

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

Basic Financial Statements and
Management's Discussion and Analysis

June 30, 2009 and 2008

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

Financial Statements

June 30, 2009 and 2008

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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, 2009 and 2008 and comparative amounts for the year ended June 30, 2007. Since this management's 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 close to 300 majors, minors, concentrations and certificate programs distributed among 58 undergraduate and 42 graduate majors (including 5 doctoral programs), the University provides a comprehensive and relevant array of programs to over 17,000 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 allows 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 discreetly presented in the University's financial statements.

MONTCLAIR STATE UNIVERSITY
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Financial Highlights

At June 30, 2009, the University's net assets increased to \$268.6 million from \$240.6 million at June 30, 2008. Operating expenses for the year ended June 30, 2009, were \$259.9 million, an increase of \$8.8 million over the same period in fiscal year 2008. Operating expenses for the year ended June 30, 2008, were \$251.1 million, an increase of \$23 million over the same period in fiscal year 2007. For the year ended June 30, 2009, the largest increase in operating expenses was in instructional expenses. This increase is attributable to additional faculty added during the fiscal year as well as contractual salary increases. There was a decrease in operations and maintenance of plant due to a decrease in utility costs. Institutional expenses increased due to increases in contractual wages that resulted from growing enrollments and related operations. Depreciation expense increased as a result of the Recreation Center being in service for the entire year.

For the year ended June 30, 2008, the largest increase in operating expenses was in instructional expenses. This increase is attributable to additional faculty added during the fiscal year as well as contractual salary increases. Also included in the increase in instruction were the additional costs for the Beijing Disney Program. This program has experienced significant growth and revenues have also increased in conjunction with this success. Auxiliary Expenses also increased in 2008 as a result of increases in the maintenance for residence facilities and food service. As with the Beijing Disney Program, there are corresponding revenue increases for Auxiliary Services. Operations and maintenance of plant also experienced an increase due to increased utility costs. The increases in other categories were due to contractual wage increases as well as increases that resulted from growing enrollments and related operations.

Operating revenues for the year ended June 30, 2009, were \$ 219.3 million, an increase of \$18.7 million over the same period in fiscal year 2008. Operating revenues for the year ended June 30, 2008, were \$200.6 million, an increase of \$21.2 million over the same period in fiscal year 2007. 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.

Nonoperating and other revenues, including capital gifts and grants, for the year ended June 30, 2009, were \$81.2 million; a decrease of \$6.8 million from the same period in fiscal year 2008. This decrease is primarily the result of decreased investment income. Market conditions have had a negative impact on the University's portfolio.

Nonoperating and other revenues, including capital gifts and grants, for the year ended June 30, 2008, were \$88.0 million; an increase of \$3.3 million over the same period in fiscal year 2007. This increase is primarily the result of an increase to the State appropriation.

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, 2009, 2008 and 2007 follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$163.5	\$189.5	\$174.7
Noncurrent Assets			
Capital assets, net	444.0	408.0	395.6
Assets held under bond indenture agreements	3.1	3.1	3.6
Investments	79.1	35.3	31.4
Other	<u>8.1</u>	<u>8.2</u>	<u>8.2</u>
Total Assets	<u>\$697.8</u>	<u>\$644.1</u>	<u>\$613.5</u>
Current liabilities	\$ 52.3	\$ 49.3	\$ 41.6
Noncurrent liabilities	<u>376.9</u>	<u>354.2</u>	<u>356.2</u>
Total Liabilities	<u>\$429.2</u>	<u>\$403.5</u>	<u>\$397.8</u>
Net assets			
Investment in capital assets, net	\$133.9	\$125.0	\$119.3
Restricted	12.7	12.7	10.3
Unrestricted	<u>122.0</u>	<u>102.9</u>	<u>86.1</u>
Total Net Assets	<u>\$268.6</u>	<u>\$240.6</u>	<u>\$215.7</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 by \$26 million during the year ended June 30, 2009. This decrease is primarily the result of a decrease in cash and cash equivalents. This decrease is offset by an increase in investments. At June 30, 2008 current assets had increased \$14.8 million over 2007. The majority of this increase was the result of an increase in cash and cash equivalents.

Total noncurrent assets increased by \$79.7 million during the year ended June 30, 2009 and \$15.8 million during the year ended June 30, 2008. The increase in 2009 is the result of an increase in investments of approximately \$43.8 million. Changes in market conditions dictated a change in investment strategy. In the recent past, short term rates produced greater returns for the university, at this time some of our assets are being invested on a longer term basis. There was also an increase of approximately \$36 million to capital assets as a result of increased construction activity including the Cali School of Music, Panzer Gymnasium and the new residence hall at Clove Road among others. The increase in 2008 is primarily the result of construction projects completed during the fiscal year, projects in progress at year end, renovations to facilities, and acquisitions of technology and other equipment to support increased academic demand.

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During the year ended June 30, 2009, total assets increased \$53.7 million to \$697.8 million. This increase is primarily attributable to an increase in investments as a result of operations and capital assets as a result of ongoing construction projects such as the Cali School of Music, Panzer Gymnasium and the new residence hall at Clove Road.

Total assets increased \$30.6 million to \$644.1 million at June 30, 2008. The primary cause of this increase is the result of increased cash and cash equivalents and capital assets. Cash and cash equivalents increased as a result of operations and capital assets increased as a result of completed construction projects during the year, most notably the student recreation center.

Total current liabilities increased \$3.0 million during the year ended June 30, 2009. The increase is the result of increased accounts payable and accrued liabilities at year end with a shift between expenses from vendors and capital projects which coincides with the increased construction activity in 2009.

Total current liabilities increased \$7.7 million during the year ended June 30, 2008 primarily as a result of increased accrued expenditures at year end.

Noncurrent liabilities increased \$22.7 million during the year ended June 30, 2009 as a result of the issuance of the Series 2008 J Bonds to finance the new student housing complex.

