

Legislative Audit Division

State of Montana



Report to the Legislature

December 2006

Financial Audit

For the Year Ended June 30, 2006

Montana State University

A component unit of the state of Montana.

We performed a financial audit of Montana State University's consolidated financial statements for the fiscal year ended June 30, 2006. These financial statements present the financial position, the results of operations, and the cash flows, on a consolidated basis, of all four campuses affiliated with Montana State University: Montana State University-Bozeman; Montana State University-Billings; Montana State University-Northern (located in Havre); and Montana State University College of Technology-Great Falls.

The statements include component unit financial information as required under GASB 39. This report contains an unqualified opinion on the University's financial statements and accompanying notes for the fiscal year ended June 30, 2006, and the comparative information for the fiscal year ended June 30, 2005. The opinion means the reader may rely on the financial statement information presented. Supplemental Information on pages A-51 through A-69 is presented for additional analysis.

This audit is performed to attest to the fairness of the consolidated financial statements of Montana State University. Audit issues, if any, identified during this audit have been discussed with university management and, if appropriate, will be reported in our financial-related audit of the University for the two fiscal years ended June 30, 2007.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

06-11

<http://leg.mt.gov/css/audit>

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Joe Balyeat, Vice Chair
Senator John Brueggeman
Senator Jim Elliott
Senator Dan Harrington
Senator Lynda Moss
Senator Corey Stapleton

Representative Dee Brown
Representative Hal Jacobson
Representative Christine Kaufmann
Representative Scott Mendenhall
Representative John Musgrove, Chair
Representative Janna Taylor

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

December 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on Montana State University's (university) consolidated financial statements for the fiscal year ended June 30, 2006. The statements include comparative information for the fiscal year ended June 30, 2005. The university requested this audit to provide timely audited financial statements to interested parties. The objective of our audit was to determine if the university's financial statements present fairly its financial position, changes in financial position, and its cash flows as of, and for the fiscal year ended, June 30, 2006. This objective included determining the university's compliance with laws and regulations having a direct and material impact on the financial statements. Our opinion, as it relates to the financial statements at and for the fiscal year ended June 30, 2005, is based on the audit we performed in the fall of 2005.

Montana State University consists of campuses located in Bozeman, Billings, Havre, and Great Falls. All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The Montana State University campuses provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

Montana State University-Bozeman was founded in February 1893 as the Agricultural College of the state of Montana. It is a land-grant institution, authorized by the Morrill Act of 1862, and receives part of its support from land-grant income. The campus offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes the Colleges of Agriculture, Arts and Architecture, Business, Education, Health and Human Development, Engineering, Letters and Science, and Nursing, and the Division of Graduate Education. The Bozeman campus also includes the Extension Service, the Agricultural Experiment Station, and the Fire Services Training School, which have facilities located in or near cities or towns throughout Montana.

Montana State University-Billings consists of six colleges: the College of Arts and Sciences, the College of Business, the College of Education, the College of Allied Health Professions, the College of Technology, and the College of Professional Studies and Lifelong Learning. Montana

State University-Billings offers a full complement of one-year and two-year certificate programs, associate, bachelor and master degrees, as well as pre-professional academic offerings in a number of fields.

Montana State University-Northern is a regional, multi-purpose educational center, serving students who seek both a technical and liberal arts education. It offers courses at the campus in Havre and at facilities in Great Falls and Lewistown. This campus offers associate, bachelor, and master degrees. A master's degree program is offered in education, with options in counseling and development, elementary education, vocational education, and general science.

Montana State University College of Technology-Great Falls offers instruction leading to certificates in one-year programs and associate of applied science degrees or associate of science in two-year programs in vocational-technical trades and industry. Programs include practical nursing, office/secretarial, interior design technology, computer and information sciences, various health-related programs, auto body repair and refinishing, dental hygiene, and business management/entrepreneurship.

A list of Appointed and Administrative Officials having oversight responsibilities with respect to the university can be found beginning on page i.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion on the university's consolidated financial statements, which means the reader can rely on the presented information.

This report does not contain any recommendations to the university. Any issues resulting from this financial audit have been discussed with university management. The university's response to this report is on page B-1.

We thank President Gamble and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Scott A., Seacat

Scott A. Seacat
Legislative Auditor

Montana State University
Consolidated Financial Statements
As of and for the Years Ended June 30, 2006 and June 30, 2005

Table of Contents

Appointed and Administrative Officials i

Audited Consolidated Financial Statements

Independent Auditor's Report A-1
Management's Discussion and Analysis A-3
Consolidated Statements of Net Assets A-15
University Component Units-Combined Statements of Financial Position A-16
Consolidated Statements of Revenues, Expenses and Changes in Net Assets..... A-17
University Component Units- Combined Statements of Activities A-18
Consolidated Statements of Cash Flows A-19
Notes to Consolidated Financial Statements A-21

Unaudited Supplemental Information

Financial Information (2006) A-52
Financial Information (2005) A-55

Individual Campus and Agency Information

Montana State University A-58
Montana State University-Bozeman A-59
Montana Agricultural Experiment Station..... A-61
Montana Extension Service A-62
Fire Services Training School..... A-63
Montana State University-Billings A-64
Montana State University-Northern..... A-66
Montana State University-Great Falls College of Technology..... A-68

Appointed and Administrative Officials

Board of Regents of Higher Education

Lynn Morrison-Hamilton, Chair

Stephen M. Barrett, Vice Chair

Heather O'Loughlin, Student Regent

Clayton Christian, Regent

Janine Pease, Regent

Mark Semmens, Regent

Lila Taylor, Regent

Brian Schweitzer, Governor*

Linda McCulloch, Superintendent of Public Instruction*

* Ex officio members of the Board of Regents

Office of the Commissioner of Higher Education

Sheila M. Stearns Commissioner of Higher Education*

Roger Barber Deputy Commissioner for Academic and Student Affairs

Mick Robinson Associate Commissioner for Fiscal Affairs

Cathy Conover Interim Associate Commissioner for Research, Technology and Communications

Frieda Houser Director of Accounting and Budgeting

Cathy Swift Chief Legal Counsel

Montana State University-All Campuses

Geoffrey Gamble President

Rolf Groseth Vice President of Intercampus Affairs

Virginia Key Director of Internal Audit

Appointed and Administrative Officials

Montana State University- Bozeman

David Dooley	Provost and Vice President for Academic Affairs
Craig Roloff	Vice President for Administration and Finance
Laura Humberger	Assistant Vice President for Financial Services
Thomas McCoy	Vice President for Research and Creative Activities
Leslie Schmidt	Assistant Vice President for Research
Allen Yarnell	Vice President of Student Affairs
Leslie Taylor	Legal Counsel
Kathy Attebury	Director of University Budgets

Montana State University- Billings

Ronald P. Sexton	Chancellor
George White	Interim Provost and Academic Vice Chancellor
Stacy Klippenstein	Vice Chancellor for Student Affairs
Terrie Iverson	Administrative Vice Chancellor
LeAnn Anderson	Director of Financial Services
Jim Nielsen	Director of Business Services
Stacey Horsfall	Budget Officer and Internal Audit

Montana State University- Northern

Alex Capdeville	Chancellor
Cheri Jimeno	Provost and Vice Chancellor for Academic Affairs
Chuck Jensen	Vice Chancellor for Finance & Administration/Student Affairs
Chris Wendland	Accounting and Budget Officer
Sue Ost	Director of Business Services

Appointed and Administrative Officials

Montana State University- College of Technology Great Falls	Mary Sheehy Moe	Dean
	Heidi Pasek Joe Schaffer	Interim Associate Deans for Academic and Student Affairs
	Mary Ellen Baukol	Associate Dean for Administration and Finance
	Ed Binkley	Controller
	Deby Gunter	Budget/Purchasing Officer
Montana Agricultural Experiment Station	Jeffrey Jacobsen	Director
	Connie Shelhamer	Budget and Fiscal Director
Montana State University Extension Service	Douglas Steele	Vice Provost and Extension Director
	Sandra Rahn-Gibson	Budget and Fiscal Director
Fire Services Training School	Seldon 'Butch' Weedon	Director

For further information on Montana State University
(all campuses) contact:

Internal Audit
Suite 7 Hamilton Hall
Bozeman, MT 59717
(406)994-7035

Members of the audit staff involved in this audit were
Pearl M. Allen, Chris Darragh, Geri Hoffman, Vickie Rauser, and
Lena Tamcke.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Consolidated Statements of Net Assets of Montana State University, a component unit of the state of Montana, as of June 30, 2006, and 2005, and the related Consolidated Statements of Revenues, Expenses and Changes in Net Assets and Consolidated Statements of Cash Flows for the fiscal years then ended and the University Component Units-Combined Statements of Financial Position as of June 30, 2006, and 2005, and the related University Component Units-Combined Statement of Activities for the fiscal years then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements include the Montana State University Foundation, the Museum of the Rockies Incorporated, the Montana State University-Billings Foundation, the Montana State University-Northern Foundation, and the Montana State University Athletic Scholarship Association. The component units identified above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, are based on the reports 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Montana State University and the aggregate discretely presented component units as of June 30, 2006, and 2005, and

the respective changes in financial position and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages A-3 through A-14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Montana State University. The Supplemental Information on pages A-51 through A-69 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

**Montana State University's
Management's Discussion and Analysis,
Financial Statements, Notes, and Supplemental Information**

Montana State University

(a component unit of the State of Montana)

Management's Discussion and Analysis

As of and For Each of the Years Ended June 30, 2006

Montana State University is a land grant university that serves state, national and international communities by providing academic instruction, conducting a high level of research activity, advancing fundamental knowledge, and by disseminating knowledge to the people of Montana. The University encompasses four campuses located in Bozeman, Billings, Great Falls and Havre, as well as the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School. The University operates throughout Montana's 145,556 square miles of urban and rural communities housing an estimated population of 935,670.

The University and its students are in a unique position. The number of high school graduates in Eastern Montana continues to decline, which has required the University to ensure diligent recruiting of in-state students, and to modify its mix of traditional in-state, out-of-state, and out-of-area students to ensure a diverse, growing student population. At the same time that the University's student population is changing, employee salary and benefit needs continue to grow as the cost of living in Montana rises.

Given these significant changes, the University is proud to continue delivering quality instruction and services to a diverse student population, which is possible because of its dedicated faculty and staff, because its students recognize quality and value, and because accountability and the wise stewardship of University resources are simply a way of life.

OPERATIONS

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(in millions)

	2006	2005	2004
Operating revenues	\$ 296.3	\$ 279.0	\$ 257.5
Operating expenses	381.7	360.8	342.4
Operating loss	(85.4)	(81.8)	(84.9)
Non-operating revenues and expenses (net)	97.3	86.5	88.9
Income before capital & other items	11.9	4.7	4.0
Capital & other items	5.0	5.2	8.6
Change in net assets	\$ 16.9	\$ 9.9	\$ 12.6

The *Statement of Revenues, Expenses and Changes in Net Assets* presents the revenues earned and expenses incurred during the year on a full accrual basis, and classifies activities as either "operating" or "non-operating." This distinction results in operating deficits for those institutions that depend on State aid and gifts, which are classified as non-operating revenue. The utilization of capital assets is reflected in the financial statements as depreciation expense, which allocates the cost of assets over their expected useful lives.

Comparison of 2006 and 2005 Results of Operations

The University's net assets increased \$16.9 million during 2006, resulting largely from \$5.3 million in capital gifts, grants and contributions, \$0.4 million of permanent endowment contributions, and excesses of revenue over expense totaling \$11.2 million. In addition, \$0.4 million in assets were provided by the State of Montana under authorization from its long-range building program.

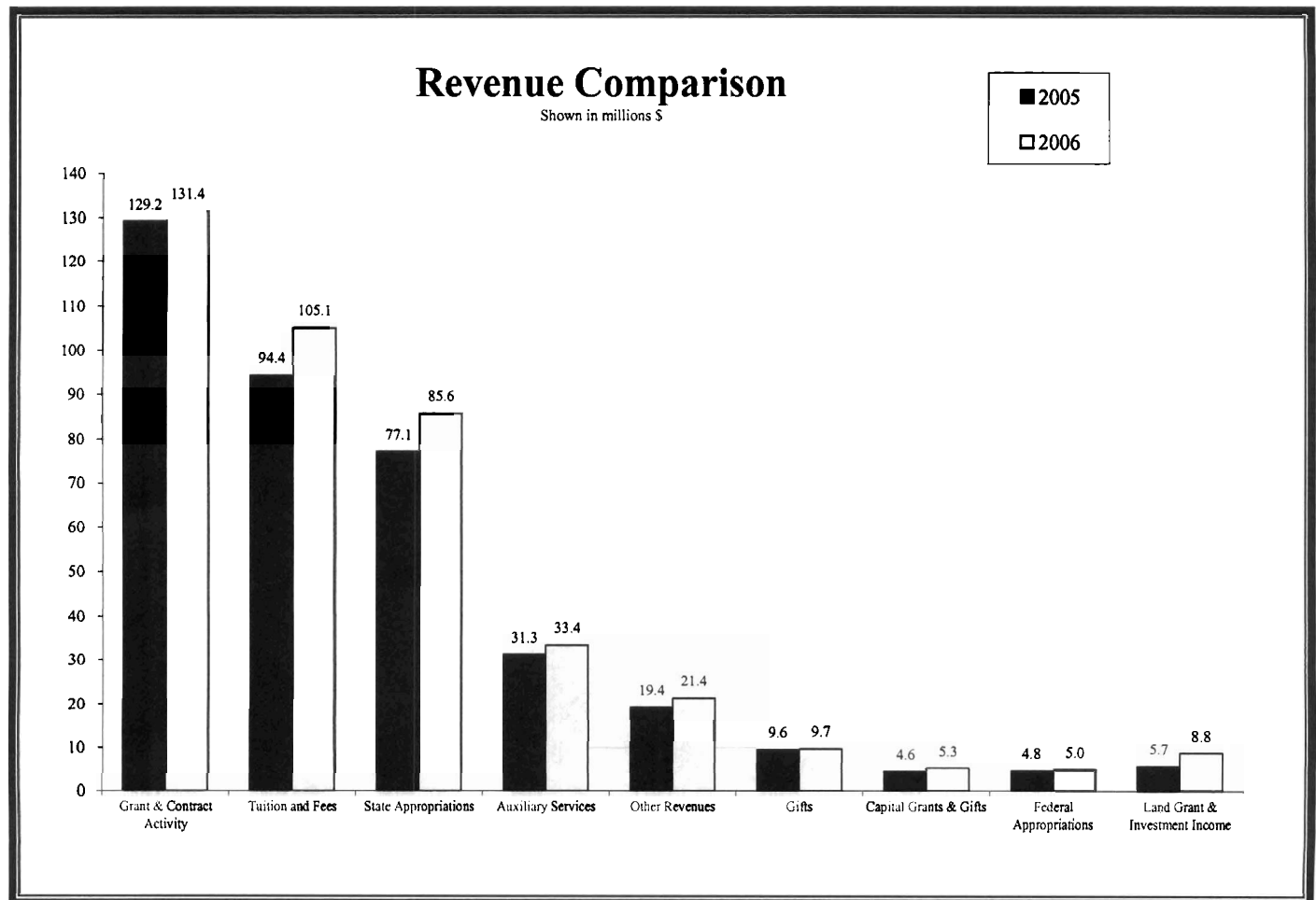
Operating revenues contain the majority of the University's income, and increased \$17.3 million from 2005 to 2006. Tuition and fee revenues increased approximately \$10.7 million, or 11.3%. The University's freshman class has increased during each of the past several years. While the number of full-time equivalent students increased 1.2% compared with 2005, the primary reason for increased tuition and fee revenue was an approximate 12.4% average tuition increase, coupled with an increase in non-resident students, who pay more than the full cost of education.

Operating revenues from education, public service and outreach areas increased \$1.7 million, and housing and room and board revenues saw a \$2.0 million increase. Financial aid revenues totaled over \$19.5 million, representing a decrease of over \$1.5 million from 2005. Fewer students received Pell grants in 2006 because of a change in the Federal Aid formula for calculating Pell grant eligibility.

The University maintains a vibrant Research and Creative Activities function that contributed \$111.9 million in 2006, which increased \$3.8 million as compared with 2005 revenues of \$108.1 million.

Non-operating revenue increased \$17.3 million from 2005 to 2006. State appropriations revenue increased \$8.5 million, from \$77.1 million to \$85.6 million. Included in the \$8.5 million increase are one-time state appropriations of \$1.4 million earmarked for equipment purchases and program development. In 2004, the University was permitted to use \$2.5 million of its 2005 appropriation so that tuition increases could be evenly implemented during each year of the 2004-2005 biennium. Had this amount not been forward-funded, the appropriations would have been approximately \$79.6 million during 2005.

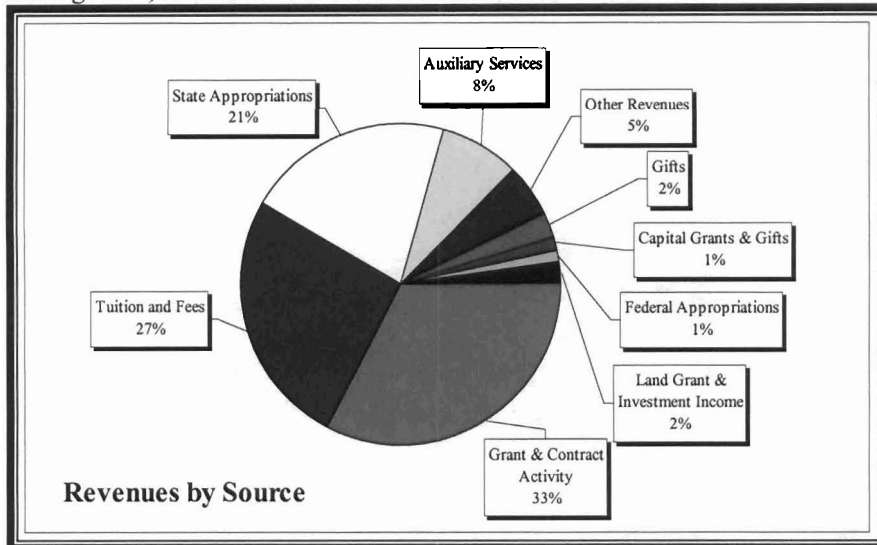
Investment income increased \$3.5 million. The primary vehicle for investing is the State's Short-Term Investment Pool (STIP). STIP rates averaged 2.28% in 2005, and 4.25% in 2006. In addition, the University invested approximately \$40.6 million in unexpended bond proceeds during 2006, as compared with \$21.1 million during 2005.



Montana State University
(a component unit of the State of Montana)
Management's Discussion and Analysis
As of and For Each of the Years Ended June 30, 2006

(continued)

During 2006, revenues were derived as follows:

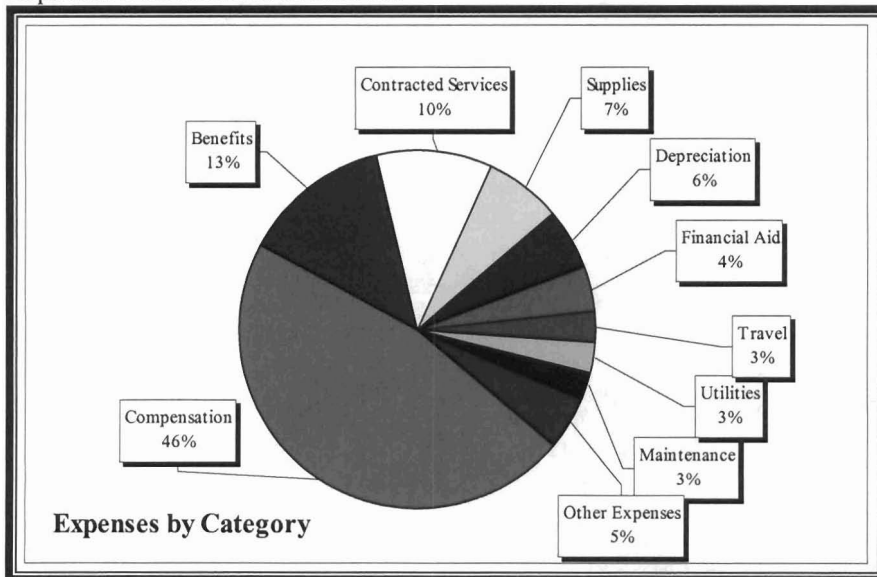


(in millions)

Source	Amount
Grant & Contract Activity	\$ 131.4
Tuition and Fees	105.1
State Appropriations	85.6
Auxiliary Services	33.4
Gifts	9.7
Land Grant & Investment Income	8.8
Capital Grants & Gifts	5.3
Federal Appropriations	5.0
Other Revenues	21.4
Total revenues	\$ 405.7

Sources of recurring revenues are expected to remain strong, with a trend toward higher levels of University-generated revenues such as grant and contract activity, and other entrepreneurial activities.

Expenses were incurred as follows:



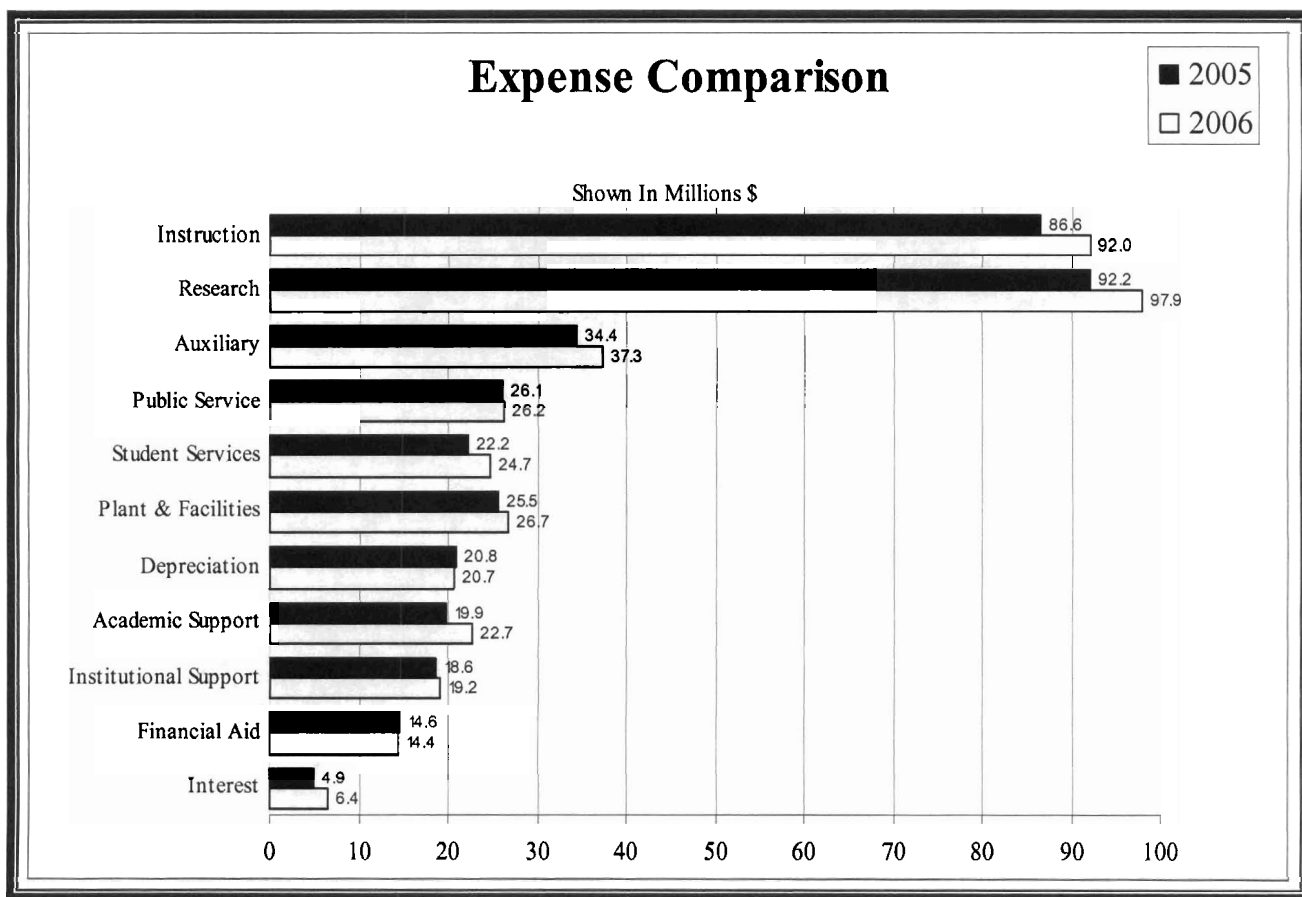
(in millions)

Category	Amount
Compensation	\$ 175.7
Benefits	50.5
Contracted Services	40.0
Supplies	26.1
Depreciation	20.7
Financial Aid	14.4
Travel	10.5
Utilities	10.1
Maintenance	10.0
Other Expenses:	
Cost of Sales	6.1
Communication	4.5
Interest Expense	6.4
Rent	3.7
Other	9.4
Total expenses	\$ 388.1

Proportions of revenues and expenses have generally remained constant as compared with prior years. Revenues are derived primarily from grant and contract activity, student charges, and state appropriations. Expenses are primarily employee-related. These relationships are expected to continue.

