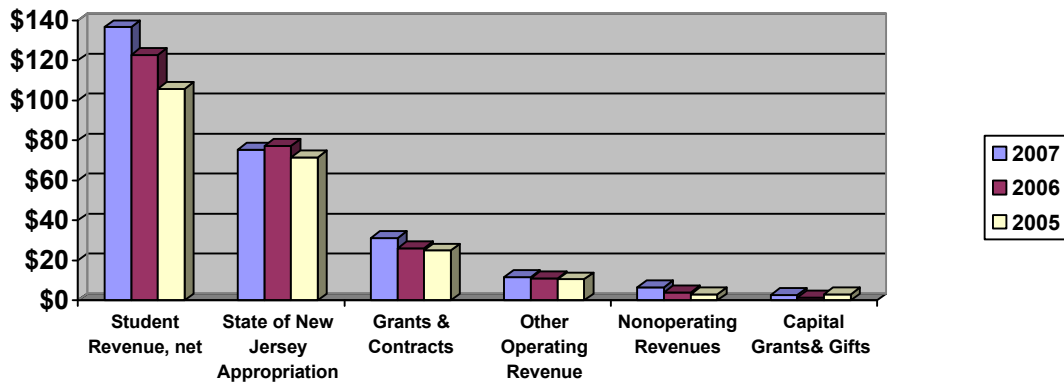
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues			
Net student revenues	\$136.6	\$122.7	\$105.8
Other	<u>42.8</u>	<u>37.0</u>	<u>35.5</u>
Total operating revenues	179.4	159.7	141.3
Less operating expenses	<u>228.1</u>	<u>222.0</u>	<u>190.5</u>
Operating loss	<u>(48.7)</u>	<u>(62.3)</u>	<u>(49.2)</u>
Nonoperating and other revenues			
State appropriations			
General	46.1	50.4	47.4
Fringe benefit	29.2	26.9	24.0
Other	<u>9.4</u>	<u>5.4</u>	<u>6.1</u>
Nonoperating revenue	<u>84.7</u>	<u>82.7</u>	<u>7.5</u>
Less nonoperating expenses	<u>12.7</u>	<u>10.5</u>	<u>6.9</u>
Net nonoperating and other revenues	<u>72.0</u>	<u>72.2</u>	<u>70.6</u>
Increase in net assets	23.3	9.9	21.4
Net assets, beginning of year	<u>192.4</u>	<u>182.5</u>	<u>161.1</u>
Net assets, end of year	<u>\$215.7</u>	<u>\$192.4</u>	<u>\$182.5</u>

MONTCLAIR STATE UNIVERSITY
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Revenues

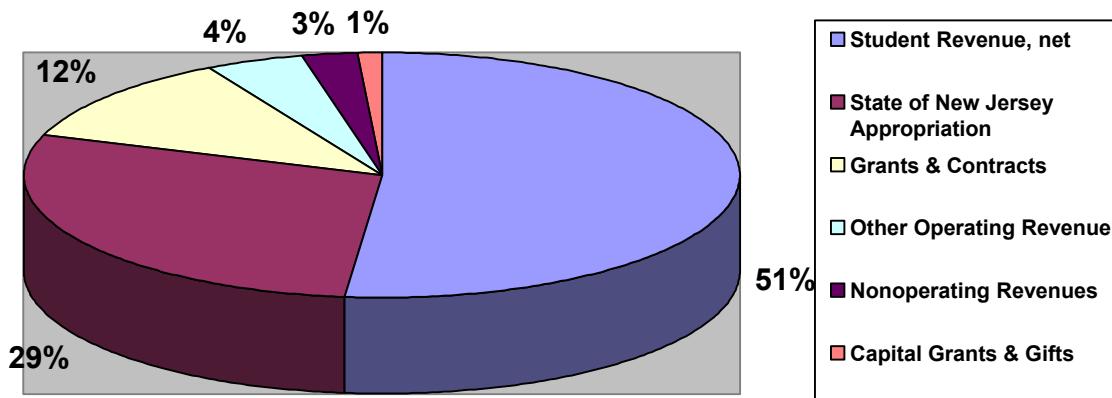
The University derives its revenues from a variety of sources, the largest source being tuition, fees and residence life, net of scholarship allowance. The following chart illustrates the components of University revenues for the years ended June 30, 2007 and 2006, and comparative amounts for the year ended June 30, 2005 (amounts in millions).

Montclair State University Revenues



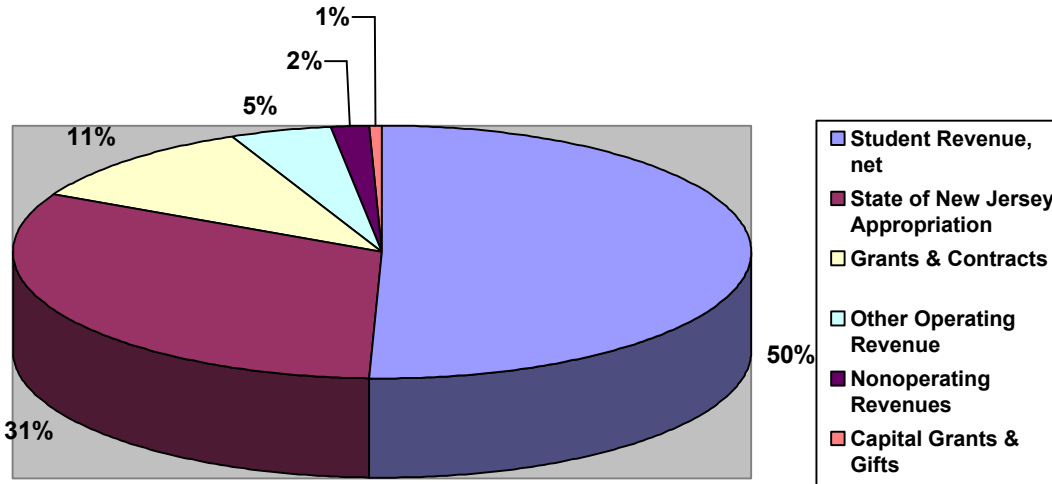
As State funding declines, there is an increasing burden on tuition and fees rates. The following charts illustrate the changing components of University revenues for the years ended 2007 and 2006.