For the year ended June 30, 2008, noncurrent liabilities decreased \$2 million primarily as the 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, 2009, 2008, and 2007 follows:

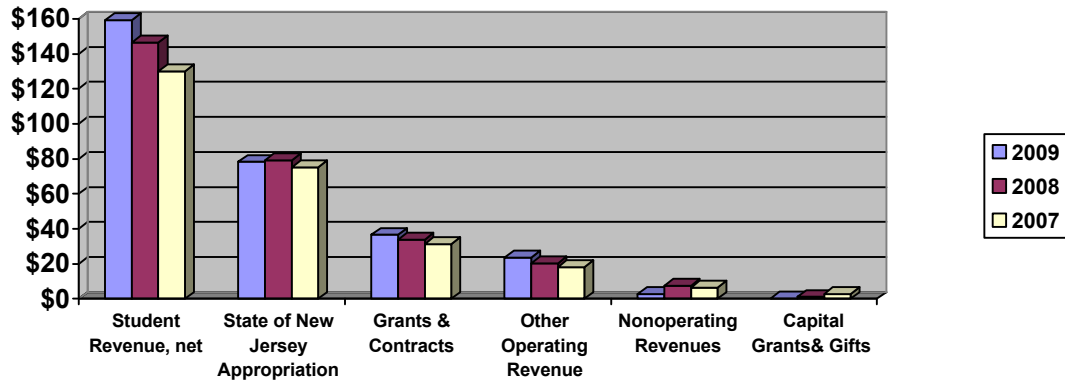
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues			
Net student revenues	\$159.1	\$146.5	\$130.1
Other	<u>60.2</u>	<u>54.1</u>	<u>49.3</u>
Total operating revenues	219.3	200.6	179.4
Less operating expenses	<u>259.9</u>	<u>251.1</u>	<u>228.1</u>
Operating loss	<u>(40.6)</u>	<u>(50.5)</u>	<u>(48.7)</u>
Nonoperating and Other Revenues			
State Appropriations			
General	45.0	48.6	46.1
Fringe benefit	33.2	30.6	29.2
Other	<u>3.0</u>	<u>8.8</u>	<u>9.4</u>
Nonoperating revenue	81.2	88.0	84.7
Less nonoperating expenses	<u>12.7</u>	<u>12.6</u>	<u>12.7</u>
Net nonoperating and other revenues	<u>68.5</u>	<u>75.4</u>	<u>72.0</u>
Increase in net assets	28.0	24.9	23.3
Net assets, beginning of year	<u>240.6</u>	<u>215.7</u>	<u>192.4</u>
Net assets, end of year	<u>\$268.6</u>	<u>\$240.6</u>	<u>\$215.7</u>

MONTCLAIR STATE UNIVERSITY
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Revenues

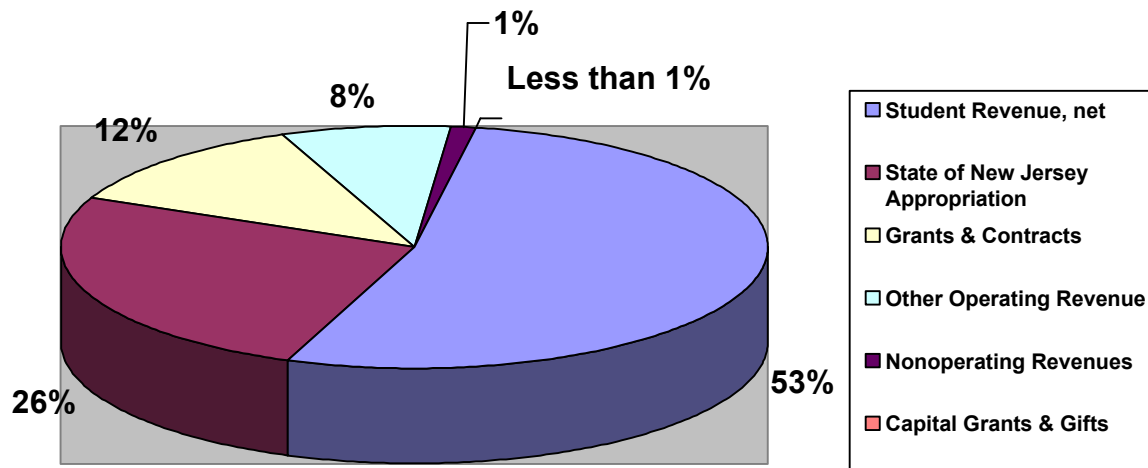
The University derives its revenues from a variety of sources, the largest source being tuition, fees and residence life, net of scholarship allowance. The following chart illustrates the components of University revenues for the years ended June 30, 2009 and 2008, and comparative amounts for the year ended June 30, 2007 (amounts in millions).

Montclair State University Revenues



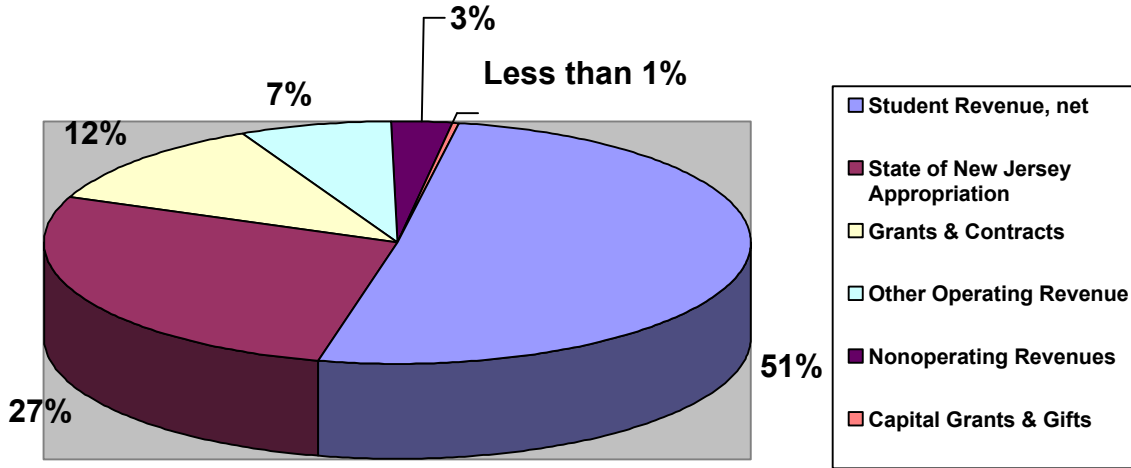
As State funding declines, there is an increasing burden on tuition and fees rates. The following charts illustrate the changing components of University revenues for the years ended 2009 and 2008.

Montclair State University Revenues 2009



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

**Montclair State University
Revenues 2008**



Student revenue, net of scholarship allowance, increased \$12.6 million or 8.6% in 2009 over 2008. Increased enrollments, coupled with increases in tuition and fee rates account for this change. Credit hour enrollments were up approximately 5.8% over 2008 while undergraduate tuition rates were increased by 7%. Student revenue increased \$16.4 million or 12.6% in 2008 over 2007, as a 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 changes in funding over the years. In 2009 the State appropriation decreased by \$889,000, while in 2008, the State appropriation increased by \$3.9 million.