➤ **Operating expenses** increased \$20.8 million. Instruction and research activities together constitute approximately half of the University's expenses, and were two of the primary programs showing a marked increase, consistent with higher enrollment, a growing research program and increasing compensation costs.

Auxiliary services expenses increased \$2.9 million, reflecting increased costs in all areas including utilities, contracted services, and compensation. Student services expenses increased \$2.5 million, primarily due to increased compensation and benefits expenses. Plant and facilities expenses increased \$1.2 million as compared with 2005, due primarily to an increase in energy costs, which overall added \$1.4 million to operating expenses. Academic support expenses increased \$2.8 million, due to increased library subscription costs and compensation and benefits expenses. Interest expense increased \$1.5 million due to the issuance of Series J debt in July of 2005, as well as slightly higher rates on the University's Series G variable rate debt.



Overall expenses are expected to grow, consistent with increases in instruction-related expenses, research activity, and compensation costs.

Comparison of 2005 and 2004 Results of Operations

The University's net assets increased \$9.9 million during 2005, resulting largely from \$4.6 million in capital gifts, grants and contributions, \$1.0 million in permanent endowment contributions, and other excesses of revenue over expense totaling \$4.3 million. Capital grant revenues include \$3.4 million provided by the State of Montana under authorization from its long-range building program, of which \$2.8 million was recorded by MSU- Northern related to the construction of its applied technology center. In addition, \$1.2 million in assets were granted or donated to MSU campuses for use in functions ranging from digital television broadcasting to scientific research.

- **Operating revenues** increased \$21.5 million from 2004 to 2005, largely due to an increase in grant and contract-related revenues of approximately \$9.4 million, or 7.9%. Grant and contract-related revenues include research grants funded by Federal, State and private sponsors, as well as over \$21 million in financial aid. The University maintains a vibrant Research and Creative Activities function that has experienced dramatic growth in the past year. These activities accounted for \$108.1 million in operating revenues during 2005.

Tuition and fee revenues increased approximately \$9.6 million, or 11.3%. While the number of full-time equivalent students decreased 1.5% compared with 2004, the primary reason for increased tuition and fee revenue was an approximate 11.3% average tuition increase, coupled with an increase in non-resident students who pay the full cost of education.

- State appropriations revenue, considered **non-operating revenue**, decreased by \$5.3 million from \$82.4 million to \$77.1 million, or 6.4%. In 2004, the University was permitted to use \$2.5 million of its 2005 appropriation so that tuition increases could be evenly implemented during each year of the 2004-2005 biennium. Had this amount not been forward-funded, the appropriations would have been stable in 2004 and 2005.
- **Operating expenses** increased \$18.5 million. Instruction and research activities together constitute approximately half of the University's expenses, and were two of the primary programs showing a marked increase, consistent with higher enrollment and a growing research program.

Plant and facilities expenses decreased slightly as compared with 2004, primarily because facilities staff spent more time during 2004 working on projects which resulted in capitalized building improvements, and therefore were not reflected in operating expenses. Utility costs increased due to rising rates. In fiscal year 2006, students paid a temporary utility surcharge to help offset the effect of these increases.

ASSETS, LIABILITIES AND NET ASSETS

Condensed Statements of Net Assets
(in millions)

ASSETS	2006	2005	2004
Current assets	\$ 127.0	\$ 116.5	\$ 118.7
Capital assets, net	249.2	242.2	239.3
Other noncurrent assets	84.8	62.3	28.1
Total assets	\$ 461.0	\$ 421.0	\$ 386.1
LIABILITIES			
Current liabilities	\$ 54.0	\$ 53.6	\$ 49.9
Noncurrent liabilities	168.0	145.3	124.1
Total liabilities	\$ 222.0	\$ 198.9	\$ 174.0
NET ASSETS			
Invested in capital assets, net	\$ 157.1	\$ 151.7	\$ 147.7
Restricted, expendable	11.7	10.8	9.2
Restricted, non-expendable	11.8	11.1	9.8
Unrestricted	58.4	48.4	45.4
Total net assets	\$ 239.0	\$ 222.1	\$ 212.1

The *Statement of Net Assets* is presented in a classified format, which differentiates between current and non-current assets and liabilities, and also categorizes Net Assets (formerly called "Fund Balance") into four categories.

The University's overall financial position is strong, with Net Assets showing an increase of \$16.9 million from the prior year.

Comparison of 2006 and 2005 Assets, Liabilities and Net Assets

- **Current assets** include the University's cash; accounts, grants and loans receivable; inventories; and other assets expected to benefit the University within one year. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. The increase of \$10.5 million in current assets resulted from an increase of \$7.1 million in current cash and equivalents, which is discussed in detail in conjunction with the Statement of Cash Flows, as well as fluctuations in several current asset categories.
- **Capital assets, net** increased \$7.1 million, resulting from asset additions of \$28.5 million, offset by depreciation expense of \$20.6 million and \$0.8 million in net book value of asset retirements, as summarized in Note 7 to the financial statements.

Asset additions included \$13.7 million in capitalized construction projects. MSU- Bozeman's chemistry/biochemistry research facility, which will total approximately \$24.5 million upon completion, added \$6.3 million in construction progress during 2006. Also in Bozeman, design and construction began on a \$28 million student facilities enhancement project, contributing \$1.7 million in capital assets during 2006. Three student facilities will be improved during the project, including renovation of the student union building and fitness center complex, and construction of a new theater. A number of smaller projects make up the remaining increase.

Equipment additions totaled \$8.1 million during 2006. Research and instruction in the sciences require a substantial equipment investment. In 2006, MSU invested in many scientific acquisitions, including a tunable laser system, a multi-user computer server cluster, dynamometers, and a confocal microscope with a fluorescence and radioactivity laser scanner. Such equipment acquisitions include many grant-funded items.

Approximately \$2.1 million in library materials were acquired in 2006.

- **Other noncurrent assets** include unexpended bond proceeds, endowment fund assets, student loans receivable, investments expected to mature over a period longer than one year, and donated funds restricted to use for facility construction. The balance increased \$29.5 million, due to two primary factors. Restricted investments included an additional \$24.3 million in unexpended bond proceeds related to the Series J debt issued for Student Facilities Enhancements. Additionally, the University invested an additional \$5.0 million in the State's Trust Fund Bond Pool that was previously held as cash or in the State's Short-Term Investment Pool.
- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, and debt principal payments due within one year. The balance did not fluctuate significantly from 2005 to 2006.
- **Noncurrent liabilities** include debt and advance liabilities, the amount of compensated absence liability estimated to be payable after a one-year period, and amounts which would be payable to the Federal government should the University choose to cease participation in the Federal Perkins Loan or Nursing Loan programs. These balances increased \$22.7 million, resulting from the issuance of Series J 2005 bonds in the amount of \$25.8 million in July, 2005, offset by scheduled repayments of bond principal. Other, less significant, fluctuations also contributed to the overall increase.
- Amounts **invested in capital assets, net of related debt**, consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Balances increased \$5.4 million due to asset additions and debt repayment.
- **Restricted, expendable net assets** represent balances that may be expended by the University, but only in accordance with restrictions imposed upon the University by an external party, such as a donor or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities. Approximately \$4.7 million is held by trustees in accordance with bond covenants, and may only be expended for the renewal and replacement of assets whose revenues are pledged as security for the repayment of debt. An additional \$2.8 million relates to amounts held on the University's behalf by the MSU Foundation, which is to be expended for the construction of an agricultural research facility. Debt retirement funds account for \$1.1 million of the restricted balance.
- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as the University portion of student loans receivable under the Federal Perkins and Nursing Loan programs. Balances increased \$0.5 million during 2006, primarily from endowment fund gifts additions of \$0.4 million.
- **Unrestricted net assets** may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, funds earmarked for facility renewal and replacement, and student organization funds. Details regarding the purposes for which unrestricted net assets are designated are contained in Note 13 to the audited financial statements.

Comparison of 2005 and 2004 Assets, Liabilities and Net Assets

- **Current assets** include the University's cash; accounts, grants and loans receivable; inventories; and other assets expected to benefit the University within one year. Accounts and grants receivable result primarily from sponsored projects that are payable on a cost-reimbursement basis, and also from student accounts. The decrease of \$2.2 million in current assets resulted from a decrease of \$1.0 million in current cash and equivalents, which is discussed in detail in conjunction with the Statement of Cash Flows, as well as slight fluctuations in several current asset categories.
- **Capital assets, net** increased \$2.9 million, resulting from asset additions of \$24.0 million, offset by depreciation expense of \$19.9 million and asset retirements of \$1.2 million.

Increases included \$10.8 million in construction project additions, including \$2.8 million toward MSU- Northern's Applied Technology Center, which is nearing completion, and will house state of the art automotive and diesel instruction centers. MSU- Bozeman's chemistry/biochemistry research facility, which will total approximately \$24.5 million upon completion, added \$1.4 million in construction progress during 2005. Also in Bozeman, design and construction began on a \$28 million student facilities enhancement project, contributing \$1.2 million in capital assets during 2005. Three student facilities will be renovated during the project, including the student union building, theater, and health and P.E. complex.

Approximately \$3.6 million in library materials were added, replacing \$1.9 million of obsolete materials. Equipment totaling \$8.1 million was acquired. Research and instruction in the sciences require a substantial equipment investment. Most large equipment acquisitions were for scientific equipment, with the six largest items totaling \$1.3 million. Scientific acquisitions related largely to the University's research and instruction programs, and included many grant-funded items.

- **Other noncurrent assets** include unexpended bond proceeds, endowment fund assets, student loans receivable, investments expected to mature over a period longer than one year, and donated funds restricted to use for facility construction. The balance increased \$34.4 million, due to two primary factors. Restricted investments in 2005 include \$23.2 million in unexpended bond proceeds related to the Series H 2004 debt issued for construction of the chemistry/biochemistry facility. In addition, the University invested \$10.0 million in the State's Trust Fund Bond Pool that had previously been in cash or short-term investments.
- **Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, and debt principal payments due within one year. The balance increased \$3.7 million, resulting primarily from \$1.2 million in securities lending liability. Because the University joined the Trust Fund Bond Pool during the year, its securities were available for lending through the State's Board of Investments, whereas they had not been in 2004. Other, less significant fluctuations, also contributed to the overall increase.
- **Noncurrent liabilities** include debt and advance liabilities, the amount of compensated absence liability estimated to be payable after a one-year period, and amounts which would be payable to the Federal government should the University choose to cease participation in the Federal Perkins Loan or Nursing Loan programs. These balances increased \$21.2 million, resulting from the issuance of Series H 2004 bonds in the amount of \$23.7 million in October, 2004, offset by scheduled repayments of bond principal. Series I refunding bonds were issued, which refunded the Series D 1996 bonds. Other, less significant, fluctuations also contributed to the overall increase.
- Amounts **invested in capital assets, net of related debt**, consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Balances increased \$4.0 million due to asset additions and debt repayment.

- **Restricted, expendable net assets** represent balances that may be expended by the University, but only in accordance with restrictions imposed upon the University by an external party, such as a donor or through a legislative mandate. The University's most significant restricted, expendable balances relate to funds restricted to use for the construction, renewal or replacement of facilities. Approximately \$3.1 million is held by trustees in accordance with bond covenants, and may only be expended for the renewal and replacement of assets whose revenues are pledged as security for the repayment of debt. An additional \$2.8 million relates to amounts held on the University's behalf by the MSU Foundation, which is to be expended for the construction of an agricultural research facility. Debt retirement funds account for \$1.2 million of the restricted balance.
- **Restricted, non-expendable** balances must be held in perpetuity, and include endowment principal as well as the University portion of student loans receivable under the Federal Perkins and Nursing Loan programs. Balances increased \$1.4 million during 2005, primarily from endowment fund gifts additions of \$1.0 million.
- **Unrestricted net assets** may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for employee termination payouts, funds earmarked for facility renewal and replacement, and student organization funds. Details regarding the purposes for which unrestricted net assets are designated are contained in Note 13 to the audited financial statements.

CASH FLOWS

Condensed Statements of Cash Flows (in millions)

	2006	2005	2004
Cash provided/(used) by:			
Operating activities, net	\$ (64.1)	\$ (55.1)	\$ (65.8)
Noncapital financing activities, net	95.9	89.3	92.6
Capital and related financing activities, net	(7.8)	(1.9)	(24.3)
Investing activities, net	(16.8)	(34.3)	1.5
Net increase (decrease) in cash	7.2	(1.9)	4.0
Cash, beginning of year	85.1	87.0	83.0
Cash, end of year	\$ 92.3	\$ 85.1	\$ 87.0

The *Statement of Cash Flows* presents information related to cash inflows and outflows, categorized by operating, noncapital financing, capital financing, and investing activities. The reconciliation of operating loss to cash used in operations explains the relationship between the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, showing that increases and decreases in operating assets often require the use or receipt of cash, but do not result in recognition of a revenue or an expense.

Comparison of 2006 and 2005 Cash Flows

Cash and equivalents increased \$7.2 million during 2006, largely due to a \$3.8 million increase in investment income. During the prior year, cash decreased \$1.9 million. A year-to-year comparison of each type of cash flow follows.

- **Operating activities** used \$64.1 million in cash, resulting primarily from an operating loss of \$85.4 million. The operating loss was offset by non-cash expenses of \$21.2 million, primarily depreciation and amortization. Other, less significant, increases and decreases also contributed to the change.

In the prior year, operating activities used \$55.1 million in cash, resulting primarily from an operating loss of \$81.8 million. The operating loss was offset by non-cash expenses of \$21.4 million, primarily depreciation and amortization. Collections on accounts and grants receivable contributed \$2.0 million in operating cash. Other, less significant, increases and decreases also contributed to the change.

- **Noncapital financing activities** provided \$95.9 million in cash, resulting from \$84.4 million in state appropriations, \$2.3 million of land grant income, and \$9.3 million in expendable gifts. In the prior year, noncapital financing activities provided \$89.3 million in cash, resulting from \$77.1 million in state appropriations, \$2.9 million of land grant income, and \$8.6 million in expendable gifts. Gifts were received primarily from foundations and other support organizations.
- **Capital and related financing activities** used \$7.8 million in cash, resulting primarily from \$26.2 million received as bond proceeds, offset by \$10.8 million in debt interest and principal payments, and \$23.2 million expended to acquire capital assets. In the prior year, these activities used \$1.9 million in cash, resulting primarily from \$57.2 million received as bond proceeds, offset by \$37.5 million in debt principal payments (including refunded debt of \$16.7 million), and \$19.6 million expended to acquire capital assets.
- **Investing activities** used \$16.8 million, resulting from the purchase of \$32.0 million in investments, offset by proceeds from sales of investments of \$8.6 million and investment income of \$6.7 million. Unexpended bond proceeds of \$24.3 million from the Series J 2005 issuance were invested until their use is required for the project. In addition, the University invested an additional \$5.0 million in the State of Montana's Trust Fund Bond Pool. In the prior year, investing activities used \$34.3 million, resulting from the purchase of \$37.5 million in investments, offset by investment income received of \$2.9 million. Unexpended bond proceeds of \$21.1 from the Series H 2004

issuance were invested until their use is required for the project. In addition, the University invested \$10.0 million in the State of Montana's Trust Fund Bond Pool, rather than in cash or cash equivalents as in prior years.

Comparison of 2005 and 2004 Cash Flows

Cash and equivalents decreased \$1.9 million during 2005, primarily because bond proceeds and other university cash were used to purchase investments. During the prior year, a \$4.0 million increase in cash and equivalents was generated. A year-to-year comparison of each type of cash flow follows.

- **Operating activities** used \$55.1 million in cash, resulting primarily from an operating loss of \$81.8 million. The operating loss was offset by non-cash expenses of \$21.4 million, primarily depreciation and amortization. Collections on accounts and grants receivable contributed \$2.0 million in operating cash. Other, less significant, increases and decreases also contributed to the change.

In the prior year, operating activities used \$65.8 million in cash, resulting primarily from an operating loss of \$84.9 million. The operating loss was offset by non-cash expenses of \$21.5 million. Issuance of student loans outpaced the collection of loan repayments by \$1.5 million, resulting in a decreased cash balance. Other, less significant, increases and decreases also contributed to the change in operating cash.

- **Noncapital financing activities** provided \$89.3 million in cash, resulting from \$77.1 million in state appropriations, \$2.9 million of land grant income, and \$8.6 million in expendable gifts. Gifts were received primarily from foundations and other support organizations. In the prior year, noncapital financing activities provided \$92.6 million in cash, resulting from \$82.4 million in state appropriations, \$1.7 million of land grant income, and \$7.7 million of gift income.
- **Capital and related financing activities** used \$1.9 million in cash, resulting primarily from \$57.2 million received as bond proceeds, offset by \$37.5 million in debt principal payments (including refunded debt of \$16.7 million), and \$19.6 million expended to acquire capital assets. In the prior year, these activities used \$24.2 million in cash, resulting primarily from \$18.0 million expended to acquire capital assets, \$19.6 million in bond issuance proceeds, \$22.5 million in debt principal payments (including refunded debt of \$18.1 million), and \$4.0 million in cash paid for interest, primarily related to bond indebtedness.
- **Investing activities** used \$34.3 million, resulting from the purchase of \$37.5 million in investments, offset by investment income received of \$2.9 million. Unexpended bond proceeds of \$21.1 from the Series H 2004 issuance were invested until their use is required for the project. In addition, the University invested \$10.0 million in the State of Montana's Trust Fund Bond Pool, rather than in cash or cash equivalents as in prior years. In the prior year, investing activities generated \$1.5 million, resulting primarily from investment income.

BONDS, NOTES, AND CAPITAL LEASES

As of June 30, 2006, the University had approximately \$129.3 million in outstanding bonds, notes, and capital lease principal, which is an increase of \$21.7 million compared with \$107.6 million at June 30, 2005; see note 10 to the financial statements. During 2006, the University issued bonds for the enhancement of student facilities at the Bozeman campus. Enhancements include renovation of the student union building, construction of a theater, and renovation of the student fitness center. The entire project is estimated at \$28.0 million, with existing University resources supplementing \$25.8 million in bond proceeds. Increased student fees of approximately \$110 per academic year per full-time student were implemented beginning in the Fall of 2005 which, with certain other funding sources, are pledged for the repayment of the Series J bonds.

ECONOMIC OUTLOOK

Montana State University, like many other institutions, has steadily increased its tuition rates to keep pace with increasing costs. Other recent revenue increases have been achieved through several means: the growth of grant and contract activity; focused recruitment and retention efforts towards increasing the complement of out-of state students; and continued encouragement of the entrepreneurial spirit maintained by many University faculty and staff. Tuition rates are now slightly higher than our geographic peer group, although very affordable compared with national rates. It will be increasingly important to balance revenues with expenses to assure that access is achieved consistent with our land grant mission.

The State of Montana generated a budget surplus in the 2004-2005 biennium, and was able to direct one-time funds to the University, primarily the two-year campuses, for the 2006-2007 biennium. Discussions with regard to state funding of higher education in the 2008-2009 biennium are currently underway, and may result in a higher level of state funding and lower reliance on tuition increases than in the recent past. Progress was also made in terms of the proportion of state funding for certain fixed costs and employee pay, including both regular compensation and retirement payouts.

The U.S. Census Bureau projects that, over the next twenty years, the population of Montanans ages 18 – 24 will decrease, affecting the University through a decreased number of high-school graduates. Resident enrollment in the Fall 2006 semester, subsequent to the June 30, 2006 fiscal year-end, reflected this trend. Continued monitoring and management of the University's recruiting and the mix of in- and out-of-state student population and tuition rates is crucial.

To assist in the allocation of its resources, management evaluates University programs regularly, and maintains a budgeting process that is open to the public. Accountability and stewardship of the University's assets are stressed by top management, as is excellence in the programs offered. University management will continue to determine the proper balance between spending and revenue, to ensure that quality programs remain while access to the University is not unduly limited by the cost of attendance.

Montana State University
a component unit of the State of Montana
Consolidated Statements of Net Assets
As of June 30

ASSETS	2006	2005
Current assets:		
Cash and cash equivalents	\$ 92,218,809	\$ 85,045,611
Securities lending collateral	1,537,765	1,203,088
Accounts and grants receivable, net	7,479,652	6,921,731
Amounts receivable from Federal government	13,483,772	12,252,646
Amounts receivable from primary government	2,546,883	854,785
Amounts receivable from other State of Montana component units	24,027	190,573
Loans receivable, net	5,031,227	4,787,338
Inventories	2,728,555	2,799,030
Prepaid expenses and other current assets	1,987,100	2,464,644
Total current assets	127,037,790	116,519,446
Noncurrent assets:		
Restricted cash and cash equivalents	71,542	71,474
Restricted investments	51,318,265	31,306,565
Loans receivable, net	16,664,970	17,014,959
Investments	15,744,195	12,992,674
Other assets	1,003,121	941,546
Capital assets, net (see note 7)	249,230,706	242,164,819
Total noncurrent assets	334,032,799	304,492,037
Total assets	461,070,589	\$ 421,011,483
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 23,773,020	\$ 24,091,379
Amounts payable to primary government	3,101,350	1,596,884
Amounts payable to other State of Montana component units	428,548	458,222
Securities lending liability	1,537,765	1,203,088
Property held in trust for others	911,183	1,177,966
Deferred revenues	7,791,222	8,623,299
Compensated absences	12,160,174	11,376,627
Current portion debt and capital lease obligations (note 10)	4,320,149	5,103,513
Total current liabilities	54,023,411	53,630,978
Noncurrent liabilities:		
Advances from primary government	8,550,869	8,687,113
Debt and capital lease obligations (note 10)	124,978,494	102,488,471
Compensated absences	13,305,594	13,213,944
Amounts payable to Federal government	21,159,764	20,910,053
Total noncurrent liabilities	167,994,721	145,299,581
Total liabilities	222,018,132	198,930,559
NET ASSETS		
Invested in capital assets, net of related debt	157,125,838	151,719,045
Restricted - nonexpendable:		
Endowments	7,874,266	7,344,826
Loans	3,968,906	3,803,430
Restricted - expendable:		
Scholarships	1,391,610	667,794
Research and other	2,919,823	2,678,914
Loans	310,399	365,123
Construction and renewal of plant facilities	5,930,857	5,912,189
Debt retirement	1,097,855	1,193,586
Unrestricted (note 13)	58,432,903	48,396,017
Total net assets	239,052,457	222,080,924
Total liabilities and net assets	\$ 461,070,589	\$ 421,011,483

The accompanying notes are an integral part of these financial statements.