Montclair State University Revenues 2007



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

**Montclair State University
Revenues 2006**



Student revenue, net of scholarship allowance, increased \$13.9 million or 11% in 2007 over 2006. Increased enrollments, coupled with increases in tuition and fee rates account for this change. Credit hour enrollments were up approximately 6.9% over 2006 while tuition rates were increased by 8% for undergraduate students. Student revenue increased \$16.9 million or 16% in 2006 over 2005, also the result of increased rates and enrollments.

The State of New Jersey appropriations continue to be affected by the economic climate in the state. The second largest source of revenue for the University is subject to volatility as evidenced by the decrease in funding in 2007 of \$2 million from 2006. In 2006, however funding increased by \$5.9 million over 2005.

For the year ended June 30, 2007, 2006, and 2005, revenues from grants and contracts were \$31.2 million, \$26 million and \$25 million, respectively. The major grant programs and sponsors at the Federal level include Pell, College Work Study, and Federal Supplemental Educational Opportunity Grants, among others. Major State of New Jersey grant programs include tuition Aid Grant (TAG), Educational Opportunity Fund and Urban Scholarships.

Expenses

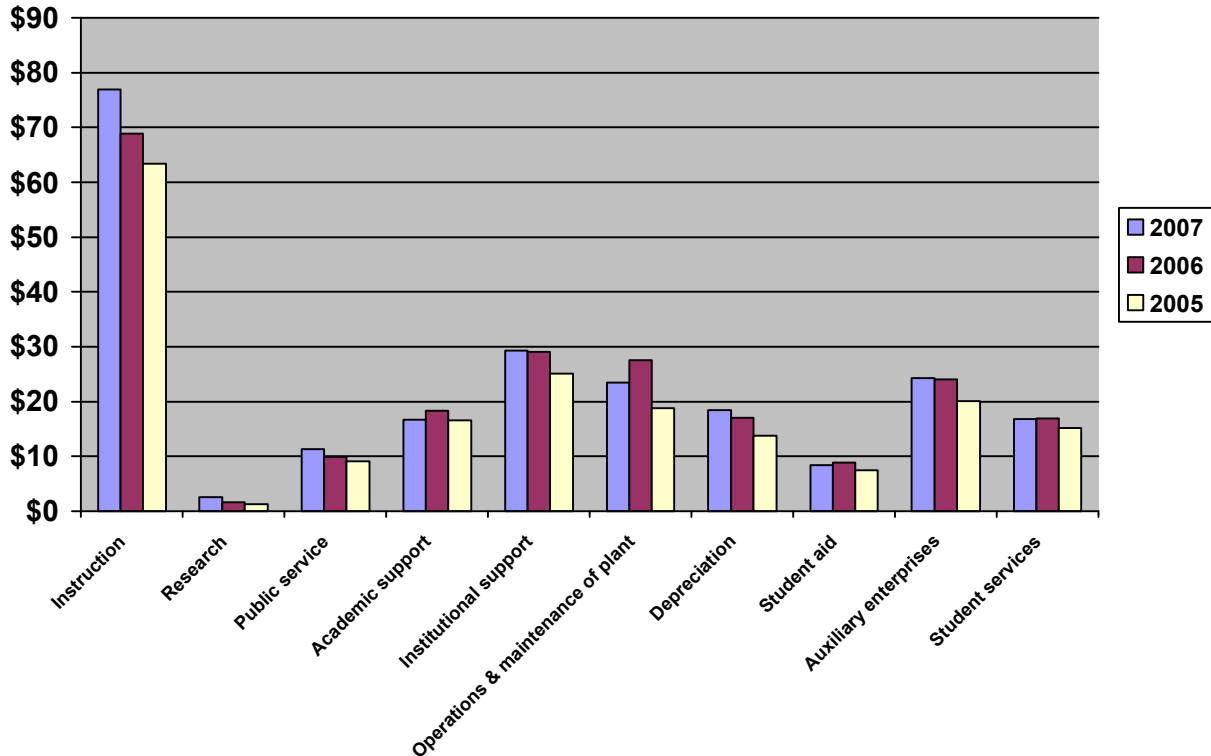
Operating expenses are those expenses paid by the University to acquire or produce goods and services to fulfill its mission. The University incurred total operating expenses of \$228.1 million and \$222 million in 2007 and 2006, respectively.

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The University's operating expenses by functional classification (in millions) for June 30, 2007, 2006 and 2005 were:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating expenses:			
Instruction	\$ 76.9	\$ 68.9	\$ 63.4
Research	2.5	1.6	1.2
Public services	11.3	9.9	9.1
Academic support	16.7	18.3	16.6
Student services	16.8	17.0	15.1
Institutional support	29.3	29.0	25.1
Operation and maintenance of plant	23.5	27.5	18.8
Depreciation	18.4	17.0	13.7
Student aid	8.4	8.8	7.4
Auxiliary enterprises	<u>24.3</u>	<u>24.0</u>	<u>20.1</u>
Total operating expenses	<u>\$228.1</u>	<u>\$222.0</u>	<u>\$190.5</u>