For the years ended June 30, 2009, 2008, and 2007, revenues from grants and contracts were \$36.6 million, \$33.8 million and \$31.2 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

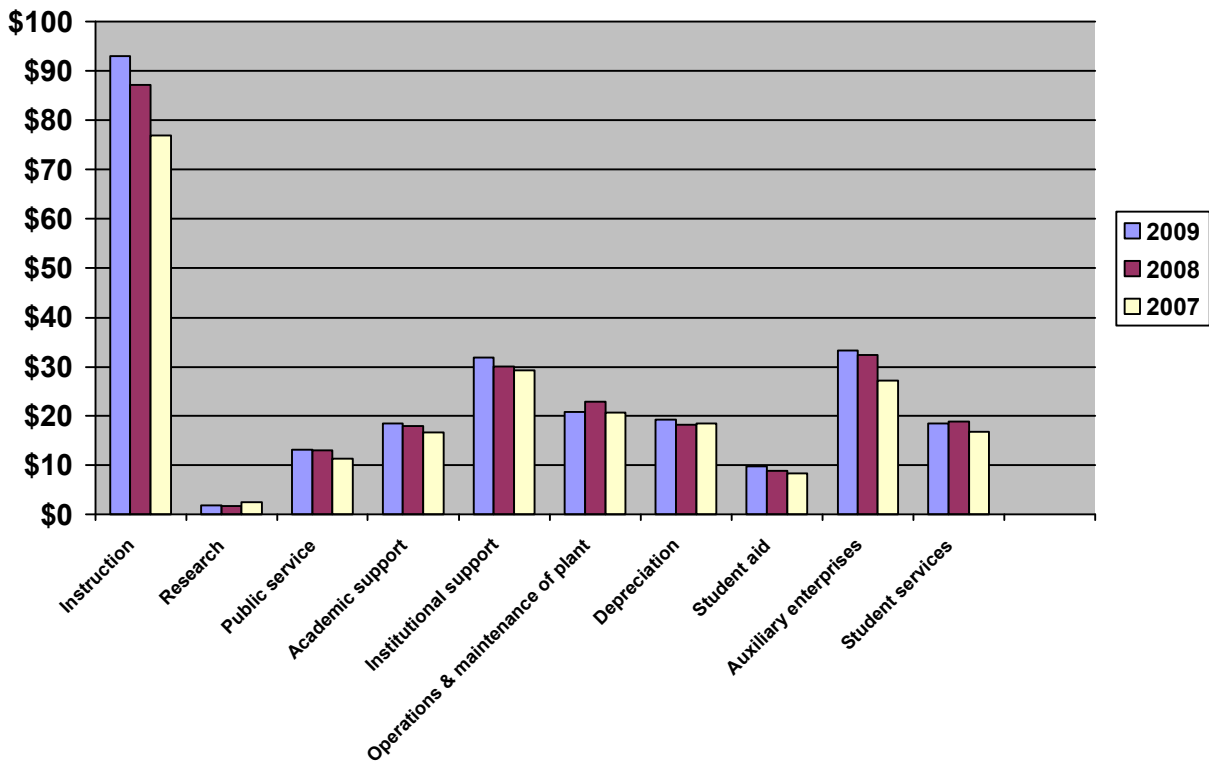
Operating expenses are those expenses paid by the University to acquire or produce goods and services to fulfill its mission. The University incurred total operating expenses of \$259.9 million and \$251.1 million in 2009 and 2008, respectively.

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The University's operating expenses by functional classification (in millions) for June 30, 2009, 2008 and 2007 were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Expenses:			
Instruction	\$93.0	\$87.2	\$76.9
Research	1.8	1.7	2.5
Public services	13.1	13.0	11.3
Academic support	18.5	17.9	16.7
Student services	18.5	18.8	16.8
Institutional support	31.9	30.1	29.3
Operation and maintenance of plant	20.8	22.9	20.7
Depreciation	19.2	18.2	18.4
Student aid	9.8	8.9	8.4
Auxiliary enterprises	<u>33.3</u>	<u>32.4</u>	<u>27.1</u>
Total Operating Expenses	<u>\$259.9</u>	<u>\$251.1</u>	<u>\$228.1</u>

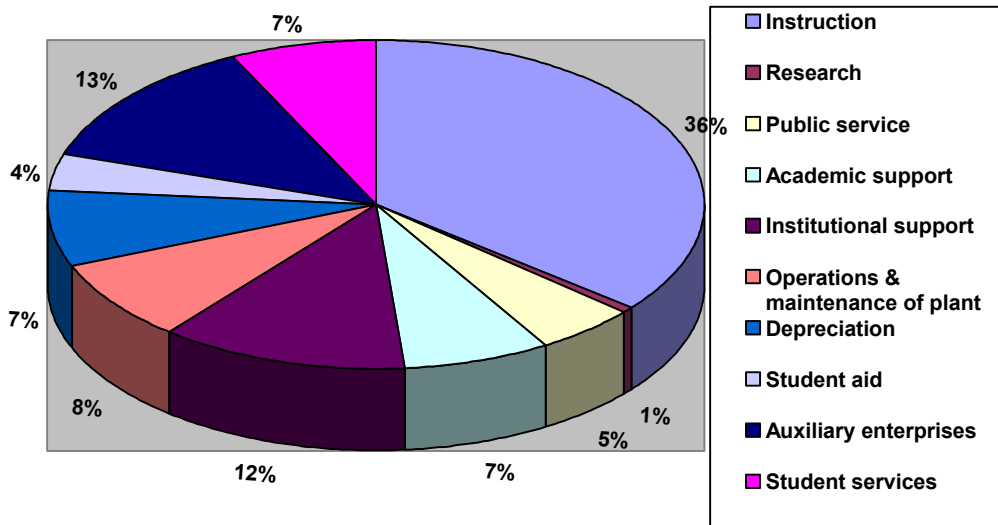
**Montclair State University
Operating Expenses**