Montana State University
a component unit of the State of Montana
UNIVERSITY COMPONENT UNITS-- Combined Statements of Financial Position
As of June 30 or December 31 (see Note 20)

Assets:	2006	2005
Cash and cash equivalents	\$ 5,917,252	\$ 3,387,077
Accrued dividends and interest	140,097	119,352
Investments	136,055,698	122,824,076
Amounts due from the institution or other MSU component units	1,205,169	814,390
Contributions receivable, net of allowance	5,244,678	4,585,228
Contracts, notes and other receivables	934,587	782,854
Student loans and other receivables	-	20,426
Non-depreciable capital assets	336,501	671,108
Depreciable capital assets, net	7,689,146	6,895,170
Other assets	2,739,027	2,033,353
Total assets	\$ 160,262,155	\$ 142,133,034
Liabilities and net assets:		
Liabilities		
Accounts payable	\$ 387,028	\$ 207,006
Accrued expenses and other liabilities	1,113,568	1,048,995
Compensated absences	244,371	194,667
Notes and bonds payable	2,539,776	2,683,737
Amounts due to the institution or other MSU component units	709,037	743,613
Liabilities to external beneficiaries	3,784,209	3,592,916
Custodial funds	14,514,799	13,319,228
Total liabilities	23,292,788	21,790,162
Unrestricted net assets	13,764,122	13,208,278
Temporarily restricted net assets	46,644,795	35,977,016
Permanently restricted net assets	76,560,450	71,157,578
Total net assets	136,969,367	120,342,872
Total liabilities and net assets	\$ 160,262,155	\$ 142,133,034

The accompanying notes are an integral part of these financial statements.

Montana State University
a component unit of the State of Montana

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

As of and for Each of the Years Ended June 30

OPERATING REVENUES	2006	2005
Tuition and fees (net of \$19,220,519 and \$18,123,904 scholarship discount); (\$7,662,392 and \$5,476,942 are pledged for repayment of bonds)	\$ 105,138,605	\$ 94,428,655
Federal appropriations	4,974,217	4,766,960
Federal grants and contracts	98,687,819	97,954,458
State grants and contracts	7,359,754	7,124,537
Non-governmental grants and contracts	8,440,394	7,882,960
Grant and contract facilities and administrative cost recoveries	16,941,909	16,226,346
Educational, public service and outreach revenues (\$3,818,973 and \$3,203,109 are pledged for repayment of bonds)	20,154,580	18,481,217
Auxiliary revenues:		
Housing (net of \$1,573,084 and \$1,372,312 scholarship discount); (\$3,414,193 and \$2,293,561 net revenues are pledged for repayment of bonds)	12,609,256	11,482,654
Food services (net of \$1,633,879 and \$1,473,856 scholarship discount); (\$2,605,521 and \$1,614,022 net revenues are pledged for repayment of bonds)	12,586,831	11,576,710
Other auxiliary sales and services (net of \$636,353 and \$650,456 scholarship discount); (\$1,629,644 and \$1,454,583 are pledged for repayment of bonds)	8,160,301	8,222,599
Interest earned on loans	101,514	233,547
Other operating revenues (\$300,000 in each year is pledged for repayment of bonds)	1,153,097	647,285
Total operating revenues	296,308,277	279,027,928
OPERATING EXPENSES		
Compensation and benefits	226,257,396	213,538,625
Operating expenses (Note 14)	120,400,167	111,894,354
Scholarships and fellowships (net of \$23,063,835 and \$21,620,528 scholarship discount)	14,356,792	14,597,874
Depreciation and amortization	20,663,238	20,840,982
Total operating expenses	381,677,593	360,871,835
Operating loss	(85,369,316)	(81,843,907)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	85,643,707	77,144,443
Land grant income (pledged as security for repayment of bonds)	2,313,011	2,851,784
Gifts (expendable)	9,346,358	8,576,108
Investment income (\$2,401,112 and \$875,732 are pledged for repayment of bonds)	6,443,147	2,857,426
Interest expense	(6,406,318)	(4,926,961)
Net nonoperating revenues (expenses)	97,339,905	86,502,800
Income before other revenues, expenses, gains and losses	11,970,589	4,658,893
Loss on disposals of capital assets	(721,748)	(309,220)
Additions to permanent endowment	400,000	1,002,781
Capital gifts, grants and contributions	5,322,692	4,591,696
Change in net assets	16,971,533	9,944,150
Net assets, beginning of year	222,080,924	212,136,774
Net assets, end of year	\$ 239,052,457	\$ 222,080,924

The accompanying notes are an integral part of these financial statements.

Montana State University
a component unit of the State of Montana
UNIVERSITY COMPONENT UNITS-- Combined Statement of Activities
As of and for the Year Ended June 30 or December 31 (see Note 20)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 (memo) Total
Revenues:					
Contributions	\$ 355,937	\$ 11,854,337	\$ 5,258,871	\$ 17,469,145	\$ 10,586,045
Investment, interest and dividend income	1,064,328	6,288,174	200,642	7,553,144	7,279,842
Net realized and unrealized gain (loss) on investments	3,359	629,931	6,731	640,021	259,790
Contract support and contributions from University	1,171,232	-	-	1,171,232	1,106,066
Special events	1,038,717	116,396	-	1,155,113	888,404
Other income	3,979,605	849,494	38,454	4,867,553	4,443,819
Net assets released from restrictions	9,045,990	(9,070,553)	24,563	-	-
Total revenues	16,659,168	10,667,779	5,529,261	32,856,208	24,563,966
Expenses:					
Program services					
University support	6,077,682	-	-	6,077,682	6,828,885
Academic and institutional	1,308,163	-	-	1,308,163	1,077,322
Scholarships and awards	3,516,197	-	-	3,516,197	2,851,323
Total program services expense	10,902,042	-	-	10,902,042	10,757,530
Operating expenses					
Fundraising efforts	2,283,948	-	-	2,283,948	1,850,844
General and administrative	1,756,408	-	-	1,756,408	1,727,193
Investment management costs	77,799	-	-	77,799	91,460
Other miscellaneous	1,057,317	-	126,389	1,183,706	1,159,039
Total operating expenses	5,175,472	-	126,389	5,301,861	4,828,536
Change in net assets before nonoperating items	581,654	10,667,779	5,402,872	16,652,305	8,977,900
Non-operating expenses					
Other nonoperating expenses					
Payments to beneficiaries and change in liabilities to external beneficiaries	(25,810)	-	-	(25,810)	(24,580)
Change in net assets	555,844	10,667,779	5,402,872	16,626,495	8,953,320
Net assets, beginning of fiscal year	13,208,278	35,977,016	71,157,578	120,342,872	111,389,552
Net assets, end of fiscal year	\$ 13,764,122	\$ 46,644,795	\$ 76,560,450	\$ 136,969,367	\$ 120,342,872

The accompanying notes are an integral part of these financial statements.

Montana State University
a component unit of the State of Montana
Consolidated Statements of Cash Flows
As of and For Each of the Years Ended June 30

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Operating revenues:		
Tuition and fees	\$ 104,352,847	\$ 95,001,041
Federal appropriations	4,852,853	4,644,810
Federal grants and contracts	97,398,856	101,213,943
State grants and contracts	6,862,204	7,546,218
Private grants and contracts	8,419,235	6,830,918
Grant and contract facilities and administrative cost recoveries	16,807,172	16,699,464
Educational, public service and outreach revenues	20,298,247	19,320,072
Sales and services of auxiliary enterprises	33,248,987	31,109,150
Interest on loans receivable	350,269	234,510
Other operating receipts	1,153,097	681,031
Operating expenses:		
Compensation and benefits	(225,097,221)	(211,897,187)
Operating expenses	(118,485,660)	(111,329,045)
Scholarships and fellowships	(14,356,792)	(14,597,875)
Loans made to students	(5,233,542)	(5,104,443)
Loan payments received	5,339,642	4,567,547
Net cash used in operating activities	(64,089,806)	(55,079,846)
Cash flows from noncapital financing activities:		
Receipts of funds held in trust for others	(468,354)	(177,050)
State appropriations	84,426,624	77,118,997
Gifts and contributions (expendable)	9,346,359	8,572,765
Land grant income (Note 2)	2,313,010	2,851,784
Repayment of long-term advance from primary government	(92,716)	(44,671)
Additions to permanent endowment	400,000	1,002,781
Net cash provided by noncapital financing activities	95,924,923	89,324,606
Cash flows from capital financing activities:		
Purchase of capital assets	(23,208,796)	(19,578,800)
Proceeds from sale of capital assets	135,227	186,477
Capital gifts, grants and contributions	151,201	2,440,714
Proceeds from borrowings	26,150,000	57,170,429
Debt repayment	(5,113,025)	(37,493,588)
Interest paid	(5,716,720)	(4,201,121)
Payment of debt issue costs	(252,472)	(637,683)
Advances from primary government	1,170,152	1,104,698
Repayment of advances from primary government	(1,183,466)	(845,721)
Net cash used in capital financing activities	(7,867,899)	(1,854,595)
Cash flows from investing activities:		
Purchase of investments	(32,038,015)	(37,538,237)
Proceeds from sale of investments	8,585,846	380,978
Investment income	6,658,217	2,857,427
Net cash provided by (used in) investing activities	(16,793,952)	(34,299,832)
Net change in cash and cash equivalents	7,173,266	(1,909,667)
Cash balances at beginning of year	85,117,085	87,026,752
Cash balances at end of year	\$ 92,290,351	\$ 85,117,085

The accompanying notes are an integral part of these financial statements.

Montana State University
a component unit of the State of Montana
Consolidated Statements of Cash Flows (continued)
As of and For Each of the Years Ended June 30

Reconciliation of Operating Loss to Net Cash Used in Operations

	<u>2006</u>	<u>2005</u>
Operating loss	\$ (85,369,316)	\$ (81,843,907)
Non-cash income and expense:		
Depreciation and amortization	20,663,238	20,840,982
Provision for uncollectible accounts	536,314	571,411
Changes in operating assets and liabilities:		
Accounts and grants receivable	(2,168,400)	1,996,640
Loans receivable	106,100	(544,275)
Inventories	70,473	33,688
Prepaid expenses	515,285	715,022
Accounts payable and other accrued liabilities	1,263,675	1,417,473
Deferred revenue	(832,079)	262,987
Compensated absences	875,192	1,331,772
Due to federal government	249,712	138,361
	<u>\$ (64,089,806)</u>	<u>\$ (55,079,846)</u>

Schedule of noncash financing and investing activities

	<u>2006</u>	<u>2005</u>
Capital assets contributed to the University	\$ 5,731,677	\$ 3,948,412
Capital assets acquired through issuance of capital lease obligations	\$ 54,610	\$ 14,191
Bond discount amortized to interest expense	\$ 600,074	\$ 572,490
Bond issue costs amortized to interest expense	\$ 54,696	\$ 46,281
Change in fair value of investments	\$ (651,208)	\$ 43,415

Reconciliation of cash and cash equivalents as shown on the Statements of Cash Flows to Cash as Shown in the Statements of Net Assets

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents classified as current assets	\$ 92,218,809	\$ 85,045,611
Cash and cash equivalents classified as non-current assets	71,542	71,474
Total cash and cash equivalents as reported on the Statements of Cash Flows	<u>\$ 92,290,351</u>	<u>\$ 85,117,085</u>

The accompanying notes are an integral part of these financial statements.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30

NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The accompanying financial statements include all activities of the four Montana State University campuses, the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School, collectively referred to as the “University.” The four campuses of the University are Montana State University–Bozeman, Montana State University–Billings, Montana State University–Northern (located in Havre) and Montana State University College of Technology–Great Falls. Significant interagency transactions have been eliminated in consolidation.

The University is a modern land grant university that serves the state, national and international communities by providing its students with academic instruction, conducting a high level of research activity, and performing other activities that advance fundamental knowledge, and by disseminating knowledge to the people of Montana.

A financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements for the University are included as a component unit of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*. The University was required to adopt the statement as of and for the year ended June 30, 2004. The statement requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity. The University has established a threshold minimum of 1% - 2% percent of consolidated net assets or 1% - 2% percent of consolidated revenues as an initial requirement for inclusion of an organization as a component unit in its financial statements. Other entities may be included, though, if the University determines that to exclude the entity would be misleading. All component units and other related organizations will be tested and evaluated on an annual basis for inclusion under GASB Statement No. 39. For further discussion of component units, see Note 20.

BASIS OF PRESENTATION

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November, 1999 by GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. The State of Montana implemented GASB Statement No. 34 as of and for the year ended June 30, 2002. As a component unit of the State of Montana, the University was also required to adopt GASB Statements No. 34 and No. 35. The latter statement was adopted as amended by GASB Statements No. 37 and No. 38.

The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University’s financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

are recognized when earned, and expenses are recorded when an obligation has been incurred. The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The State of Montana has elected not to apply FASB pronouncements issued after the applicable date.

SIGNIFICANT ACCOUNTING POLICIES

Cash equivalents – For purposes of the statement of cash flows, the University considers its unrestricted, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in the Short Term Investment Pool with the Montana Board of Investments are considered cash equivalents, as are certain investments held by trustees.

Investments – The University accounts for its investments at fair value in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

Accounts and grants receivable – Accounts receivable consist of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are reported net of estimated uncollectible amounts.

Allowances for uncollectible accounts – The University estimates the value of its receivables that will ultimately prove uncollectible, and has reported a provision for such as an expense in the accompanying financial statements.

Inventories – Inventories include consumable supplies, livestock, and food items and items held for resale or recharge within the University. Inventories are valued using First In First Out (FIFO) or specific identification methods.

Non-current cash and investments – Cash and investments that are externally restricted as to use are classified as non-current assets in the accompanying statement of net assets. Such assets include endowment fund cash and investments.

Capital assets – Capital assets are stated at cost or fair value at date of purchase or donation. Livestock held for educational purposes is recorded at estimated fair value. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance and minor renovations are charged to operating expense in the year in which the expense is incurred.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets, ranging from 3 years for certain software to 75 years for certain infrastructure assets. The University has elected to capitalize museum, fine art and special library collections, but does not record depreciation on those items.

Deferred revenues – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to events occurring in the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated absences – Eligible University employees earn a minimum of 8 hours sick and 10 hours annual leave for each month worked. Eligible employees may accumulate annual leave up to twice their annual accrual, while sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of accumulated annual leave, if not used during employment, is paid upon termination.

Net assets – Resources are classified in one of the following four net asset categories:

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Invested in capital assets, net of related debt – this represents the University’s total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets, nonexpendable – this represents net assets subject to externally imposed stipulations that the University maintain those assets permanently. Such assets include the University's permanent endowment funds.

Restricted net assets, expendable – this represents net assets whose use by the University is subject to externally imposed stipulations as to either the use or the period of availability of the assets.

Unrestricted net assets – this represents net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in Note 13.

Classification of revenues – The University has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have the characteristics of exchange transactions, including (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Non-operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Use of restricted revenues – When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis. Restricted funds remain classified as restricted until they are expended.

Income taxes – The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. Because tax liabilities are not considered to be material, no provision for income tax expense is reported in the accompanying financial statements.

Scholarship discounts and allowances – Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are computed as the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the University’s financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

NOTE 2 –CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

Cash deposits –The University must comply with State statutes, which generally require that cash and investments remain on deposit with the State treasury, and as such are subject to the State’s investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings through placing certain funds with recognized University foundations. Deposits with the State treasury and other financial institutions totaled \$37,947,041 at June 30, 2006 and \$54,822,628 at June 30, 2005.

Cash equivalents – These amounts consist of cash held by trustees as well as in a Short Term Investment Pool (STIP) with the Montana Board of Investments. Amounts held in STIP may be withdrawn by the University on demand, and as such are classified as cash equivalents, even though a portion of the pool’s underlying investments may be considered noncurrent.

STIP investments are purchased in accordance with the statutorily mandated “Prudent Expert Principle.” The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable-rate (floating-rate) instruments. These securities are purchased to provide shareholders with a diversified portfolio earning a competitive total rate of return.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. Commercial paper issued at a discount, direct or by brokers, is backed by bank credit lines. Repurchase agreements (REPOs) represent an agreement between a seller and a buyer, usually of US government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The STIP portfolio’s variable-rate securities float with LIBOR (London Interbank Offered Rate).

STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Funds held in STIP are reported at fair value as of June 30, based on market prices supplied to the Montana Board of Investments by its custodial bank.

Investments – These amounts consist of U.S. Government Securities, amounts invested in the Montana Board of Investments Trust Fund Bond Pool (TFBP), funds held in common investment pools administered by the MSU-Bozeman and MSU- Northern Foundations, as well as other funds held with trustees.

TFBP investments are purchased in accordance with the statutorily mandated “Prudent Expert Principle.” The TFBP portfolio includes securities classified as corporate, foreign government bonds, municipals, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

The TFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as U.S. government indirect-backed securities in the investment risk and portfolio disclosures.

TFBP fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The TFBP variable-rate securities float with LIBOR (London Interbank Offered Rate). Investments are presented in the TFBP Statement of Net Asset Value at fair value. Fair values for securities are determined primarily by reference to market prices supplied to the Board of Investments by its custodial bank, State Street Bank.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

The MSU- Bozeman and MSU- Northern Foundation Pools consist of certain endowment funds held in common investment pools. Such pools are administered by the separate Foundations and managed in accordance with investment policies in effect at each.

Securities lending transactions – During fiscal years 2006 and 2005, State Street Bank loaned, on behalf of the Montana Board of Investments, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2006 and 2005 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2006 and 2005. Moreover, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2006 and 2005, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust, which has a weighted average maturity of 35 and 49 days, respectively as of June 30, 2006 and 2005. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the University had no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts receivable from the borrowers.

The University maintained security lending cash collateral of \$1,537,765 at June 30, 2006, and \$1,203,088 at June 30, 2005.

Investment risks – Effective June 30, 2005, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – *Deposit and Investment Risk Disclosures*. Detailed asset maturity and other information demonstrating risk associated with the State of Montana Board of Investments STIP and TFBP is contained in the State of Montana Board of Investments financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126. Investment risks are described in the following paragraphs.

Credit Risk – Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, all STIP securities and TFBP fixed income instruments have credit risk as measured by major credit rating services. The Board of Investments' policy requires that STIP securities have the highest investment grade rating in the short term category by at least one Nationally Recognized Statistical Rating Organizations (NRSRO). The six NRSROs include Standard and Poor, Moody, Duff and Phelps, Fitch, IBCA and Thompson's Bank Watch. The Board of Investment's policy requires TFBP fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services.

U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, all STIP and TFBP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. According to the STIP Investment Policy, "repurchase agreements require electronic delivery of U.S. Government Treasury collateral, priced at 102 percent market value, to the designated State of Montana Federal Reserve Bank account." The TFBP's State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. The STIP Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for “minimum three (3%) percent or \$15 million, whichever is higher, to be invested in Repurchase Agreements.” As of June 30, 2006 and 2005, there were no single issuer investments that exceeded 5% of the STIP portfolio. According to the TFBP Investment Policy, “with the exception of U.S. government indirect-backed (agency) securities, additional TFBP portfolio purchases will not be made if the credit risk exceeds 2 percent of the portfolio at the time of purchase.” As of June 30, 2006 and 2005, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 7.75% and 8.19%, respectively.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a-7-like pool. The TFBP investment policy does not formally address interest rate risk.

The State of Montana has selected the effective duration method to disclose interest rate risk. The University’s investments are categorized below to disclose interest rate and credit risk as of June 30, 2006. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a security investment type is unrated, the quality type is indicated by NR. Although STIP and TFBP investments have been rated by investment security type, neither has been rated by an NRSRO.

Cash equivalents and investments are categorized as follows at June 30, 2006:

Security Type	Fair Value		Moody’s Credit Quality Rating at June 30, 2006	Effective Duration at June 30, 2006
	2006	2005		
State of Montana Short Term Investment Pool	\$ 51,908,470	\$ 29,571,127	NR	N/A
U. S. Bank Money Market Funds (collateralized by U.S. Bank pool, not in the University’s name)	1,465,841	324,010	P-1	N/A
State of Montana Trust Fund Bond Pool*	14,358,059	10,043,711	NR	N/A*
Foundation Pooled Cash and Investments*	10,743,739	9,252,365	NR	N/A*
U.S. Treasury Notes	739,617	1,532,675	NR	2.38
U.S. Treasury Bills	-	247,462	NR	-
U. S. Bank Certificates of Deposit (collateralized by U. S. Bank pool, not in the University’s name)	1,000,000	1,000,000	Aa1	1.46
U. S. Bank Guaranteed Investment Contracts (non-collateralized)	41,155,776	22,223,027	Aa1	1.59
Total Cash Equivalents & Investments	<u>\$ 121,371,502</u>	<u>\$ 74,194,377</u>		
Securities Lending Collateral Investment Pool	\$ 1,537,765	\$ 1,203,088	NR	N/A

* TFBP and Foundation investments are not intended for withdrawal.

Land grant earnings – The University benefits from two separate land grants which total 240,000 acres. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862. The second, under the Enabling Act of 1889, granted an additional 50,000 acres for agricultural institutions and 100,000 acres for state normal schools.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The State of Montana, Board of Land Commissioners, administers both grants and holds all endowed assets. The University’s land grant assets are not reflected in these financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Investment income from the perpetual endowment is distributed periodically to the University by the State of Montana, Board of Land Commissioners, and is reported as revenue in the accompanying financial statements. The University has currently pledged such income to the retirement of revenue bond indebtedness.

In addition to distributed endowment income, the University also receives revenue generated from trust land timber sales. The University has the flexibility to designate timber sales revenues as either distributable or for reinvestment, should it choose to expend the funds for certain specified purposes.