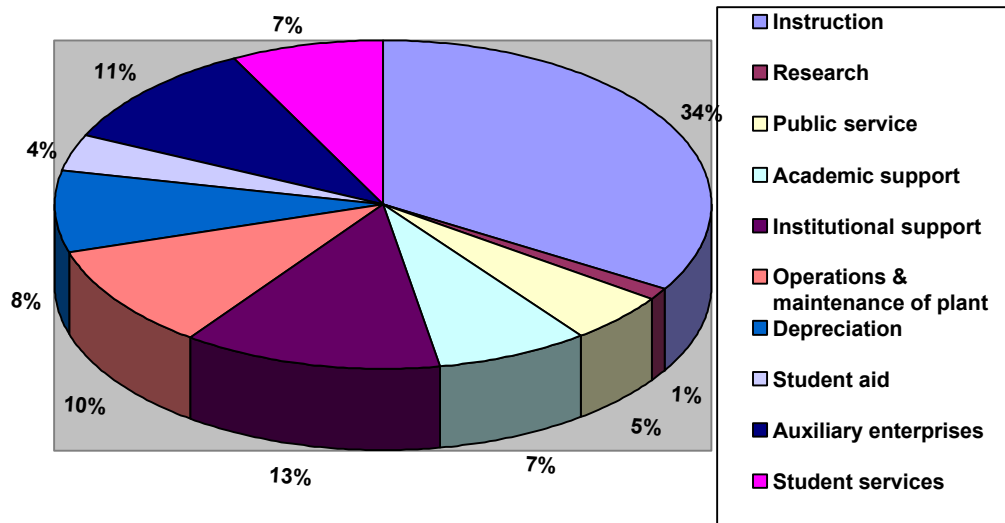
**Montclair State University
Operating Expenses**



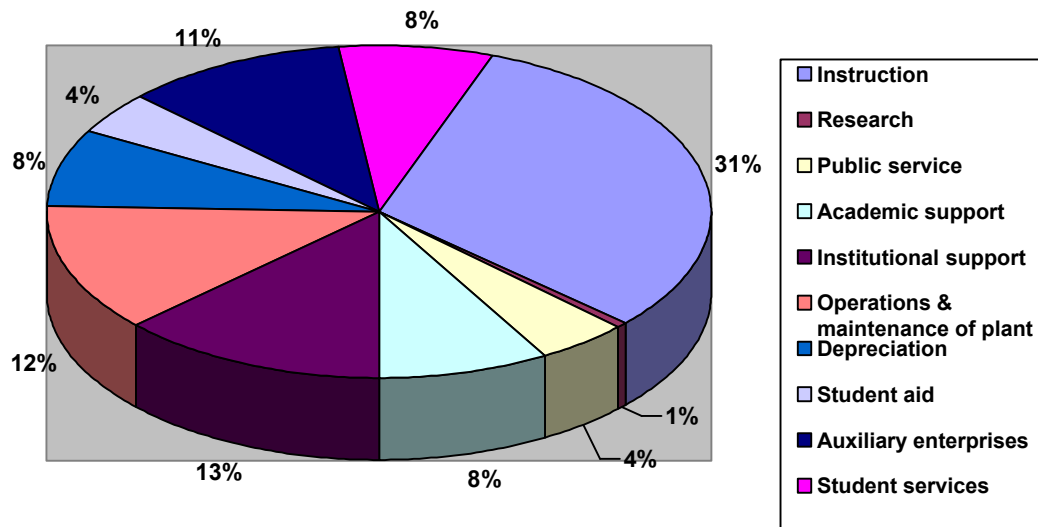
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The following charts illustrate the distribution of operating expenses for 2007 and 2006.

Montclair State University Operating Expenses 2007



Montclair State University Operating Expenses 2006



MONTCLAIR STATE UNIVERSITY
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Operating expenses increased \$6.1 million in fiscal year 2007 compared to fiscal year 2006. As a result of the fiscal crisis in the State of New Jersey and the resulting cuts in State appropriations, the University instituted cost containment measures and kept expense growth at a minimum and allocating scarce resources to the areas of highest priority. Instructional expenses incurred the largest increase as a result of contractual salary increases for faculty as well as an increase in faculty headcount. Increases in research and public service are the result of increased grant expenditures. Operating expenses were offset somewhat by a large decrease in operations and maintenance of plant. Decreased electricity usage, increased utilization of the cogeneration plant, mild weather conditions and a decrease in minor renovation projects are the primary causes of this decrease in expenditures in fiscal 2007.

For the year ended June 30, 2006, operating expenses increased \$31.5 million compared to fiscal year 2005. The cost of instruction increased \$5.5 million as new faculty members were hired to meet enrollment growth. Utility costs increased \$3.3 million the result of significant price increases and additional usage due to the opening of University Hall 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.

Capital Assets and Debt Activities

The University's investment in capital assets, net of accumulated depreciation, was \$395.6 million and \$396.5 million at June 30, 2007 and 2006, respectively. Accumulated depreciation totaled \$144.3 million and \$130.4 million at June 30, 2007 and 2006 respectively. Depreciation charged to operations totaled \$18.4 million and \$17.0 million in 2007 and 2006, respectively.

The University incurred new long-term debt of \$98 million during 2007. These funds are planned to be used for the construction of a new student recreation center, a parking facility, an addition and renovation to the Cali School of Music, renovation of Finley and Mallory Halls and the Panzer Gymnasium. The University also refinanced a large portion of its outstanding debt during the year for savings. Approximately \$6 million in debt service savings was recognized in 2007.

During fiscal year 2006, University Hall and the Children's Center were completed and occupied. Also completed in fiscal year 2006 were a campus-wide connectivity and a sewer replacement project as well as numerous renovations to existing facilities. The major component of construction in progress at year-end 2007 and 2006 was a 77,000 square foot student recreation center.