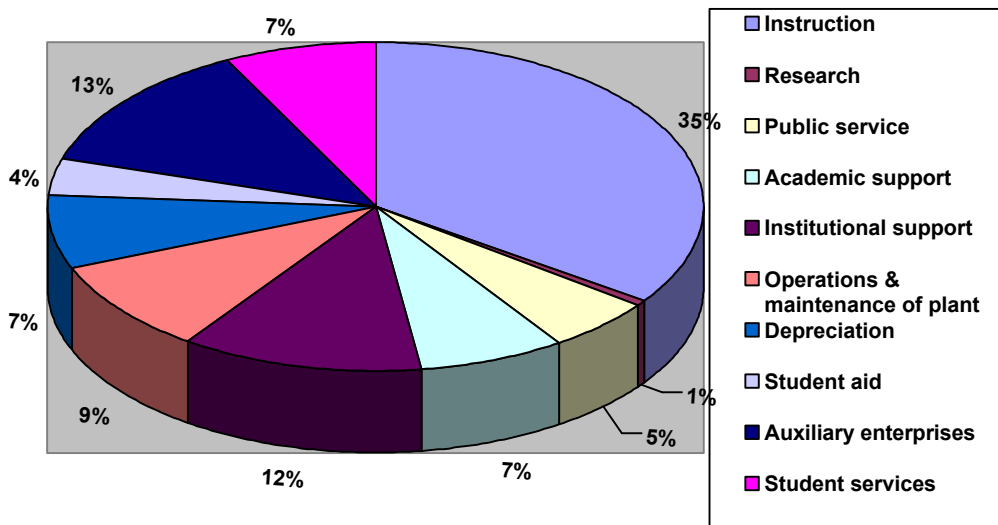
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The following charts illustrate the distribution of operating expenses for 2009 and 2008.

Montclair State University Operating Expenses 2009



Montclair State University Operating Expenses 2008



MONTCLAIR STATE UNIVERSITY
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Operating expenses increased \$8.8 million in fiscal year 2009 compared to fiscal year 2008.

The majority of the increase is related to instructional expenses which increased by \$5.9 million. This increase is primarily the result of contractual increases for faculty as well as an increase in headcount. The success of the Beijing Disney Program continues to grow which has resulted in increased expenses. This program also has a positive impact on University revenues. Institutional expenses increased by approximately \$1.8 million over 2008. The increase is due partially to contractual salary increases for the various departments. Some of the increases in expenses have been offset by a decrease in operations and maintenance of plant which decreased by \$2.1 million. This decrease is the result of decreased utility costs. Utility cost decreased by \$2.9 million in 2009. Panzer Gymnasium and the Chapin School of Music were not in service in 2009 due to new construction. Prices for natural gas also declined and the Cogen plant consistently produced the majority of electricity for the main campus. Depreciation expenses increased by \$1 million in 2009 as a result of the Recreation Center being in service for an entire year coupled with other completed projects that were put into service.

In 2008, the majority of the increase can be attributed to instructional expenses which increased by \$10.3 million. This increase is primarily the result of contractual salary increases for faculty as well as an increase in headcount. The University has also had a very successful year with its Beijing Disney Program which has contributed to the increase in instructional expenses. The program does however, positively influence tuition revenues as well. Auxiliary expenses increased by \$5.3 million. There were several factors which contributed to this increase, including; the MSU Connect program, food service, advertising for the Arts and Cultural Program, maintenance for Residence Life and room waivers at the Villages. The increase in Operations and Maintenance is primarily the result of increased utility costs.

Capital Assets and Debt Activities

The University's investment in capital assets, net of accumulated depreciation, was \$444 million and \$408 million at June 30, 2009 and 2008, respectively. Accumulated depreciation totaled \$181 million and \$162.0 million at June 30, 2009 and 2008 respectively. Depreciation charged to operations totaled \$19.2 million and \$18.2 million in 2009 and 2008, respectively.

During 2009 there was a significant amount of construction activity on campus. The primary projects currently under construction and scheduled to open in 2010 are the Cali School of Music, Panzer Gymnasium and the new residence hall at Clove Road.

In March of 2008, a new 76,951 square foot Student Recreation Center opened. This facility features a six lane swimming pool, locker rooms, two-court gymnasium with elevated running track, two racquetball courts, strength and cardio training areas and a snack bar.

At June 30, 2009, the majority of construction in progress was the Cali School of Music, Panzer Gymnasium and the new residence hall, while at June 30, 2008 the majority of construction in progress was the Cali School of Music.

The University issued Montclair State University Bonds Issue, Series 2008 J in January of 2009 to finance the new residence hall at Clove Road. This facility is expected to house approximately 300 students and will include a parking lot with approximately forty spaces and is scheduled to open in fiscal 2010.

MONTCLAIR STATE UNIVERSITY
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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>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$15.9	\$15.7	\$15.4
Construction in progress	71.5	21.8	28.4
Infrastructure	33.0	32.9	32.8
Buildings and improvements	414.8	412.6	381.0
Equipment	72.0	69.3	64.8
Other capital assets	<u>17.8</u>	<u>17.7</u>	<u>17.5</u>
Total	<u>625.0</u>	<u>570.0</u>	<u>539.9</u>
Accumulated depreciation:			
Infrastructure	9.0	7.8	6.4
Buildings and improvements	111.3	100.4	90.2
Equipment	54.0	48.1	43.0
Other capital assets	<u>6.7</u>	<u>5.7</u>	<u>4.7</u>
Total	<u>181.0</u>	<u>162.0</u>	<u>144.3</u>
Total capital assets, net	<u>\$444.0</u>	<u>\$408.0</u>	<u>\$395.6</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. The University 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 years ended June 30, 2009 and 2008, 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. 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 provide a reasonable basis for our opinion.

In our opinion, based on our audit 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, 2009 and 2008, and the respective changes in financial position and its cash flows for the years 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
August 31, 2009

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)

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 67,001	\$ 85,035
Investments	486	505
Assets held under bond indenture agreements	85,361	91,026
Receivables		
Students, less allowance for doubtful accounts of \$3,509 in 2009 and \$3,501 in 2008	2,173	1,762
Loans, less allowance for doubtful loans of \$141 in 2009 and \$114 in 2008	674	525
Grants and contracts	1,783	1,607
State of New Jersey	2,824	4,533
Accrued interest	459	940
Other receivables	1,135	1,121
Total Receivables	9,048	10,488
Other current assets	1,571	2,452
Total Current Assets	163,467	189,506
Noncurrent assets		
Investments	79,081	35,308
Assets held under bond indenture agreements	3,079	3,135
Loans receivable, less allowance for doubtful loans of \$682 in 2009 and \$752 in 2008	3,252	3,251
Capital assets, net	444,040	408,069
Other noncurrent assets	4,846	4,809
Total Noncurrent Assets	534,298	454,572
Total Assets	\$ 697,765	\$ 644,078
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses		
Vendors	\$ 7,996	\$ 10,518
Capital projects	6,377	1,215
Employees	6,752	6,757
Interest payable	8,227	7,954
Compensated absences - current portion	3,387	3,159
Total Accounts Payable and Accrued Expenses	32,739	29,603
Bonds payable and other long-term debt - current portion	5,944	5,755
Deferred tuition, fees, and deposits	10,405	11,260
Deferred revenue from grantors	2,271	1,692
Assets held on behalf of others	958	965
Total Current Liabilities	52,317	49,275
Noncurrent liabilities		
Bonds payable and other long-term debt - noncurrent portion	371,651	349,328
Compensated absences - noncurrent portion	1,545	1,485
Assets held on behalf of Federal government for loan programs	3,653	3,404
Total Noncurrent Liabilities	376,849	354,217
Total Liabilities	429,166	403,492
NET ASSETS		
Invested in capital assets, net of related debt	133,844	125,005
Restricted expendable for		
Loans	473	473
Renewal and replacements	-	311
Debt service and debt service reserve	12,264	11,935
Unrestricted	122,018	102,862
Total Net Assets	\$ 268,599	\$ 240,586