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	2006	2005
Accounts receivable	\$ 6,189,354	\$ 5,525,052
Other receivables, including private grants and contracts	3,403,887	3,461,518
Gross accounts and grants receivable	9,593,241	8,986,570
Less allowance for uncollectible accounts	(2,113,589)	(2,064,839)
Net accounts and grants receivable	<u>\$ 7,479,652</u>	<u>\$ 6,921,731</u>

NOTE 4 – INVENTORIES

Inventories consisted of the following as of June 30:

	2006	2005
Bookstore	\$ 1,065,690	\$ 1,183,261
Food services	295,283	293,247
Facilities services	229,681	248,759
Livestock	555,688	518,406
Other	582,213	555,357
Total inventories	<u>\$ 2,728,555</u>	<u>\$ 2,799,030</u>

NOTE 5 – PREPAID EXPENSES

Prepaid expenses consisted of the following as of June 30:

	2006	2005
Library subscriptions	\$ 727,000	\$ 1,401,032
Other	1,260,100	1,063,612
Total prepaid expenses	<u>\$ 1,987,100</u>	<u>\$ 2,464,644</u>

NOTE 6 – LOANS RECEIVABLE

Total loans receivable balances at June 30, 2006 and 2005 were \$21,696,198 and \$21,802,297, respectively. Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan balances. Included in non-current liabilities as of June 30, 2006 and 2005 are \$21,159,764 and \$20,910,053 that would be refundable to the Federal Government, should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portions of interest income and loan program expenses are shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the accompanying financial statements.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

NOTE 7 – CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2006 and 2005:

	Year Ended June 30, 2006				Balance June 30, 2006
	Balance July 1, 2005	Additions	Retirements	Transfers	
Capital assets not being depreciated:					
Land	\$ 4,240,069	\$ 2,268,301	\$ -	\$ -	\$ 6,508,370
Museum and fine art	4,319,153	46,500	-	-	4,365,653
Library special collections	3,460,950	-	-	-	3,460,950
Livestock for educational purposes	2,963,396	36,265	-	-	2,999,661
Construction work-in-progress	12,033,105	13,663,656	(57,359)	(9,642,612)	15,996,790
Total capital assets not being depreciated	27,016,673	16,014,722	(57,359)	(9,642,612)	33,331,424
Other capital assets:					
Furniture and equipment	91,772,607	8,111,418	(3,669,787)	-	96,214,238
Library materials	57,412,116	2,099,952	(180,761)	-	59,331,307
Buildings	168,420,836	1,798,610	-	4,208,002	174,427,448
Building improvements	126,505,666	516,294	-	5,114,825	132,137,785
Land improvements	13,286,580	-	-	319,785	13,606,365
Infrastructure	32,128,077	-	-	-	32,128,077
Total other capital assets	489,526,882	12,526,274	(3,850,548)	9,642,612	507,845,220
Accumulated depreciation	(275,159,931)	(20,329,493)	3,050,933	-	(292,438,491)
Other capital assets, net	214,366,951	(7,803,219)	(799,615)	9,642,612	215,406,729
Intangible assets, net	781,195	45,102	(333,744)	-	492,553
Capital Assets, net	\$ 242,164,819	\$ 8,256,605	\$ (1,190,718)	\$ -	\$ 249,230,706

Historical records are not available for certain of the University's assets. As such, some values have been estimated based on insurance values, industry-accepted valuation techniques, or estimates made by University personnel knowledgeable as to the assets' values. Livestock held for educational purposes consist primarily of cattle herds. Breeding cattle are routinely replaced in the herds by their offspring; additions and deductions from the asset cost are not reported for reproducing cattle replaced in this manner.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

	Year Ended June 30, 2005				Balance June 30, 2005
	Balance July 1, 2004	Additions	Retirements	Transfers	
Capital assets not being depreciated:					
Land	\$ 4,240,069	\$ -	\$ -	\$ -	\$ 4,240,069
Museum and fine art	4,319,153	-	-	-	4,319,153
Library special collections	3,460,950	-	-	-	3,460,950
Livestock for educational purposes	2,757,710	205,686	-	-	2,963,396
Construction work-in-progress	5,787,224	10,785,343	(28,291)	(4,511,171)	12,033,105
Total capital assets not being depreciated	20,565,106	10,991,029	(28,291)	(4,511,171)	27,016,673
Other capital assets:					
Furniture and equipment	86,525,992	8,087,302	(2,840,687)	-	91,772,607
Library materials	55,700,604	3,564,994	(1,853,482)	-	57,412,116
Buildings	167,833,641	587,195	-	-	168,420,836
Building improvements	121,583,414	412,081	-	4,511,171	126,506,666
Land improvements	13,129,316	157,264	-	-	13,286,580
Infrastructure	32,128,077	-	-	-	32,128,077
Total other capital assets	476,901,044	12,808,836	(4,694,169)	4,511,171	489,526,882
Accumulated depreciation	(259,555,088)	(19,952,615)	4,347,772	-	(275,159,931)
Other capital assets, net	217,345,956	(7,143,779)	(346,397)	4,511,171	214,366,951
Intangible assets, net	1,405,751	197,644	(822,200)	-	781,195
Capital Assets, net	\$ 239,316,813	\$ 4,044,894	\$ (1,196,888)	\$ -	\$ 242,164,819

NOTE 8 – DEFERRED REVENUES

Deferred revenues consisted of the following as of June 30:

	2006	2005
Grant and contract funds received in advance	\$ 3,822,003	\$ 4,606,360
Summer session payments received in advance	3,637,491	3,751,887
Other deferred revenues	331,728	265,052
Total	\$ 7,791,222	\$ 8,623,299

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of June 30:

	2006	2005
Compensation, benefits and related liabilities	\$ 16,404,156	\$ 16,401,248
Accrued interest expense	529,559	492,842
Accounts payable and other accrued liabilities	6,839,305	7,197,289
Total	\$ 23,773,020	\$ 24,091,379

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

NOTE 10 – NON-CURRENT LIABILITIES

Following are the changes in non-current liabilities for the years ended June 30, 2006 and 2005:

	Year Ended June 30, 2006				
	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Bonds and notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 106,259,612	\$ 25,750,000	\$ (4,239,928)	\$ 127,769,684	\$ 4,120,000
Notes and other debt	1,291,399	400,000	(222,697)	1,468,702	172,405
Capital lease obligations	40,973	54,610	(35,326)	60,257	27,744
Total bonds, notes and capital lease obligations	\$ 107,591,984	\$ 26,204,610	\$ (4,497,951)	\$ 129,298,643	\$ 4,320,149
Compensated absence liability	\$ 24,590,572	\$ 12,698,508	\$ (11,823,312)	\$ 25,465,768	\$ 12,160,174
Advances from primary government	\$ 9,869,954	\$ 1,170,152	\$ (1,229,256)	\$ 9,810,850	\$ 1,259,981
Amounts payable to Federal government	\$ 20,910,052	\$ 249,712	\$ -	\$ 21,159,764	\$ -

Amounts not due within one year are reflected in the non-current liabilities section of the accompanying Statement of Net Assets, and as of June 30, 2006, include \$124,978,494 in bonds, notes and capital lease obligations, \$8,550,869 advances from primary government and \$13,305,594 in compensated absence liabilities.

	Year Ended June 30, 2005				
	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Bonds and notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 85,616,694	\$ 56,207,918	\$ (35,565,000)	\$ 106,259,612	\$ 4,855,000
Notes and other debt	1,638,510	-	(347,111)	1,291,399	222,697
Capital lease obligations	61,605	14,191	(34,823)	40,973	25,816
Total bonds, notes and capital lease obligations	\$ 87,316,809	\$ 56,222,109	\$ (35,946,934)	\$ 107,591,984	\$ 5,103,513
Compensated absence liability	\$ 23,258,802	\$ 12,096,379	\$ (10,764,609)	\$ 24,590,572	\$ 11,376,627
Advances from primary government	\$ 9,655,645	\$ 1,104,698	\$ (890,389)	\$ 9,869,954	\$ 1,182,840
Amounts payable to Federal government	\$ 20,771,691	\$ 157,741	\$ (19,380)	\$ 20,910,052	\$ -

Amounts not due within one year are reflected in the non-current liabilities section of the accompanying Statement of Net Assets, and as of June 30, 2005, included \$102,488,471 in bonds, notes and capital lease obligations, \$8,687,113 advances from primary government and \$13,213,944 in compensated absence liabilities.

Interest rate exchange agreement related to long-term debt – In March 2005, the University entered into a forward-starting interest rate swap agreement with Deutsche Bank AG (“counterparty”). The notional amount of the swap as of June 30, 2006, is \$25,750,000, and equals the University’s Series J 2005 Bond principal outstanding. The instrument converts the Series J 2005 bonds, issued July 21, 2005, from a variable rate to an intended synthetic fixed rate of 3.95%. The swap was executed approximately 4 months in advance of the Series J 2005 bond issuance, to allow the University to lock in the then current market interest rates, and its effective date was concurrent with the bond issue date.

The counterparty to the swap has the option to unwind the swap in 2016 (the “swaption”), exposing the University to rollover risk for the Series J Bonds’ remaining term. If the swaption is not exercised in 2016, the swap terminates in November, 2035, at which time the Series J 2005 Bonds mature. The swaption date of 2016 coincides with the date at which the University’s only other variable rate debt, the Series G 2003 issuance, matures. Such timing is

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

intended to limit the University's exposure to interest rate risk by allowing the Series J debt to convert to a variable rate only after the Series G variable rate debt matures.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. At June 30, 2006 and 2005, the fair value of the swap was (\$45,500) and (\$1,615,994). Such value was provided to the University by an independent valuation firm in 2006 and by the counterparty in 2005, and was calculated using mid-market levels as of the close of business on June 30. The value is negative because as of June 30, 2006 and 2005, the University has committed to pay a fixed rate that exceeds the June 30, 2006 and 2005, Bond Market Association Municipal Swap index ("BMA") rate, and includes the fair value of the swaption.

The University is subject to basis risk, because the interest rate which the University pays to bondholders is based on the Municipal Auction Rate Securities ("MARS") rate, while the interest rate the University receives from the counterparty is based on the BMA index. The difference between funds received from the counterparty at BMA and funds paid to the bondholders at MARS can result in a difference between the intended synthetic interest rate and the effective synthetic interest rate. As of June 30, 2006, the BMA rate received from the counterparty was 3.69% and the MARS rate paid to bondholders was 3.2%, resulting in a positive basis difference of 0.49%.

Credit risk is dependent upon the credit quality rating of the counterparty. At June 30, 2006 and 2005, the University was not subject to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value become positive, the University would be exposed to credit risk in the amount of the fair value of the swap. To mitigate credit risk, the counterparty must maintain at least double-A category ratings from both Moody's and S&P, and must post collateral with a third party in the event of a rating downgrade.

The University or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bonds would no longer carry a synthetic rate. In addition, the University may be required to pay an amount equal to the swap's fair value, if negative.

Swap interest as of June 30, 2006, netted 0.26%, which is the difference between the fixed rate of 3.95% paid to the counterparty and 3.69% received from the counterparty at the BMA rate. Repayment schedules using interest rates in effect as of June 30, 2006, are included in Note 11, below.

NOTE 11 – BONDS, NOTES AND ADVANCES PAYABLE

Revenue bonds payable at June 30, 2006 were as follows:

Series 1993 A

Payable during the year ending June 30,	Interest Rate*	Principal	Interest	Total
2008	5.00%	\$ 1,208,611	\$ 1,206,389	\$ 2,415,000
2009	5.05%	1,314,579	1,465,421	2,780,000
2010	5.10%	1,240,881	1,539,119	2,780,000
2011	5.15%	1,170,185	1,609,815	2,780,000
2012-2016	5.20%	1,102,465	1,677,535	2,780,000
Total cash requirements		\$ 6,036,721	\$ 7,498,279	\$ 13,535,000
Accreted discount on capital appreciation bonds			<u>5,374,674</u>	
Accreted balance			<u>\$ 11,411,395</u>	

* Effective rate calculated on deep discount bonds

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Series 1996 B

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2007	5.75%	\$ 2,555,000	\$ 87,573	\$ 2,642,573
2008	5.75%	235,000	6,812	241,812
Total cash requirements		\$ 2,790,000	\$ 94,385	\$ 2,884,385

Series 1996 D

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2007	4.88%	\$ 705,000	\$ 410,273	\$ 1,115,273
2008	5.00%	145,000	389,414	534,414
2009	5.00%	120,000	382,784	502,784
2010	5.13%	130,000	376,454	506,454
2011	5.25%	135,000	369,579	504,579
2012-2016	5.25-5.38%	805,000	1,728,820	2,533,820
2017-2021	5.38%	4,100,000	1,165,339	5,265,339
2022-2026	5.38%	1,880,000	237,227	2,117,227
Total cash requirements		\$ 8,020,000	\$ 5,059,890	\$ 13,079,890

Series 1998 E

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2007	4.30%	\$ 290,000	\$ 319,929	\$ 609,929
2008	4.35%	305,000	307,063	612,063
2009	4.40%	315,000	293,502	608,502
2010	4.50%	330,000	279,151	609,151
2011	4.60%	345,000	263,795	608,795
2012-2016	4.70-5.00%	2,005,000	1,047,339	3,052,339
2017-2021	5.00%	2,565,000	482,652	3,047,652
2022-2026	5.00%	595,000	58,988	653,988
Total cash requirements		\$ 6,750,000	\$ 3,052,419	\$ 9,802,419

Series 2003G

Payable during the year ending June 30,	Interest Rate in effect at June 30, 2006*	Principal	Interest	Total
2007	3.80%	\$ 300,000	686,585	\$ 986,585
2008	3.80%	240,000	676,409	916,409
2009	3.80%	305,000	666,253	971,253
2010	3.80%	320,000	654,569	974,569
2011	3.80%	275,000	643,257	918,257
2012-2016	3.80%	13,295,000	2,152,286	15,447,286
2017-2021	3.80%	3,395,000	65,035	3,460,035
Total cash requirements		\$ 18,130,000	\$ 5,544,394	\$ 23,674,394
Deferred loss on refunding		(571,815)		
Total		\$ 17,558,185		

*Interest rate on the Series G debt varies, dependent on the results of auction.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Series 2004H

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2007	0.00%	\$ -	\$ 1,083,088	\$ 1,083,088
2008	2.10%	435,000	1,078,520	1,513,520
2009	4.00%	450,000	1,064,952	1,514,952
2010	4.00%	470,000	1,046,553	1,516,553
2011	3.00%	485,000	1,029,878	1,514,878
2012-2016	3.63-5.00%	2,830,000	4,746,522	7,576,522
2017-2021	3.60-5.00%	3,560,000	4,019,718	7,579,718
2022-2026	4.13-4.50%	4,415,000	3,353,259	7,768,259
2027-2031	4.50-5.00%	5,520,000	2,306,790	7,826,790
2032-2036	5.00%	5,500,000	872,250	6,372,250
Total cash requirements		\$ 23,665,000	\$ 20,601,530	\$ 44,266,530
Unamortized premium/discount (net)		499,525		
Total		\$ 24,164,525		

Series 2004I

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2007	2.50%	\$ 95,000	\$ 1,428,556	\$ 1,523,556
2008	2.50%	685,000	1,418,807	2,103,807
2009	2.50%	610,000	1,402,619	2,012,619
2010	3.00%	615,000	1,385,768	2,000,768
2011	3.00%	640,000	1,366,943	2,006,943
2012-2016	3.25-5.25%	3,605,000	6,413,958	10,018,958
2017-2021	3.75-5.00%	17,280,000	4,315,351	21,595,351
2022-2026	5.00%	7,720,000	821,190	8,541,190
Total cash requirements		\$ 31,250,000	\$ 18,553,192	\$ 49,803,192
Deferred loss on refunding		(1,369,545)		
Unamortized premium/discount (net)		1,445,125		
Total		\$ 31,325,580		

Series 2005J

Payable during the year ending June 30,	Interest Rate in Effect at June 30, 2006*	Principal	Auction Rate Interest*	Net Swap Interest	Total
2007	3.20%	\$ 175,000	\$ 821,223	\$ 67,571	\$ 1,063,794
2008	3.20%	325,000	813,243	66,914	1,205,157
2009	3.20%	275,000	803,636	66,124	1,144,760
2010	3.20%	450,000	792,059	65,172	1,307,231
2011	3.20%	375,000	778,849	64,085	1,217,934
2012-2016	3.20%	2,950,000	3,634,788	299,075	6,883,863
2017-2021	3.20%	3,750,000	3,099,693	255,047	7,104,740
2022-2026	3.20%	4,625,000	2,434,608	200,323	7,259,931
2027-2031	3.20%	5,725,000	1,610,753	132,535	7,468,288
2032-2036	3.20%	7,100,000	588,134	48,392	7,736,526
Total cash requirements		\$ 25,750,000	\$ 15,376,986	\$ 1,265,238	\$ 42,392,224

*Interest rate on the Series J debt varies, dependent on the results of auction.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Total, all series				
Payable during the year ending June 30,			Net Swap	Total
	Principal	Interest	Interest	
2007	\$ 4,120,000	\$ 4,837,227	\$ 67,571	\$ 9,024,798
2008	3,578,611	5,896,657	66,914	9,542,182
2009	3,389,579	6,079,167	66,124	9,534,870
2010	3,555,881	6,073,673	65,172	9,694,726
2011	3,425,185	6,062,116	64,085	9,551,386
2012-2016	26,592,465	21,401,248	299,075	48,292,788
2017-2021	34,650,000	13,147,788	255,047	48,052,835
2022-2026	19,235,000	6,905,272	200,323	26,340,595
2027-2031	11,245,000	3,917,543	132,535	15,295,078
2032-2036	12,600,000	1,460,384	48,392	14,108,776
Total cash requirements	\$ 122,391,721	\$ 75,781,075	\$ 1,265,238	\$ 199,438,034
Deferred loss on refunding	(1,941,361)			
Unamortized premium/discount (net)	1,944,650			
Accreted discount on capital appreciation bonds	5,374,674			
Bonds payable, net	\$ 127,769,684			

Debt refunded, issued, and escrowed –

Series A 1993 Bonds, November 9, 1993 – An original issue of \$24,911,720 dated November 9, 1993, consisting of \$3,055,000 of fully registered Current Interest Serial Bonds, plus \$6,036,720 (discounted value) of fully registered Capital Appreciation Bonds, and the remainder of fully registered Current Interest Term Bonds. A total of \$4.3 million was used to partially refund certain eligible portions of the Series B 1985 and Series A 1986 Indentures. The remainder of the proceeds was for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University. The Serial Bonds were refunded by the Series G 2003 bonds, leaving the Capital Appreciation Bonds outstanding.

Series B 1996, October 1, 1996 – On October 1, 1996, the University issued Series B 1996 Facilities Refunding Revenue Bonds in the amount of \$18,995,000. Proceeds from the sale of the bonds were used to: 1) advance refund \$18,440,000 of outstanding Series A 1986 bonds; 2) pay the bond insurance premium; and 3) pay certain costs associated with the issuance of the bonds.

Series D 1996, August 15, 1996 – On August 15, 1996, the University issued Series D 1996 Facilities Improvement and Refunding Revenue Bonds in the amount of \$44,530,000. Proceeds from the sale of the bonds were used to: 1) pay the costs of acquisition, construction, renovation, improvement, furnishing, and equipping certain facilities; 2) pay the bond insurance premium; and 3) pay certain costs associated with the issuance of the bonds. The bonds are fully insured by the Municipal Bond Insurance Association (MBIA). A significant portion of the Series D 1996 bonds were refunded during 2005, and subsequent to June 30, 2006, the bonds outstanding after the November 15, 2006, maturity were refunded as well.

Series E 1998, June 1, 1998 – On June 1, 1998, the University issued Series E 1998 Facilities Improvement Revenue Bonds in the amount of \$8,255,000. Proceeds from the sale of the bonds were used to: 1) finance the construction, improvement, repair, replacement, expansion, renovation, furnishing, and equipping of the football stadium at the Bozeman campus; 2) pay the premiums for the municipal bond insurance policy; and 3) pay certain costs associated with the issuance of the Series E 1998 bonds. Bonds maturing on or before November 15, 2008, are not subject to optional redemption prior to maturity. The MBIA unconditionally and irrevocably guarantees all bonds. Subsequent to June 30, 2006, a significant portion of the bonds were refunded.

Series F 1998, June 1, 1998 – On June 1, 1998, the University issued Series F 1998 Facilities Improvement Revenue Bonds (Information Technology Project), in the amount of \$8,175,000. Proceeds were used for the purchase, installation and implementation of the Banner2000 software and required equipment, training and support.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

The bonds are unconditionally and irrevocably guaranteed by the MBIA, and are not subject to optional redemption prior to maturity.

Series G 2003, October 15, 2003 - On October 15, 2003, the University issued \$18,760,000 in Municipal Auction Rate Securities as Series 2003 G Revenue Bonds. Of this total, \$16,745,000 was used for a current refunding of the Series 1993-A bonds and \$2,015,000 was used for an advance refunding of the Series 1994 C bonds. The bonds are ten year variable rate bonds, priced on a 35-day rate period. They are unconditionally and irrevocably guaranteed by XL Capital Assurance. Payments are scheduled each May 15 and November 15 through November, 2016. Bond proceeds, along with monies from the University, were sufficient to legally defease a portion of the Series 1993 A bonds, and the Series 1994 C bonds. The refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,451,453. The refunded debt is considered defeased and is not reported in the University's financial statements.

Series H 2004, October 14, 2004 - In October 2004, the University issued \$23,665,000 in Series H 2004 Facilities Improvement Revenue Bonds to fund the construction of a new Chemistry/Biochemistry Research Laboratory Facility on the Bozeman campus. Payments are scheduled each May and November through November, 2034, including mandatory sinking fund redemptions for the November, 2018 maturity in November, 2017; for the November, 2029 maturity in November, 2027, 2028 and 2029; and for the November, 2034 maturity in November, 2030, 2031, 2032, 2033 and 2034. The bonds are secured by a first lien on and pledge of the net pledged revenues, as described below. Payment is guaranteed by Ambac Assurance Corporation.

Series I 2004, November 23, 2004 - In November, 2004, the University issued \$31,340,000 of Series I 2004 Facilities Revenue Refunding Bonds. Bond proceeds, together with funds from the University, were sufficient to refund a significant portion of the Series 1996D bonds and pay for costs of bond issuance. They are unconditionally and irrevocably guaranteed by Ambac Assurance Corporation. Payments are scheduled each May 15 and November 15 through November, 2025. The refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,008,076. The refunded debt is considered defeased and is not reported in the University's financial statements.

Series J 2005, July 21, 2005 - In July 2005, the University issued \$25,750,000 of Series J 2005 Auction Rate Facilities Improvement Revenue Bonds at an initial rate of 2.35%, to fund the majority of a student facilities enhancement project on the Bozeman campus. The proceeds, together with University funds, will be used to renovate the student fitness center, construct a theater, and renovate portions of the Strand Union Building. As of June 30, 2006, the fitness center and theater were under construction, and design on the Strand Union renovation was nearing completion. The bonds will be repaid with a combination of student fees and auxiliary operations revenues. Principal payments begin during the fiscal year ending June 30, 2007 and continue each May and November through November, 2035.

Subsequent to June 30, 2006, the University issued Series K refunding debt in the principal amount of \$13.7 million. The proceeds were used to refund portions of the Series E 1998 and Series D 1996 debt, and resulted in an economic gain to the University of \$704,468.

Pledged revenues – During June 30, 2006, the University's bonds were payable from and secured by a parity first lien on and pledge of certain gross and net revenues, which comprised: 1) all student building fees and certain student union use fees assessed against students attending the University; 2) net student housing system pledged revenues, after the payment of operation and maintenance expenses of such facilities; 3) certain rental and other income generated by the pledged facilities; 4) a HUD debt service grant; 5) lease rentals from the Museum of the Rockies; 6) all Land Grant income; 7) certain student athletic fees; 8) certain Health & Physical Education fees; 9) MSU- Bozeman Fieldhouse fees; 10) capitalized interest and earnings on certain funds created under the Indenture; 11) technology fees assessed to students until the Series F 1998 Bonds are paid and discharged; 12) certain Grant-related Facilities & Administrative Costs with respect to the Series H 2004 debt; 13) revenue generated from the student facility enhancement fee; 14) lease income generated from the University's lease with the ASMSU Bookstore; and 15) student fee generated by the student union building fees. None of the net pledged revenues are derived from facilities or fees relating to the Great Falls Campus.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Defeased debt – In prior years, the University defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the defeased issues. Accordingly, neither the trust account assets nor the liability for the defeased bonds are included in the University’s financial statements. Certain of the transactions met the qualifications for legal defeasance, while others are considered to be defeased in substance. At June 30, 2006 and 2005, \$3,415,000 and \$4,355,000 of bond principal outstanding was considered to be defeased in substance.