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

Investment in Capital Assets			
At June 30,			
(dollars in millions)			
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$15.4	\$14.7	\$14.5
Construction in progress	28.4	24.7	80.4
Infrastructure	32.8	32.6	26.2
Buildings and improvements	381.0	372.9	283.1
Equipment	64.8	65.5	52.0
Other capital assets	<u>17.5</u>	<u>16.5</u>	<u>13.9</u>
Total	<u>539.9</u>	<u>526.9</u>	<u>470.1</u>
Accumulated depreciation:			
Infrastructure	6.4	5.1	4.0
Buildings and improvements	90.2	80.0	71.1
Equipment	43.0	41.6	35.6
Other capital assets	<u>4.7</u>	<u>3.7</u>	<u>2.9</u>
Total	<u>144.3</u>	<u>130.4</u>	<u>113.6</u>
Total capital assets, net	<u>\$395.6</u>	<u>\$396.5</u>	<u>\$356.5</u>

Economic Factors that could affect the Future

The major components of the University's operating revenue are changing as State support, as a percentage of the total revenues, continues to decline. The State continues to face an economic crisis which affects future appropriations to the University. Reduced appropriations in the future will place an increased burden on tuition and fees to fund the operating costs of the University. The University will continue to seek new and enhanced revenue streams and operating efficiencies to maintain its ability to increase total net assets to meet the growth and needs of its students. As the University begins its centennial year, it remains committed to its mission of serving the educational needs of New Jersey with programs characterized by academic rigor and currency in the development of knowledge and its applications.



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

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 year ended June 30, 2007, 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 an opinion on these financial statements based on our audit. The financial statements of the University as of June 30, 2006 were audited by other auditors whose report dated September 1, 2006, expressed an unqualified opinion on those statements. 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 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 and the report of the other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the 2007 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, 2007, and the respective changes in financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 1 through 10 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.

O'Connor Davies Munns & Dobbins, LLP

Paramus, New Jersey
September 20, 2007

Montclair State University
(A Component Unit of the State of New Jersey)

Statements of Net Assets

Business - Type Activities - University Only

June 30,
(dollars in thousands)

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 61,962	\$ 23,239
Investments	1,791	4,205
Assets held under bond indenture agreements	95,602	19,724
Receivables		
Students, less allowance for doubtful accounts of \$3,153 in 2007 and \$2,274 in 2006	2,377	2,452
Loans, less allowance for doubtful loans of \$93 in 2007 and \$50 in 2006	418	276
Grants and contracts	1,998	853
State of New Jersey	2,759	2,554
Accrued interest	4,614	813
Other receivables	1,140	666
Total Receivables	13,306	7,614
Other current assets	2,057	1,770
Total Current Assets	174,718	56,552
Noncurrent assets		
Investments	31,356	29,325
Assets held under bond indenture agreements	3,632	16,963
Loans receivable, less allowance for doubtful loans of \$732 in 2007 and \$632 in 2006	3,206	3,462
Capital assets, net	395,550	396,546
Other noncurrent assets	5,019	4,998
Total Noncurrent Assets	438,763	451,294
Total Assets	\$ 613,481	\$ 507,846
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses		
Vendors	\$ 4,851	\$ 7,238
Capital projects	1,276	7,551
Employees	5,940	3,988
Interest payable	8,852	6,050
Compensated absences - current portion	3,149	3,154
Total Accounts Payable and Accrued Expenses	24,068	27,981
Bonds payable and other long-term debt - current portion	4,204	6,728
Deferred tuition, fees, and deposits	10,654	9,047
Deferred revenue from grantors	1,851	1,043
Assets held on behalf of others	854	644
Total Current Liabilities	41,631	45,443
Noncurrent liabilities		
Bonds payable and other long-term debt - noncurrent portion	351,562	265,172
Compensated absences - noncurrent portion	1,043	1,151
Assets held on behalf of Federal government for loan programs	3,556	3,683
Total Noncurrent Liabilities	356,161	270,006
Total Liabilities	397,792	315,449
NET ASSETS		
Invested in capital assets, net of related debt	119,313	127,889
Restricted expendable for		
Loans	473	473
Renewal and replacements	740	3,679
Debt service and debt service reserve	9,112	16,169
Unrestricted	86,051	44,187
Total Net Assets	\$ 215,689	\$ 192,397

See notes to financial statements

Montclair State University Foundation, Inc.
(A Component Unit of Montclair State University)

Statements of Financial Position

June 30,

	2007	2006
ASSETS		
Cash	\$ 1,968	\$ 284,830
Unconditional promises to give, net	9,162,935	3,822,461
Investments, at market value		
Cash equivalents	9,213,160	1,660,763
Certificates of deposit	-	554,602
Bonds and notes	14,059,095	12,673,902
Equity mutual funds	16,293,606	12,549,918
All asset mutual funds	1,887,111	-
Common and preferred stocks	691,010	2,246,734
Land held for investment	-	350,000
	42,143,982	30,035,919
Total Assets	\$ 51,308,885	\$ 34,143,210
LIABILITIES AND ENCUMBRANCES		
Accounts payable	\$ 744,185	\$ 781,617
Encumbrances	147,778	188,267
Total Liabilities	891,963	969,884
NET ASSETS		
Unrestricted		
Custodial funds	847,908	789,105
Undesignated general operating	253,308	233,494
Total Unrestricted	1,101,216	1,022,599
Temporarily restricted		
Scholarship noninterest bearing	285,797	245,779
Phonathon and special events	163,948	148,986
Special program funds	4,200,576	2,193,634
Special scholarship funds	4,557,646	3,955,795
Building funds	5,258,652	7,001,293
Designated for investment	1,957,494	1,608,166
Donor designated endowments	2,786,695	2,036,892
Total Temporarily Restricted	19,210,808	17,190,545
Permanently restricted		
Donor designated endowments	29,732,588	14,627,714
Donor undesignated endowments	372,310	332,468
Total Permanently Restricted	30,104,898	14,960,182
Total Net Assets	50,416,922	33,173,326
Total Liabilities and Net Assets	\$ 51,308,885	\$ 34,143,210