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

Statements of Financial Position

June 30,

	2009	2008
ASSETS		
Cash	\$ 333,287	\$ 90,997
Unconditional promises to give, net	<u>5,549,156</u>	<u>7,701,358</u>
Investments, at market value		
Cash equivalents	10,947,757	3,282,283
Bonds and notes	13,754,547	14,187,679
Equity mutual funds	13,578,651	18,423,925
All asset mutual funds	2,260,986	2,432,231
Foreign mutual funds	1,866,999	3,054,012
Common and preferred stocks	<u>23,093</u>	<u>29,986</u>
	<u>42,432,033</u>	<u>41,410,116</u>
Total Assets	<u>\$ 48,314,476</u>	<u>\$ 49,202,471</u>
LIABILITIES AND ENCUMBRANCES		
Accounts payable	\$ 1,237,476	\$ 931,999
Encumbrances	<u>20,000</u>	<u>125,000</u>
Total Liabilities	1,257,476	1,056,999
NET ASSETS		
Unrestricted		
Custodial funds	789,446	849,926
Undesignated general operating	<u>2,065,952</u>	<u>765,447</u>
Total Unrestricted	<u>2,855,398</u>	<u>1,615,373</u>
Temporarily restricted		
Scholarship noninterest bearing	215,077	251,899
Phonathon and special events	170,326	455,517
Special program funds	2,889,483	4,216,271
Special scholarship funds	7,904,714	4,260,677
Building funds	3,201,909	4,139,925
Designated for investment	319,235	1,826,414
Donor designated endowments	<u>3,043,994</u>	<u>3,269,817</u>
Total Temporarily Restricted	<u>17,744,738</u>	<u>18,420,520</u>
Permanently restricted		
Donor designated endowments	26,153,304	27,772,383
Donor undesignated endowments	<u>303,560</u>	<u>337,196</u>
Total Permanently Restricted	<u>26,456,864</u>	<u>28,109,579</u>
Total Net Assets	<u>47,057,000</u>	<u>48,145,472</u>
Total Liabilities and Net Assets	<u>\$ 48,314,476</u>	<u>\$ 49,202,471</u>

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)

	2009	2008
OPERATING REVENUES		
Net student revenues		
Student tuition and fees	\$ 147,892	\$ 131,755
Residence life - room and board, including pledged revenues of \$23,402 in 2009 and \$22,007 in 2008	37,610	38,503
Less scholarship allowance	26,372	23,733
Net Student Revenues	159,130	146,525
Federal grant and contracts	15,963	15,074
State of New Jersey grants and contracts	18,771	17,724
Nongovernmental grants and contracts	1,846	1,009
Sales and services of educational departments	6,548	6,164
Auxiliary enterprises	15,173	12,072
Other operating revenues	1,910	2,011
Total Operating Revenues	219,341	200,579
OPERATING EXPENSES		
Instruction	93,070	87,174
Research	1,842	1,689
Public service	13,111	12,961
Academic support	18,557	17,913
Student services	18,473	18,840
Institutional support	31,912	30,122
Operations and maintenance of plant	20,764	22,949
Depreciation	19,175	18,197
Student aid	9,775	8,860
Residence life and auxiliary enterprises	33,298	32,418
Total Operating Expenses	259,977	251,123
Operating Loss	(40,636)	(50,544)
NONOPERATING REVENUES (EXPENSES)		
State of New Jersey appropriations		
General appropriation	45,014	48,574
Fringe benefit appropriation	33,244	30,573
Investment income, net of investment expenses of \$123 in 2009 and \$110 in 2008	2,541	6,831
Unrealized and realized gains (losses) on investment securities	313	(187)
Interest on indebtedness	(12,099)	(11,808)
Administrative costs	(553)	(557)
Other nonoperating revenues	74	956
Net Nonoperating Revenues	68,534	74,382
Income Before Other Revenues	27,898	23,838
Capital gifts and grants	115	1,059
Increase in Net Assets	28,013	24,897
NET ASSETS		
Beginning of year	240,586	215,689
End of year	\$ 268,599	\$ 240,586

See notes to financial statements

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

Statement of Activities

Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net	\$ 1,334,045	\$ 5,560,974	\$ 1,030,154	\$ 7,925,173
Other support	94,419	102,683	-	197,102
Annual fund	133,595	-	-	133,595
In-kind contribution	99,285	-	-	99,285
Earnings from investments	415,485	941,887	-	1,357,372
Loss on sale of securities	-	(1,681,090)	-	(1,681,090)
Unrealized loss on securities	(80,131)	(1,938,486)	(2,843,769)	(4,862,386)
Net assets released from restrictions				
Satisfaction of scholarship restrictions	2,298,930	(2,298,930)	-	-
Satisfaction of program restrictions	966,905	(966,905)	-	-
	<u>5,262,533</u>	<u>(279,867)</u>	<u>(1,813,615)</u>	<u>3,169,051</u>
EXPENSES				
Program Services				
Custody fund	317,879	-	-	317,879
Scholarships, noninterest bearing	148,439	-	-	148,439
Phonathon and special events	339,733	-	-	339,733
Special program funds	1,444,202	-	-	1,444,202
Special scholarship funds	388,721	-	-	388,721
Building and special funds	33,858	-	-	33,858
Donor designated endowments	910,882	-	-	910,882
Program Grants				
MSU Annual Scholarship	10,500	-	-	10,500
Direct support of MSU Alumni Association	20,649	-	-	20,649
Alumni Magazine	40,000	-	-	40,000
Direct support of Development Office (travel)	4,337	-	-	4,337
Management and General				
Investment fees	111,532	-	-	111,532
Salaries	86,060	-	-	86,060
Rent	13,225	-	-	13,225
Auditing fees	22,000	-	-	22,000
Accounting fees	45,000	-	-	45,000
Bad debt expense	239,100	-	-	239,100
Planned giving	11,025	-	-	11,025
Printing and postage	13,880	-	-	13,880
Scholarship assistant	22,020	-	-	22,020
Miscellaneous	7,489	-	-	7,489
Legal fees	6,000	-	-	6,000
Meetings and memberships	1,305	-	-	1,305
Bonding/insurance fees	3,517	-	-	3,517
Donor cultivation	16,170	-	-	16,170
	<u>4,257,523</u>	<u>-</u>	<u>-</u>	<u>4,257,523</u>
Total Expenses				
Changes in Net Assets	1,005,010	(279,867)	(1,813,615)	(1,088,472)
Transfers	235,015	(395,915)	160,900	-
NET ASSETS				
Beginning	<u>1,615,373</u>	<u>18,420,520</u>	<u>28,109,579</u>	<u>48,145,472</u>
Ending	<u>\$ 2,855,398</u>	<u>\$ 17,744,738</u>	<u>\$ 26,456,864</u>	<u>\$ 47,057,000</u>