Notes payable – consisted of the following as of June 30:

	Interest Rate	Maturity Date	2006	2005
<i>GE Capital:</i>				
ITC Wiring Project	4.18%	09/01/07	254,389	415,421
<i>Independence Bank</i>				
Admissions Auto Loan	0.00%	09/01/07	9,144	13,716
<i>Cisco:</i>				
Information Technology Services Equipment	5.75%	12/20/05	-	8,535
Information Technology Services Cable	5.75%	06/20/06	-	46,059
<i>Subtotal, Cisco Loan Principal Outstanding</i>				54,594
<i>MSU-Northern Foundation:</i>				
MacKenzie Hall Wiring	5.00%	10/01/11	124,263	124,263
Campus Backbone Wiring	5.00%	10/01/11	225,243	225,243
Digital Phone System	5.00%	10/01/11	133,901	133,901
Brockman Wiring	5.00%	10/01/11	46,062	46,062
ITS Electronics	5.00%	10/01/11	275,700	275,700
Athletics Volleyball Van	6.50%	10/01/05	-	2,499
Equipment	5.00%	10/01/13	400,000	-
<i>Subtotal, MSU-Northern Foundation Loan Principal Outstanding</i>			1,205,169	807,668
Total note principal outstanding			\$1,468,702	\$1,291,399

Scheduled maturities of the notes payable are as follows:

Payable during the year ending June 30,	Principal	Interest	Total
2007	\$ 172,405	\$ 57,656	\$ 230,061
2008	214,002	62,348	276,350
2009	151,921	54,115	206,036
2010	231,907	46,519	278,426
2011	243,502	34,923	278,425
2012-2016	454,965	37,112	492,077
Total	\$ 1,468,702	\$ 292,673	\$ 1,761,375

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Advances payable to primary government – The University participates in the State’s InterCap loan program. InterCap loans contain a variable interest rate, which is based on the underlying bond rate of the Montana Board of Investments InterCap bonds, and is adjusted annually. The rate as of June 30, 2006, was 4.75%.

Other advances were made during the mid- 1990s by the Montana Science and Technology Alliance (MSTA) to stimulate research and creative activities in Montana. Such loans were subsequently assumed by the State of Montana Board of Investments. Amounts are expected to be repaid as follows; however, actual payments are allocated between three of the state institutions of higher education based on relative proportions of annual Research and Creative Activities expenditures, and actual repayments and the timing thereof may vary.

Payable during the year ending June 30,	InterCap Loans			MSTA Advances		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 1,213,053	\$ 192,484	\$1,405,537	\$ 46,930	\$ 133,070	\$ 180,000
2008	1,134,505	141,668	1,276,173	48,102	131,898	180,000
2009	852,616	90,159	942,775	49,303	130,697	180,000
2010	496,486	53,658	550,144	50,534	129,466	180,000
2011	260,332	33,846	294,178	51,796	128,204	180,000
2012-2016	500,671	64,979	565,650	279,044	620,956	900,000
2017-2021	24,837	588	25,425	315,673	584,327	900,000
2022-2026				357,109	542,891	900,000
2027-2031				403,985	496,015	900,000
2032-2036				457,014	442,986	900,000
2037-2041				517,004	382,996	900,000
2042-2046				584,868	315,132	900,000
2047-2051				661,641	238,359	900,000
2052-2056				748,491	151,509	900,000
2057-2061				756,856	53,143	810,000
Total	\$ 4,482,500	\$ 577,382	\$ 5,059,882	\$ 5,328,350	\$ 4,481,649	\$ 9,810,000

NOTE 12 - CAPITAL LEASE OBLIGATIONS

Capital Leases: The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2006:

Payable during the year ending June 30,	Principal and Interest
2007	\$ 32,543
2008	19,632
2009	10,763
2010	6,669
2011	315
Total payments	69,922
Less amount representing interest	(9,665)
Principal balance outstanding	\$ 60,257

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

NOTE 13 – UNRESTRICTED NET ASSETS

As of June 30, the University's unrestricted net assets were earmarked for the following purposes:

	<u>2006</u>	<u>2005</u>
General operating	\$ (13,307,317)	\$ (14,297,199)
Facility renewal and replacement	15,386,998	14,024,658
Student services and auxiliary department reserves, including inventories	11,521,563	11,977,662
Instruction, academic support and public service	11,320,219	8,671,171
Indirect cost recoveries and research	12,158,686	9,441,791
Unexpended plant uses	3,787,656	4,442,569
Retirement of indebtedness	4,544,445	3,534,826
Facilities services reserves, including inventories	2,727,417	2,293,659
Employer-provided benefits	1,526,592	1,326,999
Agricultural Experiment Station and Extension Services	1,988,485	2,232,621
Administration and finance	3,096,423	2,004,455
Student organizations	897,561	733,474
Livestock inventories	555,688	518,406
President's office	2,228,487	1,490,925
Total unrestricted net assets	<u>\$ 58,432,903</u>	<u>\$ 48,396,017</u>

The University has not funded the compensated absences balance related to employees paid using state general operating funds, creating negative net asset balances of \$13.3 million and \$14.3 million as of June 30, 2006 and 2005, respectively. Other funds have largely been earmarked for minor and major equipment replacement, facility renovation, operating contingencies, and maintenance and renovation projects in progress as of June 30.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

NOTE 14 – MATRIX OF NATURAL AND FUNCTIONAL OPERATING EXPENSES

The University's operating expenses consisted of the following during the year ended June 30, 2006:

A-39

Type and classification of operating expense:	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation	\$ 62,848,702	\$ 46,927,191	\$ 12,877,919	\$ 12,775,633	\$ 12,131,325	\$ 10,136,126	\$ 4,961,230	\$ 13,056,646	\$	\$ 175,714,772
Benefits	17,848,529	12,214,407	3,857,247	3,463,911	3,541,740	3,622,093	2,106,771	3,887,929	-	50,542,627
Contracted Services	3,520,943	18,741,337	3,804,733	2,772,617	2,218,893	1,949,213	3,624,797	3,388,126	-	40,020,659
Supplies	3,498,669	11,036,720	1,617,720	606,681	1,605,254	502,878	2,592,992	4,663,056	-	26,123,970
Communications	1,031,984	720,084	523,951	294,033	916,968	332,543	145,025	584,765	-	4,549,353
Travel	1,567,315	4,238,308	884,373	883,755	2,315,279	374,392	46,566	141,812	-	10,451,800
Utilities	8,258	556,656	23,826	3,354	75,526	140	6,434,806	3,017,311	-	10,119,877
Cost of Sales	27,368	3,307	92,514	896,263	31,181	119,387	65,653	4,835,125	-	6,070,798
Maintenance	434,584	990,245	146,347	146,610	183,623	117,028	5,341,004	2,595,652	-	9,955,093
Other Expenses	1,107,621	1,123,490	2,212,567	730,622	1,464,808	1,905,372	72,712	791,883	-	9,409,075
Rent	136,183	1,384,199	151,959	97,880	174,478	95,064	1,306,548	353,228	-	3,699,539
Scholarships and Fellowships	-	-	-	-	-	-	-	-	14,356,792	14,356,792
Depreciation and Amortization	-	-	-	-	-	-	-	-	20,663,238	20,663,238
Total	\$ 92,030,156	\$ 97,935,944	\$ 26,193,156	\$ 22,671,359	\$ 24,659,075	\$ 19,154,236	\$ 26,698,104	\$ 37,315,533	\$ 35,020,030	\$ 381,677,593

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

The University's operating expenses consisted of the following during the year ended June 30, 2005:

Type and classification of operating expense:	Instruction	Organized Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation	\$ 60,380,272	\$ 44,128,056	\$ 12,587,678	\$ 11,818,145	\$ 11,081,855	\$ 9,671,560	\$ 4,610,381	\$ 12,604,159	\$ -	\$ 166,882,106
Benefits	16,495,443	10,965,776	3,604,157	3,277,201	3,170,878	3,363,440	2,191,907	3,587,717	-	46,656,519
Contracted Services	2,926,857	20,334,703	4,088,670	1,065,450	2,039,258	1,993,690	2,274,970	2,899,529	-	37,623,127
Supplies	2,762,060	8,416,874	1,213,614	1,161,452	1,454,694	472,269	3,119,976	4,281,368	-	22,882,307
Communications	1,073,438	681,185	582,414	320,878	988,824	380,075	104,977	538,878	-	4,670,669
Travel	1,598,280	3,686,843	1,009,600	669,693	2,050,877	339,931	59,939	83,563	-	9,498,726
Utilities	9,896	380,386	23,659	17,304	65,262	-	6,080,348	2,708,784	-	9,285,639
Cost of Sales	35,636	810	112,235	699,197	86,226	136,070	10,568	4,377,356	-	5,458,098
Maintenance	296,931	783,038	133,244	169,779	202,701	82,917	5,867,179	2,313,505	-	9,849,294
Other Expenses	856,505	1,726,075	2,612,852	558,464	861,669	1,971,425	224,626	678,068	-	9,489,684
Rent	127,407	1,099,889	115,292	95,151	196,898	178,182	971,038	352,953	-	3,136,810
Scholarships and Fellowships	-	-	-	-	-	-	-	-	14,597,874	14,597,874
Depreciation and Amortization	-	-	-	-	-	-	-	-	20,840,982	20,840,982
Total	\$ 86,562,725	\$ 92,203,635	\$ 26,083,415	\$ 19,852,714	\$ 22,199,142	\$ 18,589,559	\$ 25,515,909	\$ 34,425,880	\$ 35,438,856	\$ 360,871,835

A-40

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

NOTE 15 – RETIREMENT PLANS

University employees eligible to participate in retirement programs are members of either the Public Employees' Retirement System (PERS), the Game Wardens and Peace Officers Retirement System (GWPORS), Teacher's Retirement System (TRS) the Optional Retirement Program (ORP), Federal Employees' Retirement System (FERS) or the U.S. Civil Service Retirement System (CSRS). ORP commenced in January 1988, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, ORP was made the mandatory retirement plan for new faculty and administrative staff. The Pension Benefit Obligation is not available on an individual agency basis, but is available on a statewide basis from the Montana Retirement systems or TIAA-CREF.

ORP - The ORP is a defined contribution plan, established under authority of Title 19, Chapter 21, MCA. Benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions. Annual reports that include financial statements and required supplemental information on the plan are available from TIAA-CREF, 730 Third Avenue, New York, New York 10017-3206, Phone 1-800-842-2733.

TRS - This system was established in 1937 and is governed by Title 19, Chapter 4, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for benefits is 1/60 times creditable service years times average final compensation. Rights are vested after 5 years of creditable service, and vested employees may retire at or after age 50 and receive reduced retirement benefits. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, MT 59620-0139.

PERS - This system was established in 1945 and is governed by Title 19, Chapter 3, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to substantially all public employees. Effective July 1, 2002, eligible new employees of the University are defaulted into the PERS defined benefit plan and have one year from their date of hire to elect whether to stay in the PERS defined benefit plan, enroll in the ORP plan, or enroll in the PERS Defined Contribution Plan. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by multiplying 1/56 by the number of years of service by the final average salary, unless the employee has 25 or more years of service, in which case the multiplier is 1/50. Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Administration, P.O. Box 200131, Helena, MT 59620-0131.

GWPORS – This retirement system was established in 1963 and is governed by Title 19, Chapter 8, MCA, to provide retirement services for all persons employed as game wardens and peace officers. Effective July 1, 1997, this system became the mandatory system for campus security officers employed by the Montana University System, unless they already held membership in another State retirement system. Participants are eligible to retire after completing 20 years of service and reaching age 50. Early retirement with a reduced benefit may be taken after completing 5 years of service and reaching 55 years of age. The retirement formula is 2% of the final average salary per year of service. Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Administration, P.O. Box 200131, Helena, MT 59620-0131.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

FERS - This plan commenced in 1986 and is available to Federal employees joining the Extension Service staff without a break in service. This retirement plan contains defined benefit plan components, a Basic Benefit Plan and Social Security, and a defined contribution component, the Thrift Savings Plan (TSP). Basic benefits can be received at age 55 with as little as 10 years of service, and minimum retirement benefits at age 62 with 5 years of service. The formula for basic benefits is 1% of the highest consecutive three-year-average salary multiplied by the number of years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees joining the Extension Service staff without a break in service. CSRS is a defined benefit plan. The retirement benefits are based upon the highest consecutive three-year-average salary. Retirees are eligible for cost of living adjustments the year after retirement. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service.

Pension data for the year ended June 30, 2006:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 40,915,153	\$ 17,110,391	\$ 87,905,372	\$ 1,878,172	\$ 643,993	\$ 475,495
Total Payroll	\$ 176,059,695	\$ 176,059,695	\$ 176,059,695	\$ 176,059,695	\$ 176,059,695	\$ 176,059,695
Employer contributions	\$ 2,823,146	\$ 1,688,382	\$ 4,328,961	\$ 109,568	\$ 71,286	\$ 42,795
% of covered payroll	6.900%	7.470%	4.490%-4.960%	3.820%-7.540%	1.000%-10.000%	9.000%
Employee contributions	\$ 2,823,146	\$ 1,520,657	\$ 6,183,516	\$ 118,942	\$ 75,538	\$ 50,212
% of covered payroll	6.900%	10.073%	7.034%	0.100%-5.250%	0.100%-8.500%	10.560%
ORP contribution to TRS		\$3,311,846				
% of covered payroll to TRS		4.040%				
ORP contribution to PERS	\$ 142,888					
% of covered payroll to PERS	2.410%					

Covered payroll excludes students employed under the College Work Study programs and part-time student employees.

Amounts contributed to retirement plans during the past three years were equal to the required contribution each year. The amounts contributed by the University and its employees were:

Year ended June 30,	PERS	TRS	ORP	CSRS	FERS	GWPORS
2004	\$ 5,497,886	\$ 6,164,039	\$ 9,375,631	\$ 238,517	\$ 154,632	\$ 69,838
2005	\$ 5,665,959	\$ 6,572,064	\$ 9,932,451	\$ 250,068	\$ 125,538	\$ 75,356
2006	\$ 5,789,180	\$ 6,520,885	\$ 10,512,477	\$ 228,510	\$ 146,824	\$ 93,007

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Pension data for the year ended June 30, 2005:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 40,135,715	\$ 18,756,079	\$ 83,083,544	\$ 1,946,082	\$ 584,354	\$ 385,256
Total Payroll	\$ 172,913,309	\$ 172,913,309	\$ 172,913,309	\$ 172,913,309	\$ 172,913,309	\$ 172,913,309
Employer contributions	\$ 2,769,364	\$ 1,795,457	\$ 4,088,916	\$ 116,591	\$ 63,256	\$ 34,673
% of covered payroll	6.90%	7.47%	4.49%-4.96%	3.82%-7.54%	1.00%-10.00%	9.00%
Employee contributions	\$ 2,748,147	\$ 1,668,884	\$ 5,843,535	\$ 133,477	\$ 62,282	\$ 40,683
% of covered payroll	6.90%	10.21%	7.03%	0.10%-5.25%	0.10%-8.50%	10.56%
ORP contribution to other plans	\$ 148,448	\$ 3,107,723				
% of covered payroll to other plans	2.41%	4.04%				

NOTE 16 – RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, Sections 2-9-101 through 305, MCA, and ARM Section 2.2.298, require participation of all state agencies in the self- insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self- insurance program includes coverage for commercial general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self- insured retentions, by purchasing other commercial coverage through the State’s broker, Willis of Seattle, for excess property, crime, fidelity, boiler and machinery, and fine arts coverage. Coverage for aircraft and hull liability is held through Mountain Air. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University’s Department of Safety and Risk Management (“SRM”) establishes guidelines and provides consultation in risk assessment, risk avoidance, risk acceptance and risk transfer.

The Tort Claims Act of the State of Montana, Section 2-9-102, MCA, provides that governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties, whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature. Accordingly, Section 2-9-305, MCA, requires that the State “provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment.” Safety and Risk Management also provides commercial coverage for other risk exposures that are not covered by the State’s self- insurance program.

Buildings and contents – are insured for replacement value. For each loss covered by the State’s self- insurance program and commercial coverage, MSU has a \$1,000 per occurrence retention.

General liability and tort claim coverage – include comprehensive general liability, auto liability, personal injury liability, officer’s and director’s liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University’s participation in the State’s self- insurance program.

Self-Funded Programs – The University’s health care program is self-funded, and is provided through participation in the Montana University System (MUS) Inter-unit Benefits Program. The MUS program is funded on an actuarial basis and the University believes that sufficient reserves exist to pay run-off claims related to prior years, and that premiums and University contributions are sufficient to pay current and future claims.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Effective July 1, 2003, the University adopted a self-funded workers' compensation insurance program, provided through membership in the MUS Self Insured Worker's Compensation Program. The MUS program is funded on an actuarial basis and is administered by a third party, Missoula County. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

The MUS program incorporates a self-insured retention of \$500,000 per claim and excess commercial coverage to statutory limits. Employer's liability is provided, with a \$500,000 retention and an excess insurance limit of \$1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses.

NOTE 17 – COMMITMENTS AND CONTINGENT LIABILITIES

Operating leases – The University is committed under non-cancelable operating leases as follows:

<u>Minimum rental payments for operating leases are due in the years ending June 30,</u>	<u>Amount</u>
2007	\$ 1,605,048
2008	1,518,765
2009	1,410,889
2010	1,292,185
2011	694,276
2012-2016	3,362,121
2017-2021	<u>1,339,452</u>
Total	<u>\$ 11,222,736</u>

Payments made under non-cancelable operating leases during the years ended June 2006 and 2005 totaled \$1,686,738 and \$1,460,843, respectively.

Legal actions – The University is a defendant in legal actions arising in the normal course of business. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position, results of operations or cash flows.

Refundable grants – The University receives grants and other forms of reimbursement from various Federal and State agencies. These funds are subject to review and audit by cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

As of June 30, 2006, the University had initiated construction or was authorized to do so on the following major capital and maintenance projects:

Description	Amount Expended through June 2006	Remaining Amount Authorized	Total Expected Project Cost
Reroof Cisel Hall/PE*	\$ 169,280	\$ 10,737	\$ 180,017
Heating System Improvements*	92,663	808,698	901,361
College of Technology*	380,868	8,619,132	9,000,000
Renovate Science Building Labs*	153	357,491	357,644
Fire Sprinklers McMullen & Library*	-	155,000	155,000
PE Bldg Storage/Office Remodel	15,932	109,068	125,000
PE Bldg Gym Floor	69,959	47,041	117,000
PE Bldg HVAC System	10,661	89,339	100,000
AES Isolation Building Renovation*	119,128	130,872	250,000
Animal Bioscience Facility	181,950	4,818,050	5,000,000
Animal Handling Facilities*	3,730	156,270	160,000
ARC East Autoclave	25,224	3,468,776	3,494,000
Bozeman Campus Roof Repairs*	30,692	1,177,578	1,208,270
Chemistry/Biochemistry Facility	6,228,950	18,271,050	24,500,000
Cobleigh Asphalt Lab Renovation	14,364	156,636	171,000
Cobleigh Hall Reroof*	750	132,250	133,000
Culbertson Hall Reroof*	145	189,855	190,000
EARC Renovation*	3,055	206,945	210,000
EPS Building Clean Room	277,180	3,222,820	3,500,000
EPS Lobby Renovation	27,826	2,472,174	2,500,000
Gaines Hall Renovation*	141,025	3,358,975	3,500,000
Hamilton Hall Restoration*	-	200,000	200,000
Hannon Dining Renovation	18,119	94,681	112,800
Heating Plant Seismic Improvements*	61,409	883,841	945,250
Huffman University Police Renovation	151,462	67,488	218,950
CARC Improvement*	15	229,985	230,000
Johnstone Harrison Fire Sprinkler System	28,274	202,726	231,000
Linfield South Reroof*	400	230,600	231,000
Marsh Bio Safety Lab Construction	18,306	184,294	202,600
Montana Hall Reroof*	166,121	160,163	326,284
Museum of the Rockies Renovation	33,210	267,890	301,100
NARC Renovation*	278,135	59,396	337,531
NWARC Renovation*	-	160,000	160,000
Pesticide Handling Facility*	11,024	153,976	165,000
Plew Building Remodel	84,641	165,359	250,000
SARC Machine Shop*	420,573	29,427	450,000
SARC Renovation*	49,339	1,200,661	1,250,000
Student Facilities Enhancement Project	2,494,208	27,135,792	29,630,000
Upgrade Electrical Distribution*	92,812	1,403,438	1,496,250
Visual Communications Window Repair*	3,440	246,560	250,000
Water/Sewer System Improvements*	-	498,750	498,750
Heating system upgrade	446,990	-	446,990
Building expansion*	1,067,390	9,617,620	10,685,010
Pershing Hall Exterior Renovation*	2,738	151,262	154,000
Upgrade Pershing Hall*	35,189	382,191	417,380
Patch/Coat/Seal Roofs*	315,874	33,616	349,490
Shingle/Roof Repairs*	582,628	23,040	605,668
Campus Improvements*	633,912	302,888	936,800
Totals	\$ 14,789,744	\$ 92,044,401	\$ 106,834,145

* Certain projects are funded wholly or partially by the State's Long Range Building Program, and are administered by the State Architecture and Engineering Division.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

NOTE 18 – RELATED PARTIES

Private nonprofit organizations with relations to the University include MSU-Bozeman Foundation, MSU-Billings Foundation (including the Sting Athletic Association and the Alumni Association), MSU-Northern Foundation, MSU-Bozeman Alumni Association, MSU-Bozeman Athletic Scholarship Association, MSU-Bozeman Bookstore, MSU-Bozeman Friends of KUSM, MSU-Billings Friends of KEMC and the Museum of the Rockies, Inc. As discussed in note 20, certain of the parties are considered Component Units of the University.

During the years ended June 30, 2006 and 2005, respectively, the Foundations provided \$5,965,561 and \$5,439,390 in scholarship and other gift support paid directly to the University, in addition to significant payments made to others in support of the University. The University paid to its Foundations \$1,330,462 and \$1,664,593 during the years ended 2006 and 2005, respectively, which included payments for contracted services, capital campaign support, and operating leases.

MSU- Bozeman leased certain office space from Advanced Technology, Inc. (ATI), a subsidiary of the MSU Foundation. Rental and other payments to ATI totaled \$194,828 during 2006 and \$186,398 during 2005. Friends of Montana Public Television provided \$537,135 during 2006 and \$267,765 during 2005, and Friends of KEMC Public Radio provided \$482,000 during 2006 and \$487,000 during 2005 in support of the University's television and radio stations.

The Museum of the Rockies, Inc. paid \$300,000 per year to the University for facility rental, and provided \$1,910,258 and \$1,425,109 during the fiscal years ended June 2006 and 2005, respectively, in support of the University, primarily as reimbursement for Museum staff salaries and benefits as well as improvements to the leased facility.