See notes to financial statements

Montclair State University
(A Component Unit of the State of New Jersey)

Statements of Revenues, Expenses, and Changes in Net Assets

Business-Type Activities-University Only

Years ended June 30,
(dollars in thousands)

	2007	2006
OPERATING REVENUES		
Net student revenues		
Student tuition and fees	\$ 123,408	\$ 110,577
Residence life - room and board, including pledged revenues of \$19,337 in 2007 and \$18,283 in 2006	34,052	30,600
Bookstore	1,018	841
Less scholarship allowance	21,885	19,340
Net Student Revenues	136,593	122,678
Federal grant and contracts	13,184	11,782
State of New Jersey grants and contracts	16,795	13,524
Nongovernmental grants and contracts	1,206	734
Sales and services of educational departments	5,758	5,133
Auxiliary enterprises	4,453	4,542
Other operating revenues	1,404	1,333
Total Operating Revenues	179,393	159,726
OPERATING EXPENSES		
Instruction	76,976	68,887
Research	2,562	1,605
Public service	11,307	9,939
Academic support	16,700	18,287
Student services	16,771	16,881
Institutional support	29,271	28,988
Operations and maintenance of plant	23,462	27,534
Depreciation	18,425	17,015
Student aid	8,352	8,805
Auxiliary enterprises	24,276	24,021
Total Operating Expenses	228,102	221,962
Operating Loss	(48,709)	(62,236)
NONOPERATING REVENUES (EXPENSES)		
State of New Jersey appropriations		
General appropriation	46,128	50,355
Fringe benefit appropriation	29,218	26,908
Investment income, net of investment expenses of \$104 in 2007 and \$78 in 2006	6,121	3,659
Unrealized and realized gains (losses) on investment securities	(167)	189
Interest on indebtedness	(12,175)	(9,994)
Administrative costs	(399)	(489)
Other nonoperating revenues	550	115
Net Nonoperating Revenues	69,276	70,743
Income Before Other Revenues	20,567	8,507
Capital gifts and grants	2,725	1,411
Increase in Net Assets	23,292	9,918
NET ASSETS		
Beginning of year	192,397	182,479
End of year	\$ 215,689	\$ 192,397

See notes to financial statements

Montclair State University Foundation, Inc.
(A Component Unit of Montclair State University)

Statement of Activities

Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net	\$ 247,700	\$ 4,352,155	\$ 14,049,474	\$ 18,649,329
Other support	11,873	93,286	-	105,159
Annual fund	129,325	-	-	129,325
In-kind contribution	96,269	-	-	96,269
Earnings from investments	331,591	1,348,499	-	1,680,090
Gain (loss) on sale of securities	(97,710)	-	251,211	153,501
Unrealized (loss) gain on securities	23,998	1,108,945	749,422	1,882,365
Net assets released from restrictions				
Satisfaction of scholarship restrictions	1,526,298	(1,526,298)	-	-
Satisfaction of program restrictions	3,030,611	(3,030,611)	-	-
	<u>5,299,955</u>	<u>2,345,976</u>	<u>15,050,107</u>	<u>22,696,038</u>
Total Revenues, Gains and Other Support				
EXPENSES				
Program Services				
Custody fund	251,975	-	-	251,975
Scholarships, noninterest bearing	147,823	-	-	147,823
Phonathon and special events	139,163	-	-	139,163
Special program funds	1,023,346	-	-	1,023,346
Special scholarship funds	216,060	-	-	216,060
Building and special funds	2,660,121	-	-	2,660,121
Donor designated endowments	370,489	-	-	370,489
Program Grants				
Direct support of MSU	125,000	-	-	125,000
Direct support of MSU Alumni Association	50,000	-	-	50,000
Direct support of Alumni Chapter Development	5,960	-	-	5,960
Alumni Magazine	18,172	-	-	18,172
Direct support of Development Office (travel)	5,000	-	-	5,000
Management and General				
Investment fees	93,904	-	-	93,904
Salaries	86,891	-	-	86,891
Rent	9,378	-	-	9,378
Auditing fees	15,000	-	-	15,000
Accounting fees	37,224	-	-	37,224
Bad debt expense	123,000	-	-	123,000
Accounting software upgrade	2,263	-	-	2,263
Planned giving	11,596	-	-	11,596
Printing and postage	11,781	-	-	11,781
Miscellaneous	8,447	-	-	8,447
Legal fees	8,960	-	-	8,960
Meetings and memberships	1,779	-	-	1,779
Bonding/insurance fees	3,817	-	-	3,817
Donor cultivation	25,293	-	-	25,293
	<u>5,452,442</u>	<u>-</u>	<u>-</u>	<u>5,452,442</u>
Total Expenses				
Changes in Net Assets	(152,487)	2,345,976	15,050,107	17,243,596
Transfers	231,104	(325,713)	94,609	-
NET ASSETS				
Beginning	<u>1,022,599</u>	<u>17,190,545</u>	<u>14,960,182</u>	<u>33,173,326</u>
Ending	<u>\$ 1,101,216</u>	<u>\$ 19,210,808</u>	<u>\$ 30,104,898</u>	<u>\$ 50,416,922</u>