See notes to financial statements

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

Statement of Activities

Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions, net	\$ 344,151	\$ 2,755,402	\$ 565,724	\$ 3,665,277
Other support	11,494	80,558	-	92,052
Annual fund	152,437	-	-	152,437
In-kind contribution	95,592	-	-	95,592
Earnings from investments	580,835	1,318,118	-	1,898,953
Gain (loss) on sale of securities	459	-	55,953	56,412
Unrealized (loss) gain on securities	(100,320)	(1,418,493)	(2,578,296)	(4,097,109)
Net assets released from restrictions				
Satisfaction of scholarship restrictions	1,449,941	(1,449,941)	-	-
Satisfaction of program restrictions	1,758,598	(1,758,598)	-	-
	<u>4,293,187</u>	<u>(472,954)</u>	<u>(1,956,619)</u>	<u>1,863,614</u>
Total Revenues, Gains and Other Support				
EXPENSES				
Program Services				
Custody fund	264,126	-	-	264,126
Scholarships, noninterest bearing	212,853	-	-	212,853
Phonathon and special events	264,977	-	-	264,977
Special program funds	648,425	-	-	648,425
Special scholarship funds	323,266	-	-	323,266
Building and special funds	1,146,028	-	-	1,146,028
Donor designated endowments	612,570	-	-	612,570
Program Grants				
Direct support of MSU	140,000	-	-	140,000
Direct support of MSU Alumni Association	29,900	-	-	29,900
Direct support of Alumni Chapter Development	3,067	-	-	3,067
Alumni Magazine	33,214	-	-	33,214
Management and General				
Investment fees	114,240	-	-	114,240
Salaries	84,741	-	-	84,741
Rent	10,851	-	-	10,851
Auditing fees	38,500	-	-	38,500
Accounting fees	42,876	-	-	42,876
Bad debt expense	101,100	-	-	101,100
Accounting software upgrade	225	-	-	225
Planned giving	9,388	-	-	9,388
Printing and postage	12,257	-	-	12,257
Miscellaneous	13,647	-	-	13,647
Legal fees	4,000	-	-	4,000
Meetings and memberships	1,626	-	-	1,626
Bonding/insurance fees	2,860	-	-	2,860
Donor cultivation	20,327	-	-	20,327
	<u>4,135,064</u>	<u>-</u>	<u>-</u>	<u>4,135,064</u>
Total Expenses				
Changes in Net Assets	158,123	(472,954)	(1,956,619)	(2,271,450)
Transfers	356,034	(317,334)	(38,700)	-
NET ASSETS				
Beginning	<u>1,101,216</u>	<u>19,210,808</u>	<u>30,104,898</u>	<u>50,416,922</u>
Ending	<u>\$ 1,615,373</u>	<u>\$ 18,420,520</u>	<u>\$ 28,109,579</u>	<u>\$ 48,145,472</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)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 120,220	\$ 110,158
Grants and contracts	37,231	33,888
Payments for salaries	(134,236)	(123,332)
Payments for fringe benefits	(17,258)	(17,141)
Payments to suppliers	(50,617)	(45,523)
Payments for utilities	(9,848)	(12,371)
Payments for student aid	(9,591)	(8,754)
Loans issued to students	(510)	(659)
Collection of loans from students	402	467
Auxiliary enterprises charges		
Residence life	37,601	38,588
Other	15,173	11,112
Sales and services of educational departments	6,548	6,164
Other receipts	1,962	1,845
Net Cash Used by Operating Activities	(2,923)	(5,558)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State of New Jersey appropriations	59,291	58,294
Student organization agency transactions	(6)	110
Other receipts	74	956
Net Cash Provided by Noncapital Financing Activities	59,359	59,360
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital gifts and grants	115	1,059
Proceeds from capital debt	28,237	1,287
Principal paid on capital debt	(5,780)	(1,969)
Interest paid on capital debt	(11,770)	(12,707)
Purchases of capital assets	(49,984)	(30,777)
Administrative costs	(592)	(348)
Withdrawals (deposits) with bond trustees	5,722	5,074
Net Cash Used by Capital Financing Activities	(34,052)	(38,381)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	111,135	66,483
Purchases of investments	(154,874)	(68,629)
Interest on investments	3,321	9,798
Net Cash (Used) Provided by Investing Activities	(40,418)	7,652
Net (Decrease) Increase in Cash and Cash Equivalents	(18,034)	23,073
CASH AND CASH EQUIVALENTS		
Beginning of year	85,035	61,962
End of year	\$ 67,001	\$ 85,035

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,

	2009	2008
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (40,636)	\$ (50,544)
Adjustments to reconcile operating loss to net cash used by operating activities		
Fringe benefit appropriation	20,675	19,079
Depreciation expense	19,175	18,197
Provision for bad debts	(43)	389
Changes in assets and liabilities		
Student receivables	(410)	267
Loans receivable	(108)	(192)
Grants receivable	(176)	391
Other receivable	(14)	18
Other current assets	881	(397)
Accounts payable and accrued expenses	(2,298)	6,495
Deferred tuition, fees and deposits	(855)	606
Deferred revenue from grantors	577	(158)
Compensated absences - noncurrent portion	60	442
Assets held on behalf of Federal government for loan programs	249	(151)
Net Cash Used by Operating Activities	\$ (2,923)	\$ (5,558)

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, 2009 and 2008

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, 2009 and 2008

2. Summary of Significant Accounting Policies (continued)

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 three 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, 2009 and 2008

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, 2009 and 2008. 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 \$2.8 million and \$2.2 million in 2009 and 2008, 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, 2009 and 2008

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.