The MSU- Bozeman Athletic Scholarship Association provided \$684,000 and \$608,000 in support of athletic programs during the years ended June 30, 2006 and 2005.

NOTE 19 – SUBSEQUENT EVENT

In July 2006, the University issued its Series K refunding debt in the principal amount of \$13.71 million. The proceeds were used to refund portions of the Series E 1998 and Series D 1996 debt, and resulted in an economic gain to the University of \$704,468. The proceeds of the Series K 2006 Bonds (net of costs of issuance) were deposited into the Escrow Account created pursuant to the Escrow Agreement dated as of August 15, 2006 (the "Escrow Agreement") between the Board and U.S. Bank National Association (the "Escrow Agent"). Amounts in the Escrow Account were used to acquire United States Government Obligations, the maturing principal and interest on which are calculated to be sufficient to pay, when due, at maturity or upon redemption, the principal of and interest on the \$7,315,000 Series D 1996 Bonds maturing on and after November 15, 2007 (which will be redeemed at par on November 15, 2006), and to pay, when due, at maturity or upon redemption, the principal of and interest on the \$5,840,000 Series E 1998 Bonds that were refunded. Upon such deposit, the refunded Series D 1996 Bonds and Series E 1998 Bonds will not be considered to be Outstanding under the Indenture. \$705,000 of Series D 1996 Bonds maturing in 2007 and \$910,000 of Series E 1998 Bonds maturing in 2007 through 2009 are not being refunded with the proceeds of the Series K 2006 Bonds, and will be retired in accordance with original repayment schedules.

The Billings campus was approved for a loan of \$695,000 through the State's InterCap Loan Program, to fund the purchase of land adjacent to its College of Technology.

The Northern campus committed to obtain a loan of \$800,000 from its Foundation to fund certain campus improvements, of which \$400,000 was drawn in July of 2006.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

NOTE 20 – COMPONENT UNITS

Entities included as component units in the financial statements are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University may not control the timing or amount of receipts from these entities, the majority of the revenues or incomes thereon that the entities hold and invest are restricted by donors to the activities of the University. The entities included as component units in the financial statements are the MSU Foundation (406-994-2053), the MSU-Billings Foundation (406-657-2244), the MSU-Northern Foundation (406-265-3711), the MSU Athletic Scholarship Association (406-994-3741), and the Museum of the Rockies, Inc.(406-994-3466).

Condensed financial information for each of the University's component units is presented below.

Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2006 or December 31, 2005

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Athletic Scholarship Association	Combined
Assets:						
Cash and investments	\$ 112,134,517	\$ 15,880,116	\$ 3,577,761	\$ 8,121,225	\$ 2,399,428	\$ 142,113,047
Amounts due from MSU	-	-	1,205,169	-	-	1,205,169
Other receivables, net	1,534,719	1,555,000	791,447	2,260,439	37,660	6,179,265
Capital assets, net	3,733,631	1,382,810	6,418	2,552,042	14,245	7,689,146
Other assets	577,322	161,700	141,230	2,131,476	63,800	3,075,528
Total assets	\$ 117,980,189	\$ 18,979,626	\$ 5,722,025	\$ 15,065,182	\$ 2,515,133	\$ 160,262,155
Liabilities:						
Accounts payable and other liabilities	\$ 617,821	\$ 761,807	\$ 432	\$ 307,921	\$ 56,986	\$ 1,744,967
Amounts due to MSU	-	-	-	367,037	342,000	709,037
Notes, bonds and debt obligations	2,346,728	-	-	125,000	68,048	2,539,776
Liabilities to external parties	1,058,937	216,973	2,508,299	-	-	3,784,209
Custodial funds	12,967,309	1,335,659	-	-	211,831	14,514,799
Total liabilities	16,990,795	2,314,439	2,508,731	799,958	678,865	23,292,788
Net assets:						
Unrestricted	3,188,724	4,277,974	(718,844)	6,658,769	357,499	13,764,122
Temporarily restricted	34,675,095	3,679,415	1,233,517	6,788,217	268,551	46,644,795
Permanently restricted	63,125,575	8,707,798	2,698,621	818,238	1,210,218	76,560,450
Total net assets	100,989,394	16,665,187	3,213,294	14,265,224	1,836,268	136,969,367
Total liabilities and net assets	\$ 117,980,189	\$ 18,979,626	\$ 5,722,025	\$ 15,065,182	\$ 2,515,133	\$ 160,262,155

The Museum of the Rockies, Inc. and the MSU- ASA maintain a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Montana State University
Condensed Combining Schedule of Component Unit Statements of Activities
For the Year Ended June 30, 2006 or December 31, 2005

	Montana State University Foundation	Montana State University-Billings Foundation	Montana State University-Northern Foundation	Museum of the Rockies, Inc.	Montana State University Athletic Scholarship Association	Combined
Revenues:						
Contributions	\$ 8,830,687	\$ 2,136,331	\$ 690,918	\$ 5,170,066	\$ 641,143	\$ 17,469,145
Investment income and unrealized gain on investments	6,478,455	1,148,363	213,701	327,349	25,297	8,193,165
Support from University	-	1,030,232	141,000	-	-	1,171,232
Other income	2,569,522	47,981	13,103	2,660,133	731,927	6,022,666
Total revenues	17,878,664	4,362,907	1,058,722	8,157,548	1,398,367	32,856,208
Expenses:						
University support	3,410,068	1,140,036	564,717	962,861	-	6,077,682
Scholarships and other program expenses	1,448,954	1,298,180	280,949	1,035,878	760,399	4,824,360
Supporting services	2,740,579	561,008	253,788	1,064,595	681,891	5,301,861
Total expenses	7,599,601	2,999,224	1,099,454	3,063,334	1,442,290	16,203,903
Change in net assets before nonoperating items	10,279,063	1,363,683	(40,732)	5,094,214	(43,923)	16,652,305
Nonoperating expenses	(25,810)	-	-	-	-	(25,810)
Change in net assets	10,253,253	1,363,683	(40,732)	5,094,214	(43,923)	16,626,495
Net assets, beginning of fiscal year	90,736,141	15,301,504	3,254,026	9,171,010	1,880,191	120,342,872
Net assets, end of fiscal year	\$ 100,989,394	\$ 16,665,187	\$ 3,213,294	\$ 14,265,224	\$ 1,836,268	\$ 136,969,367

Component Unit Investment Composition as of June 30 or December 31 *:

	2006	2005
Pooled investments:		
Equity securities	\$ 60,540,687	\$ 54,310,696
Debt securities	32,285,114	32,391,897
Alternative investments	18,485,516	14,552,734
Cash equivalents and other	3,037,598	218,397
Real Estate	5,731,000	5,210,000
US Treasuries	609,323	764,972
Other real estate	1,195,564	1,061,714
Other investments	12,276,749	12,375,875
Investments held in trust	1,894,147	1,937,791
Total	\$ 136,055,698	\$ 122,824,076

* The Museum of the Rockies, Inc. and the MSU- ASA maintain a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Montana State University
Condensed Combining Schedule of Component Unit Statements of Financial Position
As of June 30, 2005 or December 31, 2004*

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Athletic Scholarship Association	Combined
Assets:						
Cash and investments	\$ 99,737,233	\$ 14,217,956	\$ 3,811,490	\$ 6,279,388	\$ 2,284,438	\$ 126,330,505
Amounts due from MSU	-	-	814,390	-	-	814,390
Other receivables, net	2,918,223	1,649,426	746,453	50,133	24,273	5,388,508
Capital assets, net	3,677,752	1,411,934	9,398	1,783,635	12,451	6,895,170
Other assets	570,268	145,792	141,230	1,839,393	7,778	2,704,461
Total assets	\$ 106,903,476	\$ 17,425,108	\$ 5,522,961	\$ 9,952,549	\$ 2,328,940	\$ 142,133,034
Liabilities:						
Accounts payable and other liabilities	\$ 537,332	\$ 634,408	\$ 717	\$ 240,957	\$ 37,254	\$ 1,450,668
Amounts due to MSU	-	-	-	400,166	343,447	743,613
Notes, bonds and debt obligations	2,475,273	-	-	140,416	68,048	2,683,737
Liabilities to external parties	1,088,065	236,633	2,268,218	-	-	3,592,916
Custodial funds	12,066,665	1,252,563	-	-	-	13,319,228
Total liabilities	16,167,335	2,123,604	2,268,935	781,539	448,749	21,790,162
Net assets:						
Unrestricted	2,714,446	4,283,542	(283,387)	6,012,911	480,766	13,208,278
Temporarily restricted	29,587,105	2,920,951	910,027	2,340,226	218,707	35,977,016
Permanently restricted	58,434,590	8,097,011	2,627,386	817,873	1,180,718	71,157,578
Total net assets	90,736,141	15,301,504	3,254,026	9,171,010	1,880,191	120,342,872
Total liabilities and net assets	\$ 106,903,476	\$ 17,425,108	\$ 5,522,961	\$ 9,952,549	\$ 2,328,940	\$ 142,133,034

* The Museum of the Rockies, Inc. and the MSU- ASA maintain a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

Montana State University
(a component unit of the State of Montana)
Notes to Consolidated Financial Statements
As of and for Each of the Years Ended June 30 (continued)

Condensed Combining Schedule of Component Unit Statements of Activities
For the Year ended June 30, 2005 or December 31, 2004*

	Montana State University Foundation	Montana State University- Billings Foundation	Montana State University- Northern Foundation	Museum of the Rockies, Inc.	Montana State University Athletic Scholarship Association	Combined
Revenues:						
Contributions	\$ 6,978,120	\$ 1,745,189	\$ 770,914	\$ 515,848	\$ 575,974	\$ 10,586,045
Investment income and unrealized gain on investments	6,557,096	762,710	(203,050)	380,599	42,277	7,539,632
Support from University	-	968,566	137,500	-	-	1,106,066
Other income	2,583,049	207,811	14,683	1,909,776	616,904	5,332,223
Total revenues	16,118,265	3,684,276	720,047	2,806,223	1,235,155	24,563,966
Expenses:						
University support	3,867,982	1,154,895	787,920	1,018,088	-	6,828,885
Scholarships and other program expenses	1,147,760	892,802	230,368	1,077,322	580,393	3,928,645
Supporting services	2,561,598	586,372	242,262	759,062	679,242	4,828,536
Total expenses	7,577,340	2,634,069	1,260,550	2,854,472	1,259,635	15,586,066
Change in net assets before nonoperating items	8,540,925	1,050,207	(540,503)	(48,249)	(24,480)	8,977,900
Nonoperating expenses	(24,580)	-	-	-	-	(24,580)
Change in net assets	8,516,345	1,050,207	(540,503)	(48,249)	(24,480)	8,953,320
Net assets, beginning of fiscal year	82,219,796	14,251,297	3,794,529	9,219,259	1,904,671	111,389,552
Net assets, end of fiscal year	\$ 90,736,141	\$ 15,301,504	\$ 3,254,026	\$ 9,171,010	\$ 1,880,191	\$ 120,342,872

* The Museum of the Rockies, Inc. and the MSU- ASA maintain a December 31 year-end. All other component units' year-ends coincide with the University's June 30 fiscal year.

Unaudited Supplemental Information

Montana State University
 Unaudited Consolidating Statements of Net Assets
 June 30, 2006

ASSETS	MSU - Bozeman	Montana Agricultural Experiment Station	MSU Extension Service	Fire Service Training School School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Eliminations	Total
Current assets:									
Cash and cash equivalents	\$ 61,935,193	\$ 5,205,393	\$ 2,426,047	\$ 131,345	\$ 17,892,296	\$ 428,514	\$ 4,200,021	\$ -	\$ 92,218,809
Securities lending collateral	1,360,991	-	-	-	152,774	-	24,000	-	1,537,765
Accounts and grants receivable, net	4,682,730	32,845	258,088	30,434	1,372,894	849,053	253,608	-	7,479,652
Amounts receivable from Federal government	12,444,713	-	-	-	287,907	725,907	25,245	-	13,483,772
Amounts receivable from primary government	1,110,220	17,458	22,200	-	806,415	557,588	33,002	-	2,546,883
Amounts receivable from Montana component units	17,446	-	-	-	4,904	1,677	-	-	24,027
Amounts receivable from MSU campuses	1,875,078	-	-	-	64,599	8,004	298	(1,947,979)	-
Loans receivable, net	4,144,817	-	-	-	569,896	316,514	-	-	5,031,227
Inventories	804,247	555,688	-	3,355	934,916	270,573	159,776	-	2,728,555
Prepaid expenses and other current assets	1,826,763	-	-	-	108,144	37,740	14,453	-	1,987,100
Total current assets	90,202,198	5,811,384	2,706,335	165,134	22,194,745	3,195,570	4,710,403	(1,947,979)	127,037,790
Noncurrent assets:									
Restricted cash and cash equivalents	33,893	-	-	-	12,400	13,949	11,300	-	71,542
Restricted investments	51,220,733	-	-	-	-	97,532	-	-	51,318,265
Loans receivable, net	12,682,738	-	-	-	2,773,031	1,209,201	-	-	16,664,970
Investments	15,261,928	-	-	-	482,267	-	-	-	15,744,195
Capital assets	175,124,085	9,978,891	103,417	173,325	39,073,758	17,088,983	7,688,247	-	249,230,706
Other noncurrent assets	1,003,121	-	-	-	-	-	-	-	1,003,121
Total noncurrent assets	255,326,498	9,978,891	103,417	173,325	42,341,456	18,409,665	7,699,547	-	334,032,799
Total assets	\$ 345,528,696	\$ 15,790,275	\$ 2,809,752	\$ 338,459	\$ 64,536,201	\$ 21,605,235	\$ 12,409,950	\$ (1,947,979)	\$ 461,070,589
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	\$ 16,459,736	\$ 939,379	\$ 926,592	\$ 44,486	\$ 3,287,000	\$ 1,208,008	\$ 907,819	\$ -	\$ 23,773,020
Amounts payable to primary government	2,447,421	5	159	5	198,281	384,519	70,960	-	3,101,350
Amounts payable to Montana component units	321,853	-	350	-	104,821	1,524	-	-	428,548
Amounts payable to MSU campuses	352,837	690	151	-	124,606	1,385,409	84,286	(1,947,979)	-
Securities Lending Liability	1,360,991	-	-	-	152,774	-	24,000	-	1,537,765
Property held in trust for others	675,934	-	-	-	121,388	397	113,464	-	911,183
Deferred revenues	5,326,535	-	4,014	-	1,806,236	373,162	281,275	-	7,791,222
Compensated absences	7,821,453	1,074,350	723,259	46,389	1,649,656	618,576	226,491	-	12,160,174
Current portion debt and capital lease obligations	3,685,577	-	-	-	455,000	179,572	-	-	4,320,149
Total current liabilities	38,452,337	2,014,424	1,654,525	90,880	7,899,762	4,151,167	1,708,295	(1,947,979)	54,023,411
Noncurrent liabilities:									
Advances from primary government	7,383,253	-	-	-	234,947	688,244	244,425	-	8,550,869
Debt and capital lease obligations	109,424,602	-	-	-	12,939,151	2,614,741	-	-	124,978,494
Compensated absences	8,654,103	1,190,213	801,259	62,254	1,583,754	711,063	302,948	-	13,305,594
Due to Federal government	16,609,455	-	-	-	3,065,375	1,484,934	-	-	21,159,764
Total noncurrent liabilities	142,071,413	1,190,213	801,259	62,254	17,823,227	5,498,982	547,373	-	167,994,721
Total liabilities	180,523,750	3,204,637	2,455,784	153,134	25,722,989	9,650,149	2,255,668	(1,947,979)	222,018,132
NET ASSETS									
Invested in capital assets, net of related debt	100,441,701	9,978,891	103,416	173,325	25,359,251	13,381,009	7,688,245	-	157,125,838
Restricted - nonexpendable:									
Endowments	7,739,085	-	-	-	12,400	111,481	11,300	-	7,874,266
Loans	3,200,969	-	-	-	527,731	240,206	-	-	3,968,906
Restricted - expendable:									
Scholarships	1,352,478	-	-	-	-	-	39,132	-	1,391,610
Research and other	1,881,127	836,958	161,567	-	22,405	-	17,766	-	2,919,823
Loans	208,185	-	-	-	50,001	52,213	-	-	310,399
Construction and renewal of plant facilities	5,036,801	-	-	-	697,140	196,916	-	-	5,930,857
Debt retirement	1,096,855	-	-	-	358	642	-	-	1,097,855
Unrestricted	44,047,745	1,769,789	88,985	12,000	12,143,926	(2,027,381)	2,397,839	-	58,432,903
Total net assets	165,004,946	12,585,638	353,968	185,325	38,813,212	11,955,086	10,154,282	-	239,052,457
Total liabilities and net assets	\$ 345,528,696	\$ 15,790,275	\$ 2,809,752	\$ 338,459	\$ 64,536,201	\$ 21,605,235	\$ 12,409,950	\$ (1,947,979)	\$ 461,070,589

Montana State University
 Unaudited Consolidating Statements Revenues, Expenses and Changes in Net Assts
 For the year ended June 30, 2006

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Service Training School School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Eliminations	Total
Operating revenues:									
Tuition and fees	\$ 75,374,089	\$ -	\$ -	\$ -	\$ 21,275,780	\$ 5,222,649	\$ 3,266,087	\$ -	\$ 105,138,605
Federal appropriations	-	2,065,081	2,909,136	-	-	-	-	-	4,974,217
Federal grants and contracts	83,028,983	-	411,861	-	9,078,247	4,462,256	2,337,125	(630,653)	98,687,819
State grants and contracts	6,368,063	-	56,728	-	500,257	227,842	206,864	-	7,359,754
Non-governmental grants and contracts	7,608,079	-	144,078	-	614,720	13,532	59,985	-	8,440,394
Indirect cost recoveries	16,359,550	-	-	-	384,436	174,967	22,956	-	16,941,909
Educational, public service and outreach revenues	14,370,441	2,068,397	2,919,253	223,319	1,206,605	484,372	89,875	(1,207,682)	20,154,580
Auxiliary - housing	10,816,669	-	-	-	1,348,400	444,187	-	-	12,609,256
Auxiliary - food service	11,155,065	-	-	-	773,384	606,528	51,854	-	12,586,831
Auxiliary - other auxiliary sales and services	2,738,232	-	-	-	3,810,312	664,327	1,035,025	(87,595)	8,160,301
Interest earned on loans	25,413	-	-	-	76,101	-	-	-	101,514
Other operating revenues	954,874	30,804	3,866	374	113,272	38,459	11,448	-	1,153,097
Total operating revenues	228,799,458	4,164,282	6,444,922	223,693	39,181,514	12,339,119	7,081,219	(1,925,930)	296,308,277
Operating expenses:									
Compensation and benefits	154,949,829	12,127,426	9,494,755	481,722	30,090,426	11,879,716	7,233,522	-	226,257,396
Operating expenses	88,393,487	2,595,168	2,023,241	328,498	19,061,110	7,486,100	3,247,295	(2,734,732)	120,400,167
Scholarships and fellowships	7,829,819	74	-	-	3,552,129	1,908,292	1,066,478	-	14,356,792
Depreciation and amortization	16,483,602	629,357	29,909	60,900	2,480,205	578,254	401,011	-	20,663,238
Total operating expenses	267,656,737	15,352,025	11,547,905	871,120	55,183,870	21,852,362	11,948,306	(2,734,732)	381,677,593
Operating loss	(38,857,279)	(11,187,743)	(5,102,983)	(647,427)	(16,002,356)	(9,513,243)	(4,867,087)	808,802	(85,369,316)
Nonoperating revenues (expenses):									
State appropriations	39,660,840	10,959,710	5,231,798	598,292	16,277,800	8,397,776	4,517,491	-	85,643,707
Land grant and timber sales income	1,922,994	-	-	-	390,017	-	-	-	2,313,011
Gifts	6,632,333	87,072	19,628	-	1,644,371	931,331	31,623	-	9,346,358
Investment Income	5,216,083	207,015	82,102	7,819	748,198	21,006	160,924	-	6,443,147
Interest expense	(5,525,055)	(80,005)	-	-	(655,218)	(145,064)	(976)	-	(6,406,318)
Net nonoperating revenues (expenses)	47,907,195	11,173,792	5,333,528	606,111	18,405,168	9,205,049	4,709,062	-	97,339,905
Income before other revenues, expenses, gains and	9,049,916	(13,951)	230,545	(41,316)	2,402,812	(308,194)	(158,025)	808,802	11,970,589
Transfers in (out)	37,496	35,399	65,611	(1,200)	(19,721)	(131,954)	14,369	-	-
Gain or loss on sale of fixed assets	(710,194)	18,686	-	9,199	(1,698)	(34,803)	(2,938)	-	(721,748)
Additions to permanent endowments	400,000	-	-	-	-	-	-	-	400,000
Capital grants and contributions	684,896	1,099,569	23,788	-	757,210	2,891,763	674,268	(808,802)	5,322,692
Change in net assets	9,462,114	1,139,703	319,944	(33,317)	3,138,603	2,416,812	527,674	-	16,971,533
Net assets, beginning of year	155,542,832	11,445,935	34,024	218,642	35,674,609	9,538,274	9,626,608	-	222,080,924
Net assets, end of year	\$ 165,004,946	\$ 12,585,638	\$ 353,968	\$ 185,325	\$ 38,813,212	\$ 11,955,086	\$ 10,154,282	\$ -	\$ 239,052,457

Montana State University
 Unaudited Selected Cash Flow Information
 For the year ended June 30, 2006