See notes to financial statements

Montclair State University Foundation, Inc.
(A Component Unit of Monclair 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	<u>1,925,720</u>	<u>(1,925,720)</u>	-	-
Total Revenues, Gains and Other Support	4,512,754	988,390	2,118,433	7,619,577
EXPENSES				
Program services				
Phonathos 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	<u>20,528</u>	-	-	<u>20,528</u>
Total Expenses	<u>4,722,639</u>	-	-	<u>4,722,639</u>
Changes in Net Assets	(209,885)	988,390	2,118,433	2,896,938
Transfers	144,532	(438,532)	294,000	-
NET ASSETS				
Beginning	<u>1,087,952</u>	<u>16,640,687</u>	<u>12,547,749</u>	<u>30,276,388</u>
Ending	<u>\$ 1,022,599</u>	<u>\$ 17,190,545</u>	<u>\$ 14,960,182</u>	<u>\$ 33,173,326</u>

See 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,
(dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 103,058	\$ 91,299
Grants and contracts	30,722	26,056
Payments for salaries	(111,875)	(109,035)
Payments for fringe benefits	(14,578)	(15,596)
Payments to suppliers	(45,869)	(42,395)
Payments for utilities	(10,642)	(11,306)
Payments for student aid	(8,382)	(8,850)
Loans issued to students	(649)	(619)
Collection of loans from students	620	550
Auxiliary enterprises charges		
Residence life	34,341	30,742
Bookstore	1,018	841
Other	4,453	4,542
Sales and services of educational departments	5,758	5,133
Other receipts	693	1,696
Net Cash Used by Operating Activities	(11,332)	(26,942)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State of New Jersey appropriations	56,210	60,177
Student organization agency transactions	210	60
Other receipts	550	115
Net Cash Provided by Noncapital Financing Activities	56,970	60,352
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital gifts and grants	2,725	1,411
Proceeds from capital debt	93,454	3,332
Principal paid on capital debt	(5,777)	(5,706)
Interest paid on capital debt	(12,791)	(8,427)
Purchases of capital assets	(23,703)	(58,498)
Administrative costs	(810)	(245)
Withdrawals with bond trustees	(62,548)	23,614
Net Cash Used by Capital Financing Activities	(9,450)	(44,519)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	47,163	93,393
Purchases of investments	(46,798)	(94,144)
Interest on investments	2,170	4,028
Net Cash Provided by Investing Activities	2,535	3,277
Net Increase (Decrease) in Cash and Cash Equivalents	38,723	(7,832)
CASH AND CASH EQUIVALENTS		
Beginning of year	23,239	31,071
End of year	\$ 61,962	\$ 23,239

See notes to financial statements

Montclair State University
(A Component Unit of the State of New Jersey)

Statement of Cash Flows

Business-Type Activities-University Only

Years Ended June 30,

	2007	2006
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (48,709)	\$ (62,236)
Adjustments to reconcile operating loss to net cash used by operating activities		
Fringe benefit appropriation	18,932	16,761
Depreciation expense	18,425	17,015
Provision for bad debts	1,020	180
Changes in assets and liabilities		
Student receivables	(804)	841
Loans receivable	(29)	(68)
Grants receivable	(1,144)	376
Other receivable	(474)	366
Other current assets	(286)	(195)
Accounts payable and accrued expenses	(441)	1,102
Deferred tuition, fees and deposits	1,607	(817)
Deferred revenue from grantors	807	(429)
Compensated absences - noncurrent portion	(108)	93
Assets held on behalf of Federal government for loan programs	(128)	69
Net Cash Used by Operating Activities	\$ (11,332)	\$ (26,942)

See notes to financial statements

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

1. 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 11).

2. 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 Opinion, 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.

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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.

- *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.

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2007 and 2006

2. Summary of Significant Accounting Policies *(continued)*

Use of Estimates

The presentation of financial statements in conformity with 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. Purchase and sales of investments are accounted for on the trade-date basis. Investment income is recorded on an accrual basis.

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.

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

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2007 and 2006

2. Summary of Significant Accounting Policies *(continued)*

Capital Assets (continued)

The University owns works of art and other collectibles valued at approximately \$1.6 million as of June 30, 2007 and 2006. 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 \$1.7 million and \$1.2 million in 2007 and 2006, respectively.

Assets Held on Behalf of Others

The University holds cash and cash equivalents as custodian primarily 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.

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

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2007 and 2006

2. Summary of Significant Accounting Policies *(continued)*

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.

3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement

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 agreement; 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.

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2007 and 2006

3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement (continued)

Cash, investments and assets held under bond indenture agreements as of June 30, 2007 and 2006 are classified in the statements of net assets as follows (dollars in thousands):

	2007	2006
Cash and cash equivalents	\$ 61,962	\$ 23,239
Assets held under bond indenture agreements	99,234	36,687
Investments	33,147	33,530
	\$ 194,343	\$ 93,456

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, 2007 and 2006, cash and cash equivalents were held by depositories and amounted to \$62 million and \$23.2 million, respectively, of which \$0.1 million and \$0.2 million was insured, and \$61.9 million and \$23.0 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.

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2007 and 2006

3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement (continued)

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, 2007, the University had the following investments and maturities (dollars in thousands):

Investment Type	Fair Value	Maturities (in years)		
		less than 1	1 - 5	greater than 5
U.S. treasuries	\$ 4,136	\$ -	\$ 4,136	\$ -
U.S. agencies	8,052	330	4,277	3,445
Debt securities	20,869	1,371	10,025	9,473
Certificates of deposit	<u>90</u>	<u>90</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 33,147</u>	<u>\$ 1,791</u>	<u>\$ 18,438</u>	<u>\$ 12,918</u>

As of June 30, 2006, the University had the following investments and maturities (dollars in thousands):

Investment Type	Value	less than 1	1 - 5	greater than 5
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	<u>1,212</u>	<u>1,122</u>	<u>90</u>	<u>-</u>
Total	<u>\$ 33,530</u>	<u>\$ 4,205</u>	<u>\$ 19,725</u>	<u>\$ 9,600</u>

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2007 and 2006

3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement (continued)

Interest Rate Risk (continued)

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, 2007, investments were in U.S. treasuries of \$89.8 million, and money market funds of \$9.5 million. As of June 30, 2006, investments were in U.S. treasuries of \$19 million, money market funds of \$17.7 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, 2007, \$19.3 million in debt securities were rated AAA, and \$1.6 million in debt securities were rated AA, respectively, by Moody's. 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.