Reclassification

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

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, 2009 and 2008

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, 2009 and 2008 are classified in the statements of net assets as follows (dollars in thousands):

	2009	2008
Cash and cash equivalents	\$ 67,001	\$ 85,035
Assets held under bond indenture agreements	88,440	94,161
Investments	79,567	35,813
	\$ 235,008	\$ 215,009

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, 2009 and 2008, cash and cash equivalents were held by depositories and amounted to \$5.9 million and \$2.6 million, respectively, of which \$0.6 million and \$0.1 million was FDIC insured, and \$5.3 million and \$2.5 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.

The University participates in the State of New Jersey Cash Management fund wherein amounts contributed by the University are combined with funds from other state institutions into a large scale investment program. The carrying amount and fair value of cash and cash equivalents at June 30, 2009 and 2008 was \$47.9 and \$83.7, respectively. These amounts are collateralized in accordance with Chapter 64 of Title 18A of New Jersey statutes.

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, 2009 and 2008

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, 2009, 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	\$ 63,210	\$ -	\$ 63,210	\$ -
U.S. agencies	1,945	-	485	1,460
Debt securities	<u>14,412</u>	<u>487</u>	<u>11,211</u>	<u>2,714</u>
Total	<u>\$ 79,567</u>	<u>\$ 487</u>	<u>\$ 74,906</u>	<u>\$ 4,174</u>

As of June 30, 2008, 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	\$ 10,524	\$ -	\$ 10,524	\$ -
U.S. agencies	5,712	-	342	5,370
Debt securities	<u>19,577</u>	<u>505</u>	<u>9,413</u>	<u>9,659</u>
Total	<u>\$ 35,813</u>	<u>\$ 505</u>	<u>\$ 20,279</u>	<u>\$ 15,029</u>

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

Notes to Financial Statements

June 30, 2009 and 2008

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, 2009, investments were in U.S. treasuries of \$73.2 million, and money market funds of \$15.3 million. As of June 30, 2008, investments were in U.S. treasuries of \$76.1 million, money market funds of \$18.1 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, 2009, \$14.2 million in debt securities were rated AAA, and \$.2 million in debt securities were rated AA, respectively, by Moody's. As of June 30, 2008, \$18.6 million in debt securities were rated AAA, and \$1.0 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, 2009 and 2008

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):

	<u>2009</u>	<u>2008</u>
Project and construction fund	\$ 73,197	\$ 77,123
Debt service fund for principal and interest	12,110	11,725
Debt service reserve fund	3,079	3,135
Renewal and replacement fund	-	310
Excess rental pledge	<u>54</u>	<u>1,868</u>
	88,440	94,161
Less current portion	<u>85,361</u>	<u>91,026</u>
Noncurrent Assets Held Under Bond Indenture Agreements	<u>\$ 3,079</u>	<u>\$ 3,135</u>

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4. Capital Assets

Capital asset activity for the year ended June 30, 2009 is comprised of the following (dollars in thousands):

	Beginning Balance	Acquisitions and Other Increases	Dispositions and Other Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciable assets:				
Infrastructure	\$ 32,905	\$ 127	\$ -	\$ 33,032
Buildings and improvements	412,646	2,127	-	414,773
Equipment	69,315	2,817	90	72,042
Other	<u>17,765</u>	<u>79</u>	<u>-</u>	<u>17,844</u>
Total Depreciable Assets	<u>532,631</u>	<u>5,150</u>	<u>90</u>	<u>537,691</u>
Less accumulated depreciation on:				
Infrastructure	7,760	1,318	-	9,078
Buildings and improvements	100,421	10,851	-	111,272
Equipment	48,055	5,994	90	53,959
Other	<u>5,729</u>	<u>1,013</u>	<u>-</u>	<u>6,742</u>
Total Accumulated Depreciation	<u>161,965</u>	<u>19,176</u>	<u>90</u>	<u>181,051</u>
Depreciable Assets, Net	<u>370,666</u>	<u>(14,026)</u>	<u>-</u>	<u>356,640</u>
Nondepreciable assets:				
Land	15,646	251	-	15,897
Construction in progress	<u>21,757</u>	<u>52,487</u>	<u>2,741</u>	<u>71,503</u>
Total Nondepreciable Assets	<u>37,403</u>	<u>52,738</u>	<u>2,741</u>	<u>87,400</u>
Total Capital Assets, Net	<u>\$ 408,069</u>	<u>\$ 38,712</u>	<u>\$ 2,741</u>	<u>\$ 444,040</u>

Montclair State University
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June 30, 2009 and 2008

4. Capital Assets (continued)

Capital asset activity for the year ended June 30, 2008 is comprised of the following (dollars in thousands):

	Beginning Balance	Acquisitions and Other Increases	Dispositions and Other Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciable assets:				
Infrastructure	\$ 32,793	\$ 112	\$ -	\$ 32,905
Buildings and improvements	381,031	31,615	-	412,646
Equipment	64,838	5,098	621	69,315
Other	<u>17,482</u>	<u>283</u>	<u>-</u>	<u>17,765</u>
Total Depreciable Assets	<u>496,144</u>	<u>37,108</u>	<u>621</u>	<u>532,631</u>
Less accumulated depreciation on:				
Infrastructure	6,448	1,312	-	7,760
Buildings and improvements	90,159	10,262	-	100,421
Equipment	43,063	5,613	621	48,055
Other	<u>4,719</u>	<u>1,010</u>	<u>-</u>	<u>5,729</u>
Total Accumulated Depreciation	<u>144,389</u>	<u>18,197</u>	<u>621</u>	<u>161,965</u>
Depreciable Assets, Net	<u>351,755</u>	<u>18,911</u>	<u>-</u>	<u>370,666</u>
Nondepreciable assets:				
Land	15,346	300	-	15,646
Construction in progress	<u>28,449</u>	<u>26,551</u>	<u>33,243</u>	<u>21,757</u>
Total Nondepreciable Assets	<u>43,795</u>	<u>26,851</u>	<u>33,243</u>	<u>37,403</u>
Total Capital Assets, Net	<u>\$ 395,550</u>	<u>\$ 45,762</u>	<u>\$ 33,243</u>	<u>\$ 408,069</u>

Estimated costs to complete the projects classified as construction in progress as of June 30, 2009 approximated \$161 million and are expected to be funded primarily from unrestricted resources and bond proceeds. During 2009 and 2008, the University capitalized interest expenses of \$5.2 million and \$4.7 million, respectively, offset by interest income of \$1.3 million and \$4.4 million, respectively, in construction in progress in the accompanying statements of net assets.