	MSU - Bozeman	MT Agricultural Experiment Station	MSU Extension Service	Fire Service Training School School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Eliminations	Total
Cash flows from operating activities:									
Operating revenues:									
Tuition and fees	74,935,571	-	-	-	20,989,380	5,100,148	3,327,748	-	104,352,847
Federal appropriations	-	2,069,522	2,783,331	-	-	-	-	-	4,852,853
Federal grants and contracts	82,521,261	-	411,261	-	8,875,591	3,869,153	2,352,243	(630,653)	97,398,856
State grants and contracts	5,861,420	-	56,728	-	530,952	221,521	191,583	-	6,862,204
Private grants and contracts	7,511,560	-	144,078	-	643,891	59,721	59,985	-	8,419,235
Indirect cost recoveries	16,224,813	-	-	-	384,436	174,967	22,956	-	16,807,172
Educational, public service and outreach revenues	14,540,328	2,053,810	2,965,838	223,319	1,142,232	490,527	89,875	(1,207,682)	20,298,247
Sales and services of auxiliary enterprises	24,589,032	-	-	23,500	5,885,650	1,751,523	1,086,877	(87,595)	33,248,987
Interest on loans receivable	268,966	-	-	-	75,144	6,159	-	-	350,269
Other operating receipts	954,879	30,803	3,868	374	113,267	38,458	11,448	-	1,153,097
Operating expenses:									
Compensation and benefits	(154,354,131)	(12,027,348)	(9,563,684)	(474,348)	(29,860,577)	(11,773,793)	(7,043,340)	-	(225,097,221)
Operating expenses	(87,439,350)	(2,648,542)	(2,023,651)	(321,672)	(18,215,862)	(7,356,402)	(3,214,910)	2,734,729	(118,485,660)
Scholarships and fellowships	(7,829,819)	(74)	-	-	(3,552,129)	(1,908,292)	(1,066,478)	-	(14,356,792)
Loans made to students	(3,966,493)	-	-	-	(765,212)	(501,837)	-	-	(5,233,542)
Loan payments received	4,339,523	-	-	-	530,993	469,126	-	-	5,339,642
Intercampus due to/from	(1,594,135)	(13,834)	79,468	(4,381)	101,352	1,340,075	91,455	-	-
Net cash used in operating activities	(23,436,575)	(10,535,663)	(5,142,763)	(553,208)	(13,120,892)	(8,018,946)	(4,090,558)	808,799	(64,089,806)
Cash flows from noncapital financing activities:									
Receipts (disbursements) of funds held in trust for others	(286,347)	-	-	-	(3,376)	(207,788)	29,157	-	(468,354)
State appropriations	39,660,840	10,967,698	5,231,798	598,292	15,580,142	7,885,559	4,502,295	-	84,426,624
Gifts and contributions (expendable)	6,632,334	87,072	19,628	-	1,644,371	931,331	31,623	-	9,346,359
Land grant income (Note 2)	1,922,993	-	-	-	390,017	-	-	-	2,313,010
Repayment of long-term advance from primary government	(92,716)	-	-	-	-	-	-	-	(92,716)
Additions to permanent endowments	400,000	-	-	-	-	-	-	-	400,000
Transfers between campuses (nets to zero)	37,496	35,399	65,611	(1,200)	(19,721)	(131,954)	14,369	-	-
Net cash provided by noncapital financing activities	48,274,600	11,090,169	5,317,037	597,092	17,591,433	8,477,148	4,577,444	-	95,924,923
Cash flows from capital financing activities:									
Purchase of capital assets	(17,923,653)	(253,766)	(33,713)	(71,337)	(2,519,769)	(1,055,454)	(542,305)	(808,799)	(23,208,796)
Proceeds from sale of capital assets	97,801	20,926	-	16,500	-	-	-	-	135,227
Capital gifts and contributions	151,201	-	-	-	-	-	-	-	151,201
Proceeds from borrowings	25,750,000	-	-	-	-	400,000	-	-	26,150,000
Debt retirement	(4,051,359)	-	-	-	(755,001)	(306,665)	-	-	(5,113,025)
Payment of debt issue costs	(252,472)	-	-	-	-	-	-	-	(252,472)
Advances from primary government	440,952	-	-	-	-	429,200	300,000	-	1,170,152
Repayment of advances from primary government	(862,359)	-	-	-	(82,501)	(238,606)	-	-	(1,183,466)
Interest paid	(4,863,836)	(80,005)	(2)	(1)	(641,408)	(130,492)	(976)	-	(5,716,720)
Net cash used in capital financing activities	(1,513,725)	(312,845)	(33,715)	(54,838)	(3,998,679)	(902,017)	(243,281)	(808,799)	(7,867,899)
Cash flows from investing activities:									
Purchase of investments	(32,001,305)	1,030	-	-	-	(37,740)	-	-	(32,038,015)
Proceeds from sale of investments	8,435,160	-	-	-	150,686	-	-	-	8,585,846
Investment income	5,421,013	207,015	82,102	7,819	758,335	21,006	160,927	-	6,658,217
Net cash provided by (used in) investing activities	(18,145,132)	208,045	82,102	7,819	909,021	(16,734)	160,927	-	(16,793,952)
Net change in cash and cash equivalents	5,179,168	449,706	222,661	(3,135)	1,380,883	(460,549)	404,532	-	7,173,266
Cash balances at beginning of year	56,789,918	4,755,687	2,203,386	134,480	16,523,813	903,012	3,806,789	-	85,117,085
Cash balances at end of year	61,969,086	5,205,393	2,426,047	131,345	17,904,696	442,463	4,211,321	-	92,290,351

Montana State University
Unaudited Consolidating Statements of Net Assets
June 30, 2005

	MSU - Bozeman	Montana Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Eliminations	Total
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 56,755,664	\$ 4,755,687	\$ 2,203,386	\$ 134,480	\$ 16,511,413	\$ 889,492	\$ 3,795,489	\$ -	\$ 85,045,611
Securities lending collateral	1,175,139	27,949	-	-	-	-	-	-	1,203,088
Accounts and grants receivable, net	3,937,052	23,148	172,620	53,934	1,413,372	1,095,824	225,781	-	6,921,731
Amounts receivable from Federal government	12,007,525	-	-	-	117,641	87,117	40,363	-	12,252,646
Amounts receivable from primary government	658,314	25,446	28,449	-	123,527	16,524	2,525	-	854,785
Amounts receivable from State component	188,024	-	-	-	2,549	-	-	-	190,573
Amounts receivable from MSU campuses	222,870	-	-	-	115,563	723	1,997	(341,153)	-
Loans receivable, net	3,750,239	-	-	-	582,979	454,120	-	-	4,787,338
Inventories	781,020	519,225	-	3,761	980,178	392,417	122,429	-	2,799,030
Prepaid expenses and other current assets	2,178,168	-	-	-	228,310	30,130	28,036	-	2,464,644
Total current assets	81,654,015	5,351,455	2,404,455	192,175	20,075,532	2,966,347	4,216,620	(341,153)	116,519,446
Noncurrent assets:									
Restricted cash and cash equivalents	34,254	-	-	-	12,400	13,520	11,300	-	71,474
Restricted investments	31,209,033	-	-	-	-	97,532	-	-	31,306,565
Loans receivable, net	13,450,347	-	-	-	2,525,729	1,038,883	-	-	17,014,959
Investments	12,348,553	1,030	-	-	643,091	-	-	-	12,992,674
Capital assets	173,752,524	9,257,153	75,825	170,189	38,278,682	13,754,823	6,875,623	-	242,164,819
Other noncurrent assets	941,546	-	-	-	-	-	-	-	941,546
Total noncurrent assets	231,736,257	9,258,183	75,825	170,189	41,459,902	14,904,758	6,886,923	-	304,492,037
Total assets	\$ 313,390,272	\$ 14,609,638	\$ 2,480,280	\$ 362,364	\$ 61,535,434	\$ 17,871,105	\$ 11,103,543	\$ (341,153)	\$ 421,011,483
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	\$ 17,089,138	\$ 971,268	\$ 847,453	\$ 38,752	\$ 2,903,243	\$ 1,491,274	\$ 750,251	\$ -	\$ 24,091,379
Amounts payable to primary government	1,179,315	-	735	3,033	118,525	272,645	22,631	-	1,596,884
Amounts payable to State component units	457,627	-	7	-	335	253	-	-	458,222
Amounts payable to MSU campuses	120,873	-	-	668	143,269	42,389	33,954	(341,153)	-
Securities Lending Liability	1,175,139	27,949	-	-	-	-	-	-	1,203,088
Property held in trust for others	887,791	-	-	-	124,764	81,104	84,307	-	1,177,966
Deferred revenues	6,008,161	-	4,614	-	1,913,065	505,666	191,793	-	8,623,299
Compensated absences	7,288,012	991,511	729,928	46,389	1,507,150	618,576	195,061	-	11,376,627
Current portion debt and capital lease	4,041,848	-	-	-	755,000	306,665	-	-	5,103,513
Total current liabilities	38,247,904	1,990,728	1,582,737	88,842	7,465,351	3,318,572	1,277,997	(341,153)	53,630,978
Noncurrent liabilities:									
Advances from primary government	7,878,830	-	-	-	320,358	487,925	-	-	8,687,113
Debt and capital lease obligations	86,732,946	-	-	-	13,376,212	2,379,313	-	-	102,488,471
Compensated absences	8,621,857	1,172,975	863,519	54,880	1,633,529	668,246	198,938	-	13,213,944
Due to Federal government	16,365,903	-	-	-	3,065,375	1,478,775	-	-	20,910,053
Total noncurrent liabilities	119,599,536	1,172,975	863,519	54,880	18,395,474	5,014,259	198,938	-	145,299,581
Total liabilities	157,847,440	3,163,703	2,446,256	143,722	25,860,825	8,332,831	1,476,935	(341,153)	198,930,559
NET ASSETS									
Invested in capital assets, net of related debt	101,249,868	9,257,153	75,824	170,189	23,744,612	10,345,778	6,875,621	-	151,719,045
Restricted – nonexpendable, Endowments	7,210,075	-	-	-	12,400	111,051	11,300	-	7,344,826
Restricted – nonexpendable, Loans	3,086,388	-	-	-	477,641	239,401	-	-	3,803,430
Restricted – expendable, Scholarships	636,006	-	-	-	-	-	31,788	-	667,794
Restricted – expendable, Research and other	2,117,681	419,012	114,183	-	-	-	28,038	-	2,678,914
Restricted – expendable, Loans	312,910	-	-	-	-	52,213	-	-	365,123
Restricted – expendable, Construction & Renewal	5,036,801	-	-	-	685,016	190,372	-	-	5,912,189
Restricted – expendable, Debt retirement	1,193,084	-	-	-	253	249	-	-	1,193,586
Unrestricted	34,700,019	1,769,770	(155,983)	48,453	10,754,687	(1,400,790)	2,679,861	-	48,396,017
Total net assets	155,542,832	11,445,935	34,024	218,642	35,674,609	9,538,274	9,626,608	-	222,080,924
Total liabilities and net assets	\$ 313,390,272	\$ 14,609,638	\$ 2,480,280	\$ 362,364	\$ 61,535,434	\$ 17,871,105	\$ 11,103,543	\$ (341,153)	\$ 421,011,483

A-55

Montana State University
Unaudited Consolidating Statements Revenues, Expenses and Changes in Net Assets
As of and for the Year Ended June 30, 2005

	MSU - Bozeman	Montana Agricultural Experiment Station	MSU Extension	Fire Services Training School	MSU - Billings	MSU - Northern	MSU - Great Falls College of Technology	Eliminations	Total
Operating revenues:									
Tuition and fees	\$ 67,069,296	\$ -	\$ -	\$ -	19,368,641	\$ 5,116,385	\$ 2,897,773	\$ (23,440)	\$ 94,428,655
Federal appropriations	-	1,975,945	2,791,015	-	-	-	-	-	4,766,960
Federal grants and contracts	81,734,361	-	398,205	-	9,220,533	4,212,748	2,642,160	(253,549)	97,954,458
State grants and contracts	6,128,744	-	64,792	-	519,736	291,889	119,376	-	7,124,537
Non-governmental grants and contracts	7,010,644	-	106,729	-	681,633	33,342	50,612	-	7,882,960
Grant/contract facilities and administrative costs	15,504,433	-	-	-	398,430	270,197	53,286	-	16,226,346
Educational, public service and outreach revenues	12,761,669	2,258,641	2,634,364	215,502	1,324,794	361,409	132,212	(1,207,374)	18,481,217
Auxiliary - housing	10,050,846	-	-	-	1,124,093	307,715	-	-	11,482,654
Auxiliary - food service	10,375,171	-	-	-	744,556	402,002	54,981	-	11,576,710
Auxiliary - other auxiliary sales and services	2,980,386	-	-	-	3,722,279	701,277	902,055	(83,398)	8,222,599
Interest earned on loans	172,579	-	-	-	41,551	19,417	-	-	233,547
Other operating revenues	486,987	689	1,882	264	109,924	38,666	8,873	-	647,285
Total operating revenues	214,275,116	4,235,275	5,996,987	215,766	37,256,170	11,755,047	6,861,328	(1,567,761)	279,027,928
Operating expenses:									
Compensation and benefits	145,803,705	11,684,087	9,050,313	394,399	28,923,653	11,272,357	6,410,111	-	213,538,625
Operating expenses	81,760,437	2,611,955	1,566,434	296,960	18,157,596	6,019,120	3,049,613	(1,567,761)	111,894,354
Scholarships and fellowships	8,333,652	1,481	1,450	-	3,412,138	1,725,672	1,123,481	-	14,597,874
Depreciation and amortization	16,649,521	619,508	42,955	63,834	2,515,354	570,096	379,714	-	20,840,982
Total operating expenses	252,547,315	14,917,031	10,661,152	755,193	53,008,741	19,587,245	10,962,919	(1,567,761)	360,871,835
Operating loss	(38,272,199)	(10,681,756)	(4,664,165)	(539,427)	(15,752,571)	(7,832,198)	(4,101,591)	-	(81,843,907)
Nonoperating revenues (expenses):									
State appropriations	35,942,279	10,527,376	4,679,574	518,233	14,544,705	7,115,297	3,816,979	-	77,144,443
Land grant and timber sales income	2,263,156	-	-	-	588,628	-	-	-	2,851,784
Gifts	5,595,991	-	-	-	1,166,203	1,807,197	6,717	-	8,576,108
Investment Income	2,202,099	112,234	41,606	3,861	373,548	43,153	80,925	-	2,857,426
Interest expense	(4,102,803)	-	-	-	(697,969)	(126,189)	-	-	(4,926,961)
Net nonoperating revenues (expenses)	41,900,722	10,639,610	4,721,180	522,094	15,975,115	8,839,458	3,904,621	-	86,502,800
Income before other revenues, expenses, gains and	3,628,523	(42,146)	57,015	(17,333)	222,544	1,007,260	(196,970)	-	4,658,893
Transfers in (out)	(49,631)	(29,055)	(34,983)	3,919	(21,068)	(39,353)	170,171	-	-
Gain or loss on sale of fixed assets	(376,769)	123,474	-	-	(667)	(52,433)	(2,825)	-	(309,220)
Additions to permanent endowments	1,002,781	-	-	-	-	-	-	-	1,002,781
Capital grants and contributions	989,502	693,332	-	11,551	233,790	2,663,521	-	-	4,591,696
Change in net assets	5,194,406	745,605	22,032	(1,863)	434,599	3,578,995	(29,624)	-	9,944,150
Net assets, beginning of year	150,348,426	10,700,330	11,992	220,505	35,240,010	5,959,279	9,656,232	-	212,136,774
Net assets, end of year	\$155,542,832	\$ 11,445,935	\$ 34,024	\$ 218,642	\$ 35,674,609	\$ 9,538,274	\$ 9,626,608	\$ -	\$ 222,080,924

Montana State University
Unaudited Selected Cash Flow Information
June 30, 2005

	MSU- Bozeman	Montana Agricultural Experiment Station	MSU Extension Service	Fire Services Training School	MSU- Billings	MSU- Northern	MSU- Great Falls College of Technology	Total
Cash flows from operating activities:								
Operating revenues:								
Tuition and fees	\$ 67,662,572	\$ -	\$ -	\$ -	\$19,250,410	\$ 5,010,160	\$ 3,077,899	\$ 95,001,041
Federal appropriations	-	1,971,506	2,673,304	-	-	-	-	4,644,810
Federal grants and contracts	84,639,558	-	299,602	-	9,345,935	4,321,480	2,607,368	101,213,943
State grants and contracts	6,505,457	-	64,792	-	553,963	290,837	131,169	7,546,218
Private grants and contracts	6,049,113	-	106,729	-	748,757	(124,293)	50,612	6,830,918
Indirect cost recoveries	15,977,551	-	-	-	398,430	270,197	53,286	16,699,464
Educational, public service and outreach revenues	12,304,977	2,346,357	2,679,732	215,502	1,297,107	344,185	132,212	19,320,072
Sales and services of auxiliary enterprises	23,204,334	-	-	(22,677)	5,573,150	1,397,307	957,036	31,109,150
Interest on loans receivable	139,694	-	-	-	82,170	12,646	-	234,510
Other operating receipts	486,986	14,117	22,534	264	109,591	38,666	8,873	681,031
Operating expenses:								
Compensation and benefits	(144,723,659)	(11,718,778)	(8,966,195)	(404,997)	(28,630,369)	(11,192,346)	(6,260,843)	(211,897,187)
Operating expenses	(79,714,334)	(2,568,768)	(1,561,895)	(298,788)	(18,207,414)	(5,971,523)	(3,006,323)	(111,329,045)
Scholarships and fellowships	(8,333,653)	(1,481)	(1,450)	-	(3,412,138)	(1,725,672)	(1,123,481)	(14,597,875)
Loans made to students	(3,940,084)	-	-	-	(758,891)	(405,468)	-	(5,104,443)
Loan payments received	3,429,771	-	-	-	605,475	532,301	-	4,567,547
Intercampus payables and receivables	(102,963)	(54,410)	82,309	1,825	149,066	(94,210)	18,383	-
Net cash used in operating activities	(16,414,680)	(10,011,457)	(4,600,538)	(508,871)	(12,894,758)	(7,295,733)	(3,353,809)	(55,079,846)
Cash flows from noncapital financing activities:								
Receipts (disbursements) of funds held in trust	(217,075)	-	-	-	8,995	55,336	(24,306)	(177,050)
State appropriations	35,942,279	10,501,930	4,679,574	518,233	14,544,705	7,115,297	3,816,979	77,118,997
Gifts and contributions (expendable)	5,592,648	-	-	-	1,166,203	1,807,197	6,717	8,572,765
Land grant income (Note 2)	2,263,156	-	-	-	588,628	-	-	2,851,784
Repayment of advance from primary government	(44,671)	-	-	-	-	-	-	(44,671)
Additions to permanent endowments	1,002,781	-	-	-	-	-	-	1,002,781
Intercampus transfers	(49,631)	(29,055)	(34,983)	3,919	(21,068)	(39,353)	170,171	-
Net cash provided by noncapital financing activities	44,489,487	10,472,875	4,644,591	522,152	16,287,463	8,938,477	3,969,561	89,324,606
Cash flows from capital financing activities:								
Purchase of capital assets	(15,947,850)	(539,151)	(23,545)	(23,719)	(1,341,262)	(1,602,831)	(100,442)	(19,578,800)
Proceeds from sale of capital assets	39,227	147,250	-	-	-	-	-	186,477
Capital gifts and contributions	2,440,714	-	-	-	-	-	-	2,440,714
Proceeds from borrowings	45,956,822	-	-	-	11,213,607	-	-	57,170,429
Debt retirement	(25,274,201)	-	-	-	(11,887,027)	(332,360)	-	(37,493,588)
Payment of debt issue costs	(637,683)	-	-	-	-	-	-	(637,683)
Advances from primary government	1,090,230	-	-	-	14,468	-	-	1,104,698
Repayment of advances from primary government	(586,768)	-	-	-	(69,615)	(189,338)	-	(845,721)
Interest paid	(3,391,143)	-	-	-	(697,571)	(112,406)	-	(4,201,120)
Net cash used in capital financing activities	3,689,348	(391,901)	(23,545)	(23,719)	(2,767,400)	(2,236,935)	(100,442)	(1,854,594)
Cash flows from investing activities:								
Purchase of investments	(37,342,385)	(1,030)	-	-	(194,822)	-	-	(37,538,237)
Proceeds from sale of investments	380,978	-	-	-	-	-	-	380,978
Investment income	2,202,100	112,234	41,606	3,861	373,548	43,153	80,925	2,857,427
Net cash provided by (used in) investing activities	(34,759,307)	111,204	41,606	3,861	178,726	43,153	80,925	(34,299,832)
Net change in cash and cash equivalents	(2,995,152)	180,721	62,114	(6,577)	804,031	(551,038)	596,235	(1,909,666)
Cash balances at beginning of year	59,785,070	4,574,966	2,141,272	141,057	15,719,782	1,454,050	3,210,554	87,026,751
Cash balances at end of year	\$ 56,789,918	\$ 4,755,687	\$ 2,203,386	\$ 134,480	\$ 16,523,813	\$ 903,012	\$ 3,806,789	\$ 85,117,085

A-57

**Montana State University
Unaudited Supplemental Information
June 30, 2006**

(continued)

Montana State University

Overview

The University is fully accredited by the Northwest Association of Schools and Colleges, and, in addition, by national professional accrediting organizations in teacher education, nursing, environmental health, engineering, engineering technologies, architecture, foods and nutrition, chemistry, art, music and business.

Enrollment Data

Annual Full Time Equivalent Students			
	2006	2005	2004
Montana residents			
Undergraduate	13,217	13,080	13,380
Graduate	991	1,017	1,044
Non-residents			
Undergraduate	2,064	2,044	1,932
Graduate	291	288	276
Western Undergraduate Exchange	740	661	724
Total	17,303	17,090	17,356

Tuition and Fees

Tuition and fees vary from campus to campus, and on each campus are different for residents and nonresidents and for undergraduate students and graduate students. The ranges of tuition and fees charged for full-time students for one semester during the 2005-2006 academic year were as follows:

	Resident	Non-Resident
	Undergraduate—Graduate	Undergraduate—Graduate
Bozeman Campus	\$2,610—\$3,021	\$3,680—\$7,883
Billings Campus	\$2,428—\$2,804	\$3,416—\$6,924
Northern Campus ⁽¹⁾	\$2,233—\$2,828	\$3,110—\$7,246
Great Falls Campus ⁽²⁾	\$2,878—N/A	\$3,878—N/A

(1) Average of lower and upper divisions.

(2) Undergraduate program only.

Employees

As of December 31, 2005, the University employed 5,685 people (head count) as follows:

	Bozeman	Billings	Northern	Great Falls	Total
Faculty/Professional	1,820	407	203	167	2,597
State classified system	1,118	223	85	51	1,477
Temporary hourly	416	372	218	32	1,038
Graduate students	549	23	1	---	573
TOTAL	3,903	1,025	507	250	5,685

The 5,685 employees at December 31, 2005 reflect a decrease of 1.7% from the 5,783 employed at December 31, 2004, which includes an increase of 32 faculty and professional staff and a decrease of 130 in the number of classified, temporary and graduate student employees.

The faculty at the Billings Campus and the Great Falls Campus and virtually all of the classified employees at the University are members of and represented by various collective bargaining units. Part-time employees and administrative employees are not represented by any of the collective bargaining units.

MSU- Bozeman

Campus Overview

On February 16, 1893, the Agricultural College of the State of Montana was founded in Bozeman as the state's first unit of higher education. Renamed The Montana College of Agriculture and Mechanic Arts, the institution was popularly known as Montana Agricultural College, or MAC. By the 1920s, the institution's preferred name was Montana State College and so it remained until July 1, 1965, when, in recognition of the enormous advances in the College's commitment to scientific and humanistic research, the thirty-ninth legislative assembly of the State of Montana changed MSC's name to Montana State University. In 1994, the Board of Regents approved a restructuring plan that created a four-campus Montana State University and gave the Bozeman campus administrative oversight of the, now, MSU-Billings, MSU-Great Falls College of Technology and MSU-Northern. Statutory authority for Montana State University-Bozeman is contained in Title 20, Chapter 25, Section 201 Montana Code Annotated.

The curricula offered are organized into nine undergraduate colleges and a division providing for post-graduate, advanced degrees, as follows: College of Agriculture; College of Education, Health and Human Development; College of Engineering; College of Letters and Science; College of Business; College of Nursing; College of Arts and Architecture; Liberal Studies; University Studies; and the Division of Graduate Education.

The campus offers a diversified curriculum leading to bachelor's degrees in 51 fields covering 122 areas, master's degrees in 41 fields and doctorate degrees in 18 fields, as well as maintaining an active role in research through individual departments and programs. Funding for sponsored projects in the fiscal year ended June 30, 2006 amounted to approximately \$103 million from federal, State, local, foreign and private sources, compared to approximately \$39 million for the fiscal year ended June 30, 1996.