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 REMIC's, 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.

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2007 and 2006

3. Cash and Cash Equivalents, Investments, and Assets Held Under Bond Indenture Agreement (continued)

Concentration of Credit Risk (continued)

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):

	2007	2006
Project and construction fund	\$ 84,608	\$ 8,899
Debt service fund for principal and interest	8,405	10,997
Debt service reserve fund	3,631	11,493
Renewal and replacement fund	740	3,679
Excess rental pledge	1,850	1,619
	\$ 99,234	\$ 36,687
Less current portion	95,602	19,724
Noncurrent Assets Held Under Bond Indenture Agreements	\$ 3,632	\$ 16,963

Montclair State University
(A Component Unit of The State of New Jersey)

Notes to Financial Statements

June 30, 2007 and 2006

4. Capital Assets

Capital asset activity for the year ended June 30, 2007 is comprised of the following (dollars in thousands):

Depreciable assets:				
Infrastructure	\$ 32,584	\$ 209	\$ -	\$ 32,793
Buildings and improvements	372,920	8,111	-	381,031
Equipment	65,519	4,082	4,763	64,838
Other	<u>16,494</u>	<u>988</u>	<u>-</u>	<u>17,482</u>
Total Depreciable Assets	<u>487,517</u>	<u>13,390</u>	<u>4,763</u>	<u>496,144</u>
Less accumulated depreciation on:				
Infrastructure	5,136	1,312	-	6,448
Buildings and improvements	79,997	10,162	-	90,159
Equipment	41,538	5,947	4,422	43,063
Other	<u>3,714</u>	<u>1,005</u>	<u>-</u>	<u>4,719</u>
Total Accumulated Depreciation	<u>130,385</u>	<u>18,426</u>	<u>4,422</u>	<u>144,389</u>
Depreciable Assets, Net	<u>357,132</u>	<u>(5,036)</u>	<u>341</u>	<u>351,755</u>
Nondepreciable assets:				
Land	14,720	626	-	15,346
Construction in progress	<u>24,694</u>	<u>15,123</u>	<u>11,368</u>	<u>28,449</u>
Total Nondepreciable Assets	<u>39,414</u>	<u>15,749</u>	<u>11,368</u>	<u>43,795</u>
Total Capital Assets, Net	<u>\$ 396,546</u>	<u>\$ 10,713</u>	<u>\$ 11,709</u>	<u>\$ 395,550</u>

Montclair State University
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4. Capital Assets (continued)

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	<u>13,914</u>	<u>2,580</u>	<u>-</u>	<u>16,494</u>
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	<u>2,886</u>	<u>828</u>	<u>-</u>	<u>3,714</u>
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	<u>80,347</u>	<u>56,977</u>	<u>112,630</u>	<u>24,694</u>
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>

Estimated costs to complete the projects classified as construction in progress as of June 30, 2007 approximated \$54.4 million and are expected to be funded primarily from unrestricted resources and bond proceeds. During 2007 and 2006, the University capitalized interest expenses of \$4.6 million and \$2.1 million, respectively, offset by interest income of \$4.1 million and \$0.4 million, respectively, in construction in progress in the accompanying statements of net assets.

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5. 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, 2007 and 2006 (dollars in thousands):

	Interest rates	2007	2006
	<u> </u>	<u> </u>	<u> </u>
New Jersey Educational Facilities Authority Revenue Bonds:			
Series 1972 B Revenue Bonds, due serially to 2007	6.00%	\$ 360	\$ 700
Series 1974 D Revenue Bonds, due serially to 2008	6.00	860	1,250
Series 1996 C Revenue Bonds, due serially to 2012	4.80 - 5.40	-	10,265
Series 1996 D Revenue Bonds, due serially to 2012	4.80 - 5.40	-	5,225
Series 1997 D Revenue Bonds, due serially to 2027	5.00	-	9,435
Series 1997 E Revenue Bonds, due serially to 2021	5.00	-	7,830
Series 2001 F Revenue Bonds, due serially to 2031	4.75 - 5.00	-	18,695
Series 2002 F Revenue Bonds, due serially to 2032	3.875 - 5.20	22,375	78,500
Series 2003 E Revenue Bonds, due serially to 2033	3.875 - 5.20	18,825	23,425
Series 2003 L Revenue Bonds, due serially to 2033	2.250 - 5.125	28,530	94,540
Series 2006 A Revenue Bonds, due serially to 2036	4.00-5.00	98,090	-
Series 2006 B Revenue Bonds, due serially to 2012	4.00-5.00	9,970	-
Series 2006 J Revenue Bonds, due serially to 2034	4.00-5.25	154,110	-
Series 2007 A Revenue Bonds, due serially to 2021	5.25	<u>6,150</u>	<u>-</u>
Bonds payable		339,270	249,865
Plus: Bond premium		6,351	7,573
Less: Deferred loss on bond refinancing		(3,810)	-
Bond discount		<u>(117)</u>	<u>(478)</u>
Total bonds payable		<u>\$ 341,694</u>	<u>\$ 256,960</u>

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June 30, 2007 and 2006

5. Bonds Payable and Other Long-Term Debt (continued)

Bonds Payable (continued)

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 facility, an addition and renovation to the Cali School of Music, 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 December 6, 2006 the Authority issued \$154,110,000 Series 2006 J Revenue Refunding Bonds with interest rates ranging from 3.75% to 5.25%. The proceeds of the Bond were used along with other available funds, to finance the advance refunding of the Authority's Revenue Bonds Series 1997 D, Series 2001 F and a partial refunding of Series 2002 F, Series 2003 E and 2003 L.