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Notes to Financial Statements

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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, 2009 and 2008 (dollars in thousands):

	Interest rates	2009	2008
	<u> </u>	<u> </u>	<u> </u>
New Jersey Educational Facilities Authority Revenue Bonds:			
Series 1974 D Revenue Bonds, due serially to 2008	6.00	-	445
Series 2002 F Revenue Bonds, due serially to 2032	3.875 - 5.20	22,375	22,375
Series 2003 E Revenue Bonds, due serially to 2033	3.875 - 5.20	18,825	18,825
Series 2003 L Revenue Bonds, due serially to 2033	2.250 - 5.125	28,255	28,395
Series 2006 A Revenue Bonds, due serially to 2036	4.00-5.00	96,005	97,650
Series 2006 B Revenue Bonds, due serially to 2012	4.00-5.00	8,140	9,970
Series 2006 J Revenue Bonds, due serially to 2034	4.00-5.25	154,110	154,110
Series 2007 A Revenue Bonds, due serially to 2021	5.25	6,150	6,150
Series 2008 J Revenue Bonds, due serially to 2038	3.00-5.25	<u>27,545</u>	<u>-</u>
Bonds payable		361,405	337,920
Plus: Bond premium		5,769	6,060
Less: Deferred loss on bond refinancing		(3,151)	(3,480)
Bond discount		<u>(483)</u>	<u>(113)</u>
Total bonds payable		<u>\$363,540</u>	<u>\$340,387</u>

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June 30, 2009 and 2008

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

Bonds Payable (continued)

On January 23, 2009 the Authority issued \$27,545,000 Series 2008J Revenue Bonds with interest rates of 3.0% to 5.25%. The Series 2008 J Revenue bonds are planned to be used to finance the construction of a student housing facility comprised of one six-story residence hall with shuttle pick-up drop-off loop, a service yard and a parking lot with approximately 40 parking spaces. The proceeds of the 2008 J Revenue Bonds are planned to be used to pay capitalized interest and certain costs and expenses in connection with the issuance of the Bonds.

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Notes to Financial Statements

June 30, 2009 and 2008

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, 2009 and 2008 (dollars in thousands):

	<u>Interest rates</u>	<u>2009</u>	<u>2008</u>
Series 2000 Higher Education Capital Improvement Fund, due serially to 2020	5.00 - 5.75%	\$ 2,900	\$ 3,070
Series 2001 A Equipment Leasing Fund Revenue Bonds, due serially to 2009	4.98	149	291
Series 2002 A Higher Education Capital Improvement Fund, due serially to 2022	3.00 - 5.25	4,835	5,006
Dormitory Safety Trust Fund Bonds, due serially to 2016	4.50 - 5.00	457	510
Note payable for land purchase, due serially to 2019	4.75 - 5.00	1,813	1,904
New Jersey Environmental Infrastructure Trust, due serially to 2022	3.00 - 5.25	1,115	1,175
New Jersey Environmental Infrastructure, due serially to 2022	3.00 - 5.25	664	688
Obligations under capital leases, due in equal monthly installments through 2013	2.40 - 4.53	<u>2,122</u>	<u>2,052</u>
Total other long-term debt		<u>\$ 14,055</u>	<u>\$ 14,696</u>

Montclair State University
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Notes to Financial Statements

June 30, 2009 and 2008

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, 2009 (dollars in thousands):

	<u>Principal</u>	<u>Interest and fees</u>
Year ending June 30:		
2010	\$ 5,999	\$ 18,168
2011	6,501	17,922
2012	8,937	17,630
2013	11,974	17,197
2014	<u>10,036</u>	<u>16,790</u>
2009 - 2013 Subtotal	43,447	87,707
2015 - 2019	59,578	75,724
2020 - 2024	69,505	60,035
2025 - 2029	91,065	41,912
2030 - 2034	87,860	17,751
2035 - 2038	<u>24,005</u>	<u>2,676</u>
	<u>\$ 375,460</u>	<u>\$ 285,805</u>

6. Summary of Changes in Noncurrent Liabilities

The following table summarizes the changes in noncurrent liabilities during the year ended June 30, 2009 (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	\$ 355,083	\$ 28,951	\$ (6,439)	\$ 377,595	\$ 5,944
Compensated absences (see note 10)	4,644	593	(305)	4,932	3,387
Assets held on behalf of Federal government for loan programs	<u>3,404</u>	<u>249</u>	<u>-</u>	<u>3,653</u>	<u>-</u>
Total Noncurrent Liabilities	<u>\$ 363,131</u>	<u>\$ 29,793</u>	<u>\$ (6,744)</u>	<u>\$ 386,180</u>	<u>\$ 9,331</u>

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Notes to Financial Statements

June 30, 2009 and 2008

6. Summary of Changes in Noncurrent Liabilities (continued)

The following table summarizes the changes in noncurrent liabilities during the year ended June 30, 2008 (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	\$ 355,766	\$ 2,085	\$ (2,768)	\$ 355,083	\$ 5,755
Compensated absences (see note 9)	4,192	744	(292)	4,644	3,159
Assets held on behalf of Federal government for loan programs	<u>3,556</u>	<u>-</u>	<u>(152)</u>	<u>3,404</u>	<u>-</u>
Total Noncurrent Liabilities	<u>\$ 363,514</u>	<u>\$ 2,829</u>	<u>\$ (3,212)</u>	<u>\$ 363,131</u>	<u>\$ 8,914</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, 2009 and 2008

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 is 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 2009 or 2008 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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Notes to Financial Statements

June 30, 2009 and 2008

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, 2009 and 2008, ABP received employee contributions of approximately \$4.0 million and \$3.6 million, respectively, and employer contributions of approximately \$6.4 million and \$5.8 million, respectively, which were based on participating employee salaries of \$80.0 million and \$72.0 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, 2009 and 2008, such benefits amounted to approximately \$33 million and \$30 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 \$4.9 million and \$4.6 million as of June 30, 2009 and 2008, respectively. The liability is calculated based upon employees' accrued vacation leave as of June 30, 2009 and 2008, 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, 2009 and 2008, the University paid approximately \$130 thousand and \$75 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, 2009 and 2008, total gifts given to the University from the Foundation amounted to \$2.8 million and \$3.0 million, respectively. Complete financial statements for the Foundation can be obtained from the Foundation's office at 1 Normal Avenue, Montclair, New Jersey 07043.