Situated within the City of Bozeman, the campus comprises approximately 1,170 acres and is composed of more than 40 classroom and administrative buildings, including a recently-updated library, nine residence halls, three cafeterias, a six-story engineering building, a six-story life science building, a health and physical education complex, the Museum of the Rockies, the Strand Union Building and numerous other classroom buildings and special laboratories. A creative arts complex, the health and physical education complex, a nursing school building, the Plant Growth Center, a classroom and office building and updated family and graduate housing are among the facilities that have been completed in the past decade. Construction of a new chemistry/biochemistry research facility being financed with the proceeds of the Series H 2004 Bonds is expected to be completed in fall 2007. Renovation of the health and physical education complex, financed with proceeds of the Series J 2005 Bonds, has commenced. The State's Long Range Building Program recently approved funding for the renovation of the chemistry classroom building.

Research, creativity and technology transfer are at the core of Montana State University's mission. Faculty and students on the campus and throughout the state conduct externally funded research in a wide variety of areas that both enhances undergraduate and graduate education and provides a research and development function for the small company economy that exists in Montana.

The Continuing Education Program extends the educational facilities at the University to the citizens of the State by providing off-campus instruction in the form of courses, institutes and conferences for individuals not regularly enrolled at the University.

Public service and outreach are central to the Bozeman campus's land grant mission. The campus is the hub of a network of over 50 Extension offices, seven Agricultural Research Centers, five extended nursing campuses, a widely utilized teaching and research museum, a statewide public television network and the state and national reach of the Burns Telecommunications Center.

	Student FTE for Fiscal Years Ended June 30,				
	2006	2005	2004	2003	2002
Resident					
Undergraduate	7,456	7,367	7,504	7,443	7,321
Graduate	633	634	634	641	606
Total resident	8,089	8,001	8,138	8,084	7,927
Non-resident					
Undergraduate	1,869	1,876	1,790	1,899	1,855
Graduate	263	257	253	238	202
Total non-resident	2,132	2,133	2,043	2,137	2,057
Western Undergraduate Exchange	421	394	484	453	460
Total	10,642	10,528	10,665	10,674	10,444

	Degrees Granted - Fiscal Years Ended June 30,				
	2006	2005	2004	2003	2002
Undergraduate	1,821	1,805	1,821	1,831	1,828
Graduate	480	482	417	349	356
TOTAL:	2,301	2,287	2,238	2,180	2,184

Campus Outlook

MSU- Bozeman’s vision is to be the “university of choice for those seeking a student-centered learning environment distinguished by innovation and discovery in a Rocky Mountain setting.” MSU- Bozeman has, over its 110 year history, built a national and international reputation for excellence in undergraduate and graduate education in agriculture, business, engineering, biological and physical sciences, architecture, education, health and human development, the liberal arts and nursing. It ranks among the nation’s leaders in the number of Goldwater science, math and engineering scholarships won by its students. It is an institution committed to positioning today’s students for successful and meaningful lives in the global economy of the 21st century.

As the number of high school graduates in north-central and eastern Montana continues to decrease, it is important to monitor the campus’s mix of traditional in-state, out-of-state, and out-of-area students to ensure a diverse, growing student population. Efforts to ensure continued growth of the out-of-state student population continue, both because the campus values the diversity these students bring to the college experience for our Montana students, and because of the financial benefits derived from their enrollment by both the campus and the community.

The mission of MSU- Bozeman is multi-faceted:

- To provide a challenging and richly diverse learning environment in which the entire university community is fully engaged in supporting student success.
- To provide an environment that promotes the exploration, discovery, and dissemination of new knowledge.
- To provide a collegial environment for faculty and students in which discovery and learning are closely integrated and highly valued.
- To serve the people and communities of Montana by sharing our expertise and collaborating with others to improve the lives and prosperity of Montanans.

In accomplishing its mission, MSU-Bozeman remains committed to the wise stewardship of resources through meaningful assessment and public accountability. A dynamic strategic plan, outlining what MSU- Bozeman aspires to achieve within the next several years, assists the campus in achieving its mission and in serving the citizens of the State of Montana. Management, faculty, staff and student leadership will continue planning and working together, striving for balance by combining appropriate levels of both expenditures and revenues, maintaining quality programs and assuring student access and success.

Montana Agricultural Experiment Station

Agency Overview

The Hatch Act of 1887 created the State Agricultural Experiment Station system. This unique federal/state partnership, supporting agricultural and natural resource research, formalized a contract for maintaining a viable agricultural industry and an affordable supply of food and fiber for America.

In 1893, Montana endorsed the terms of the Hatch Act, creating the Agricultural College of the State of Montana and the designation of the Montana Agricultural Experiment Station (MAES). The Morrill Act of 1862 also designated the new institution as Montana's land grant college. The MAES operates under these enabling acts and subsequent federal and state legislation. The MAES has components (Research Centers) throughout Montana and the main campus (MSU-Bozeman).

The Research Centers consist of: Northern Agricultural Research Center (ARC) at Havre, Northwestern ARC at Creston, Western ARC at Corvallis, Central ARC at Moccasin, Southern ARC at Huntley, Western Triangle ARC at Conrad, and Eastern ARC at Sidney. The Research Centers are located in environments that serve the specific needs of agricultural clientele in local areas (multiple counties), as well as the broader needs of Montana's agricultural and natural resources systems. The oldest Research Centers, Central and Western, were established in 1907 with the most recent, Western Triangle, established in 1978. MAES also cooperates with the ARS Fort Keogh Livestock and Range Research Laboratory at Miles City, a partnership that has been in place since 1924 and the ARS research programs at Sidney.

The MSU-Bozeman MAES component includes the academic departments of Agricultural Economics and Economics, Animal and Range Sciences, Land Resources and Environmental Sciences, Plant Sciences and Plant Pathology, and Veterinary Molecular Biology. The majority of the MAES faculty is located on the MSU-Bozeman campus, with split appointments between research and teaching, which provides unique and high quality educational opportunities that are appropriate for the region, but appeal to students from around the world.

MAES cooperates with state, regional and federal agencies on research to provide dynamic programs that generate and disseminate superior knowledge and produce advances in technology that increase the competitiveness and profitability in agricultural and natural resource systems. MAES aids agriculture in competing and succeeding in a global environment, preserving environmental quality, improving the quality of life, and capturing value added of regional and national resources within the global economy, as well as developing cutting-edge outreach and education programs for stakeholders.

Highlights

The MAES and the College of Agriculture continue to be successful in securing extramural funding to support research programs. In 2006, the College of Agriculture, which is predominantly funded by MAES, became the highest-ranking college in terms of sponsored program expenditures, exceeding \$30 million. The College/MAES have three departments that rank first, second, and sixth in a field of over 30 departments in terms of sponsored program expenditures. Funding agencies include national, regional and state from multiple sources. Research programs have impact in Montana, the region and nation.

Outlook

As operating costs continue to increase, scientists within the MAES find it absolutely critical to compete for external funding to maintain quality research programs to meet the needs of our state and add value to Montana's agricultural and natural resources in light of flat state and federal appropriations. Faculty are supported by MAES to the largest extent, with some academic program support. They all reside in the MSU-Bozeman College of Agriculture, which competes on a national and international basis for faculty and students. We foresee increased difficulty competing in terms of salaries, equipment, infrastructure and facilities offered, and will reduce the size of the operation if needed to fund increases in direct costs, operations and maintenance costs, utilities and insurance.

MSU Extension Service

Agency Overview

The mission of the Montana State University Extension Service is to extend the positive impact of research-generated knowledge throughout the state by making it accessible and useful to individuals, families and communities, empowering them to improve their quality of life and strengthen agriculture, forestry and other businesses. To meet the educational needs of Montanans, Extension coordinates all appropriate educational and research resources in the region through campus-based specialists and county and reservation agents.

The unique funding structure of the Extension Service includes State general fund, Federal Smith-Lever and county sources. The State legislature appropriates both State general funds and Federal Smith-Lever funds on a biennial basis. Extension agent salaries are paid from Federal Smith-Lever and county funding sources. Extension specialists are paid from State general funds. Extension funds 100 percent of the benefit costs for all employees hired on current unrestricted funding from a blend of Federal Smith-Lever and State general fund dollars. Operational allocations are made to specialists based on a pre-established formula. Other operating dollars are allocated to support staff development, program development, personnel recruitment and general operating purposes.

While 12,000 students further their education on the MSU campus each year, through Extension, MSU reaches out to all of the citizens of Montana. MSU Extension has 35 campus-based specialists and 62 offices across the state serving all 56 counties and five reservations. In addition, seven Tribal College agent offices are affiliated with Extension. Because Montana's communities are as diverse as its landscape, the very structure of our organization--MSU faculty living in Montana's small towns and cities--ensures that programs are in tune with local issues and can adapt quickly to changing needs.

To deliver the practical advice and information needed by Montana's agricultural community, Extension taps into the resources of the entire university system. Research results from the Ag Experiment Station and programs like the Montana Beef Network and Sheep Institute, as well as the U.S.D.A., assist in developing programmatic responses. Primary concerns related to sustainability and profitability, natural resources and the environment, and technology transfer/value-added opportunities are addressed through outreach efforts across the state.

Extension's Family & Consumer Sciences program area serves people and families of all shapes and sizes--from the elderly to kids, from single parents to stepfamilies. Topics include food and nutrition, housing, health, family issues, personal finance, environmental health and many other subjects useful to Montanans. A special program emphasizes nutrition education for families with limited resources.

Montana 4-H annually reaches over 22,000 Montana youth, ages 6-19. About 40 percent of these youth are involved in year-long community clubs, while the rest are active through a variety of short term and special interest education programs. These youth are supported by nearly 4,000 trained adult and youth volunteers who lead local programs and activities.

Tourism development continues to be an area of major emphasis for Extension's Community Development program. Extension continues to collaborate with a variety of state and federal agencies to provide tourism development education for local communities and individuals. Over the next two years Extension will expand on its partnership with the Northwest Area Foundation to develop poverty reduction programs in 25 rural Montana communities.

The strategic plan for Extension outlines strategies and action plans for meeting the challenge of helping Montana families and communities thrive through practical application of research-based information. It is based on the integration of extensive input and advice from Montana citizens, advisory boards and Extension personnel. Working groups of Extension staff, an overall planning committee and the Montana Extension Advisory Council chart annual progress in achieving the goals and objectives for each major issue identified in the plan.

Fire Services Training School

Agency Overview

The Fire Services Training School (FSTS) is an educational outreach program of Montana State University's Extension Service. The mission of FSTS is to build capacity in local governments for protecting citizens' lives and property, and safeguarding the community tax base and infrastructure from harm caused by fires, accidents, injuries, hazardous materials incidents and other emergencies. The FSTS is authorized in 20-31-102, MCA, and its office is located at 750 6th Street Southwest, Great Falls; however, trainers who provide instruction and resources to local fire and rescue services are strategically located around the state.

Emergencies strike Montana communities every day. In an emergency, the members of local government fire and rescue services are among the first line of defense, and the first help to arrive at the scene. The FSTS audience consists of 11,000 fire fighters, 96 percent of whom are volunteers, statewide. The Fire Services Training School provides 75 percent of its services to volunteer fire fighters and 25 percent to career fire fighters.

The FSTS curriculum includes entry level recruit academies, hazardous materials and technical rescue courses, leadership and management, as well as tactical and strategic level incident operations courses.

The Fire Services Training School has been primarily responsible for introducing new technology into local emergency forces. Rural Water Shuttles, Training-in-Context, Compressed Air Foam Systems, Positive Pressure Ventilation and Incident Management Systems have all been introduced by FSTS and adopted by community responders, resulting in safer and more efficient operations. Involvement with FSTS has resulted in significantly reduced costs for fire insurance premium payers in many communities.

When citizens require emergency help, they dial 911; when providers of that emergency help need assistance, they call the Fire Services Training School. In the 2006 fiscal year, 3,618 emergency responders from 54 counties received 26,592 hours of instruction from FSTS. The school issued a total of 45 professional training certifications and made 1,060 resource center loans of equipment and training materials.

MSU- Billings

Campus Overview

MSU-Billings is a comprehensive public four-year higher education institution located in Montana's largest population center, whose faculty is actively engaged in teaching, research, creative endeavors and public service. The University opened in 1927 and was initially called Eastern Montana State Normal School at Billings and was established to prepare teachers for elementary schools in eastern Montana. MSU-Billings has grown, with the city of Billings and Yellowstone County, into the major higher education center of south central Montana. The University consists of six colleges: the College of Arts and Sciences, the College of Business, the College of Education, the College of Professional Studies and Lifelong Learning, the College of Technology, and the College of Allied Health Professions. MSU-Billings offers a full complement of one and two year certificate programs, associate degrees, and bachelor and master degrees, as well as pre-professional academic offerings in a number of fields. Several academic programs are unique to the Montana University System.

MSU-Billings is accredited by the Northwest Association of Schools and Colleges. It is accredited by the National Council for the Accreditation of Teacher Education for preparing elementary and secondary teachers and school counselors through the Bachelor of Science and Master of Education degrees and the Master of Science in Special Education degree. MSU-Billings is also accredited by the National Association of Schools of Music, the National Association of Schools of Art and Design, and the Council on Rehabilitation Education. College of Technology programs are approved by the National Institute for Automotive Service Excellence, the National Automotive Technicians Education Foundation, the Montana Board of Nursing, and the Commission on Accreditation of Allied Health Education Programs. MSU-Billings has achieved candidacy status for Association to Advance Collegiate Schools of Business accreditation for its College of Business.

Public service is integral to the mission of the University. Its two primary public service entities are Yellowstone Public Radio and the Montana Center on Disabilities, a comprehensive education, rehabilitation, and diagnostic center serving Montanans with disabilities.

	Annual Student FTE for Fiscal Years Ended June 30,				
	2006	2005	2004	2003	2002
Resident					
Undergraduate	2,910	2,890	2,937	2,864	2,861
College of Technology	634	638	638	552	490
Graduate	287	288	298	262	270
Total Resident	3,831	3,816	3,873	3,678	3,621
Non-resident					
Undergraduate	102	85	75	81	86
College of Technology	7	12	8	13	9
Graduate	28	31	24	29	27
Total non-resident	137	128	107	123	122
Western Undergraduate Exchange					
Main Campus	225	189	169	146	165
College of Technology	26	18	14	15	12
Total Western Undergraduate Exchange	251	207	183	161	177
Total	4,219	4,151	4,163	3,962	3,920

	Degrees Granted - Fiscal Years Ended June 30,				
	2006	2005	2004	2003	2002
College of Technology	186	183	185	169	146
Undergraduate	524	525	517	519	513
Graduate	99	115	136	103	107
Total	809	823	838	791	766

MSU-Billings has made a substantial investment in distance learning by developing full degree programs, and general education, online. This investment will continue in order to provide educational offerings to Montana citizens who are place bound or time bound. Increasing opportunities for students to participate in internships and cooperative education experiences continues to be a high priority for the University. Additional funds have been allocated to increase the number of supervised internships and cooperative experiences available to students in all disciplines.

Campus Outlook

MSU-Billings continues to serve our students and community with superior levels of excellence.

The University's downtown Billings campus facilities were expanded to house the College of Professional Studies and Lifelong Learning, to assist with the development of downtown Billings and to serve the educational needs of the area's employees and businesses. The downtown campus plays a key role in community-wide work force development and training.

Because Billings is the primary health care center of the region, MSU-Billings partnered with the health care industry to meet its educational needs and established the College of Allied Health Professions with key programs in athletic training, health and human performance and rehabilitation and human services.

MSU-Billings opened an office in Red Lodge, Montana as part of an ongoing initiative to reach out into the communities the University serves. The office will also assist students and prospective students with academic and admissions information.

For the seventh consecutive year, MSU-Billings has been ranked as one of the nation's 'Best Colleges' by *U.S. News and World Report*, for undergraduate through master's level academics, in the latest edition of "America's Best Colleges 2006".

The College of Technology has continued its transition to a true community college by expanding offerings and programs. Enrollment growth has been significant at the MSU-Billings College of Technology. With the College of Technology focusing on the needs of two-year education in the Billings region, it is anticipated that the growth in enrollment will continue. A new \$9 million state-of-the-art academic facility at the College of Technology was approved by the 2005 Legislature and is expected to be completed in time for classes in fall of 2007. The Board of Regents Workforce Development Committee allocated over \$1 million in equipment funds to the College of Technology. A new Construction Trades Training Program was developed in 2005 in partnership with the Montana Contractors' Association, Inc.

MSU-Billings is increasing its academic offerings by initiating the following programs: Bachelor of Science in Criminal Justice; Bachelor of Science in Business Administration with a General Business On-line Option; Bachelor of Science in General Science with a Teaching Option; a double major of Bachelors of Education and Reading; a Sociology Teaching Option; and an Associate of Applied Science in Computer Programming and Application Development.

The People, Pride & Promise Campaign for Excellence at Montana State University – Billings is a five-year effort with an initial goal to raise \$21 million for scholarships, academic programs, faculty and facilities. Over \$23 million in gifts and pledges has been raised to date.

MSU- Northern

Campus Overview

Established by the Legislative Assembly of the State of Montana in 1913, "The Northern Montana Agricultural and Manual Training School" opened in 1929 under the name "The Northern Montana School." In 1931, the common use of "Northern Montana College" came into existence. In 1994, Northern Montana College became Montana State University-Northern (MSU-Northern) as part of the restructuring with Montana State University in Bozeman.

Montana State University-Northern offers programs of professional preparation emphasizing discipline mastery, critical inquiry, and social responsibility in:

- teacher preparation
- mechanical and engineering technologies
- **business and computer information systems**
- nursing
- arts and sciences

MSU-Northern applies emerging technologies in degree programs ranging from the certificate to master's level. MSU-Northern produces well-educated students who are capable of decisive action and application of new ideas. The university is committed to excellence in teaching, service to its region and the state, and applied research and scholarships.

MSU-Northern is accredited by the Northwest Association of Schools and Colleges. It is also accredited by the National Council for the Accreditation of Teacher Education for preparing elementary and secondary teachers through the Master of Education degree. MSU-Northern's accreditations also include the National League for Nursing Accrediting Commission, the Montana State Board of Nursing, the Accreditation Board of Engineering Technology, the National Automobile Technicians Education Foundation, the American Design Drafting Association, the International Assembly for Collegiate Business Educations, and the Postsecondary Ag Students.

MSU-Northern values individualized attention to its students, experientially based learning, and creating a culturally rich and intellectually stimulating environment. From its North Central Montana High Plains main campus, the University serves as a regional cultural center and maintains strong partnerships with communities, education, business and industry.

	Student FTE for Fiscal Years Ended June 30,				
	2006	2005	2004	2003	2002
Resident					
Undergraduate	1,071	1,113	1,216	1,231	1,266
Graduate	71	95	113	124	130
Total resident	1,142	1,208	1,329	1,355	1,396
Non-resident					
Undergraduate	46	50	46	43	46
Graduate	0	0	0	2	2
Total non-resident	46	50	46	45	48
Western Undergraduate Exchange	67	61	56	46	45
Total	1,255	1,319	1,431	1,446	1,489

	Degrees Granted - Fiscal Years Ended June 30,				
	2006	2005	2004	2003	2002
Undergraduate	306	304	368	358	325
Graduate	14	54	31	79	33
Total:	320	358	399	437	358

Campus Outlook

MSU-Northern is located in the rural, northern region of Montana. With decreasing populations across the State, MSU-Northern has had to adapt. Northern has begun to utilize partnerships and alternatives, innovative teaching, and alternate delivery methods. Partnerships with the tribal colleges across Montana, which help them expand their program offerings in the realm of 4-year Baccalaureate degrees, is one such example. Northern will also continue to explore program offerings at our sites in Lewistown and Great Falls.

Student enrollment drives a large portion of operating revenues, and also affects the University's level of State funding.

MSU- Great Falls College of Technology

Campus Overview

The Great Falls College of Technology (COT) is a stand-alone affiliate of Montana State University primarily serving north-central Montana. The COT offers one- and two-year technical instructional programs, core curriculum offerings and specialized training in the Allied Health, Business Occupations, Arts and Sciences and Trade and Technology disciplines. Several of the Allied Health programs are unique to the State and the region. Upon completion of coursework students are awarded an applicable Certificate, Associate of Applied Science or Associate of Science degree. The College has a full complement of student, academic and administrative services reflective of a larger campus.

The COT is also the designated site for the Great Falls Higher Education Center for the Great Falls region representing the University System. The Higher Education Center is designed to bring specific instruction from all campuses of the University System on an as-needed basis and may include specialized training, baccalaureate, masters or doctoral level offerings.

The Great Falls Vocational – Technical Center was established by the Montana State Legislature in 1969 to offer employment training in vocational and technical fields. In January 1994 the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. Montana State University-Bozeman, Montana State University-Billings, Montana State University-Northern and Montana State University-Great Falls College of Technology are related through common management; however, they are separate and distinct entities. The mission of Montana State University-Great Falls College of Technology is to prepare students for immediate employment or for transfer to another higher education institution.

The COT is fully accredited by the Northwest Association of Schools and Colleges, Commission on Colleges. Various programs are accredited by the American Dental Association, American Health Information Management Association, The Commission on the Accreditation of Allied Health Educational Programs, American Association of Medical Assistants, Commission on Accreditation in Physical Therapy Education, Montana State Board of Nursing, The Committee on Accreditation of Respiratory Care Programs, and the Association of Surgical Technologists.

The COT student population has grown dramatically over the last five years with a cumulative increase of approximately 25%. Nearly all our students are Montana residents.

	Annual Enrollment Data (FTE)				
	2006	2005	2004	2003	2002
Resident	1,155	1,078	1,085	1,040	941
Non-resident	31	14	13	13	11
Total FTE	1,186	1,092	1,098	1,053	952

Commensurately, student headcount has increased nearly 28% from 3,324 in fiscal year 2002 to 4,238 in fiscal year 2006.

Likewise, the numbers of degrees granted have increased during the past five years.

	Degrees and Certificates Granted				
	2006	2005	2004	2003	2002
Certificates	52	36	65	39	31
Associate of Science	35	41	29	28	6
Associate of Applied Science	98	99	102	99	92
Total	185	176	196	166	129

Campus Outlook

As a result of the growth mentioned above, the College of Technology has experienced the challenge of inadequate space for a number of years. In early 2005, the Montana State Legislature approved \$11 million for campus expansion. Included in the planning is a 45,000 square foot two-story building west of the original facility in Great Falls and a separate Construction Technologies building. Groundbreaking will take place in November 2006 with occupancy of the new space tentatively scheduled for December 2007 with occupation of the Construction Technologies building scheduled for Fall 2007.

The new buildings will include an expanded library and student computer lab, health science classrooms, additional meeting rooms, science laboratory space and faculty offices.

The COT has expanded its course offerings to the Bozeman area and has a physical location on the Bozeman campus. The COT provides specialized instruction and workforce development to the Gallatin Valley. Bozeman area residents are also able to enroll in a variety of COT programs, including an aviation program in which students can attain an Associates degree in Avionics.



RECEIVED

DEC 14 2006

LEGISLATIVE AUDIT DIV.

December 13, 2006

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
State Capitol, Room 135
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

Montana State University would like to thank the Legislative Audit Division for their time in auditing the financial statements for the fiscal year ended June 30, 2006. We feel this audit was productive and instrumental in continually improving the financial reporting of all Montana State University campuses. We look forward to working with you again next year.

Sincerely,

Geoffrey Gamble
President

GG/sm
Enclosure

Office of the President

211 Montana Hall
P.O. Box 172420
Bozeman, MT 59717-2420
www.montana.edu

Tel (406) 994-2341
Fax (406) 994-1893