On March 2, 2007 the Authority issued \$6,150,000 Series 2007 A Revenue Refunding Bonds with interest of 5.25%. The proceeds of the Bond were used along with other available funds to finance the payment at maturity of the July 1, 2007 maturity and the current refunding of the remaining maturities of the Authority's Revenue Bonds Series 1997 E.

Funds are on deposit with escrow agents to provide for the payment of principal, interest, and call premiums, when due, on Series 1997 D, 1997 E, 2001 F, 2002 F, 2003 E and 2003 L Bonds. Accordingly, these bonds are not considered outstanding obligations of the University as of June 30, 2007 and, therefore, are not reflected in the accompanying financial statements. The principal amounts of these bonds were approximately \$160,390,000, as of June 30, 2007.

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Notes to Financial Statements

June 30, 2007 and 2006

5. Bonds Payable and Other Long-Term Debt (continued)

Other Long-Term Debt

The following other long-term debt was outstanding as of June 30, 2007 and 2006 (dollars in thousands):

	<u>Interest rates</u>	<u>2007</u>	<u>2006</u>
Series 2000 Higher Education Capital Improvement Fund, due serially to 2020	5.00 - 5.75%	\$ 3,232	\$ 3,385
Series 2001 A Equipment Leasing Fund Revenue Bonds, due serially to 2009	4.98	426	554
Series 2002 A Higher Education Capital Improvement Fund, due serially to 2022	3.00 - 5.25	5,168	5,323
Dormitory Safety Trust Fund Bonds, due serially to 2016	4.50 - 5.00	562	611
Note payable for land purchase, due serially to 2019	4.75 - 5.00	1,991	2,074
New Jersey Environmental Infrastructure Trust, due serially to 2022	3.00 - 5.25	1,225	1,278
State of New Jersey (EPA), due serially to 2022	3.00 - 5.25	703	734
Obligations under capital leases, due in equal monthly installments through 2007	2.40 - 4.53	<u>765</u>	<u>981</u>
Total other long-term debt		<u>\$ 14,072</u>	<u>\$ 14,940</u>

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5. Bonds Payable and Other Long-Term Debt (continued)

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, 2007 (dollars in thousands):

	Principal	Interest and fees
Year ending June 30:		
2008	\$ 4,246	\$ 17,130
2009	5,354	17,004
2010	5,101	16,767
2011	5,365	16,554
2012	8,034	16,305
2008 - 2012 Subtotal	\$ 28,100	\$ 83,760
2013 - 2017	52,039	74,938
2018 - 2022	62,782	61,022
2023 - 2027	72,975	45,071
2028 - 2032	97,040	24,399
2033 - 2037	40,406	5,056
	\$ 353,342	\$ 294,246

6. Summary of Changes in Noncurrent Liabilities

The following table summarizes the changes in noncurrent liabilities during the year ended June 30, 2007 (dollars in thousands):

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable and other long-term debt	\$ 271,900	\$ 264,509	\$ (180,643)	\$ 355,766	\$ 4,204
Compensated absences (see note 10)	4,305	237	(350)	4,192	3,149
Assets held on behalf of Federal government for loan programs	3,683	-	(127)	3,556	-
Total Noncurrent Liabilities	\$ 279,888	\$ 264,746	\$ (181,120)	\$ 363,514	\$ 7,353

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6. Summary of Changes in Noncurrent Liabilities (continued)

The following table summarizes the changes in noncurrent liabilities during the year ended June 30, 2006 (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	\$ 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	<u>3,614</u>	<u>69</u>	<u>-</u>	<u>3,683</u>	<u>-</u>
Total Noncurrent Liabilities	<u>\$ 282,037</u>	<u>\$ 4,400</u>	<u>\$ (6,549)</u>	<u>\$ 279,888</u>	<u>\$ 9,882</u>

7. Retirement Plans

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 of 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.

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Notes to Financial Statements

June 30, 2007 and 2006

7. Retirement Plans (continued)

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 participates 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' requirement. PERS replaced this plan for all new employees and members of TPAF were able to transfer to PERS.

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.

As employees of the State of New Jersey, University employees receive certain postretirement benefits other than pensions. In accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the State of New Jersey will be recording the liability for these other postemployment benefits for all its employees on its financial statements. Accordingly the liability for these obligations are not included in financial statements of the University.

PERS and PFRS Funding Policies

PERS and PFRS members are required to contribute 5.0% 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. Employers were not required to contribute in 2007 or 2006 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.

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June 30, 2007 and 2006

7. Retirement Plans (continued)

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, 2007 and 2006, ABP received employee contributions of approximately \$3.4 million and 3.2 million, respectively, and employer contributions of approximately \$5.4 million and \$5.2 million, respectively, which were based on participating employee salaries of \$68.4 million and \$65.4 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.

8. 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.

9. 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, 2007 and 2006, such benefits amounted to approximately \$29 million and \$27 million, respectively, and are included in appropriations revenue and expenses in the accompanying financial statements.

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10. Compensated Absences

The University recorded a liability for compensated absences in the amount of \$4.2 million and \$4.3 million as of June 30, 2007 and 2006, respectively. The liability is calculated based upon employees' accrued vacation leave as of June 30, 2007 and 2006, 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, 2007 and 2006, the University paid approximately \$105 thousand and \$100 thousand, respectively, in sick leave payments for employees who retired.

11. 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, 2007 and 2006, total gifts given to the University from the Foundation amounted to \$5.4 million and \$3.1 million, respectively. Complete financial statements for the Foundation can be obtained from the Foundation's office at 1 Normal Avenue, Montclair, New Jersey 07043.